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The IGR Initiative

Exploiting the "Japa" Window to Grow Subnational IGR

About
The IGR Initiative

The IGR Initiative supports subnational governments in improving their internally generated revenue through research, consultancy engagements and capacity building. The Initiative holds regular webinars, debates and ideation sessions with the public and practitioners to reinforce learning, innovation, reform actions, and advocacy that help strengthen the entire IGR expansion process and for all stakeholders at the sub-national level. It is a registered trademark of Citizens Collective Finance Expansion Ltd/GTE.

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Exploiting the "Japa" Window to Grow Subnational IGR

By

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Summary:

This paper explores the benefits of migration in raising sub national IGR. It is a counter narrative to the fears and perhaps, short-sighted responses associated with the ongoing high level of migration out of Nigeria. It posits that migration may hold the solution to the financial challenges of national and sub-national governments if only the authorities can view the issues involved with an entrepreneurial mindset.

Relying on World bank and World Economic Forum reports, the paper proposes that if this window is embraced, cultivated and exploited, an average of 20 businesses worth N1 billion each can be created in each of the 774 local government areas every year.

IGR Growth and the Economic Expansion Cycle

In the face of dwindling shareable revenue at the centre, the need to expand internally generated revenue [IGR] becomes urgent if the sub-nationals are to continue to exist and execute their programs. Therefore, IGR expansion aims to improve residents' socioeconomic well-being by financing good governance programs, projects, and economic activities. By extension, these economic activities expand employment creation and economic and social development, reduce multi-dimensional poverty, and open more opportunities for enhanced IGR collections. Successfully orchestrating this cycle whereby staged IGR expansion facilitates increased economic activities, giving rise to even more IGR collections, requires a significant entrepreneurial mindset.

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The "Japa" Reality

The Entrepreneurial mindset sees opportunities where others see problems. The entrepreneurial mindset teaches, "Seek ye first the challenges and their solution, and influence and affluence shall be added to you". "Japa" is one of such pain points today that the Nigerian subnationals with an excellent entrepreneurial mindset can leverage for IGR expansion. "Japa" is Nigerian slang for migration, and generality covers the issue of brain drain and the consequent increase in the number of Nigerians living in the diaspora. Many lament brain drain and bemoan the lost contributions migrants would have endowed the nation and sub-national. Government, whether the executive arm or the legislative arm, often debates proposals to create "roadblocks" to slow down the rates of outboard migration. The recent consideration of a bill to keep Medical doctors in Nigeria for five years post-qualification is one such roadblock.

Meanwhile, trained doctors are looking, without success, for placements for Houseman-ship. There are trained teachers collecting peanuts in the name of wages from private schools because they cannot find posts in schools that will appropriately remunerate their skills.

Japa must, therefore, not necessarily be perceived to be about brain drain or lost contributions. Japa is also about the quest for knowledge, about gains in technical know-how and technology. It is about the exposure that births ideation which, properly managed, will bring about world-class development. It is about a reduction in the contest for limited opportunities and resources. Japa is an opportunity for economic expansion and IGR growth awaiting realization. Only a government with an entrepreneurial mindset will see and realize such an opportunity.

Migrations and Development

Economic history teaches us that migrations strongly associate with economic development over time. Nations that scouted the world became economically even more affluent. England, one of such nations, was able to colonize more than 75% of the countries of the world in her hay days, migrating her nationals, even if albeit temporarily, to be in charge of the affairs of those countries, exploit their raw materials and economic potentials for the development of both England and these host nations. The more permanent migrations that birthed the new world of North and South American nations saw England, Spain, and Portugal in a migration race. The USA is an example of an amalgam of diverse ethnicities birthed by migration.

Even here in Nigeria, we have also witnessed the impact on family and community development occasioned by those who "travelled to the coast" to trade or settle in one form of internal migration. Many who travelled outside the community learned concepts and forms of development that they cascaded back home in idealized conditions. These ideas were afterward discussed and incubated by their town unions or whatever local authorities governed their localities into developmental projects. The migrants further participated in these projects by sending money home to actualize them.

Hidden Treasures in the Diasporic

The very low birthrate in high-income countries, especially in the Western world, encouraged migrations from other countries. According to the Office of National Statistics, the Uk birth rate for 2021 was 1.61 children per woman. That of the US in 2021 was 1.64. Nigeria is approximately 5.3 births per woman. The low birth rate in the Western world compared with the high birth rate in Nigeria and similar south countries premises a high volume of migrants in the foreseeable future from labour-surplus countries to labour-deficit countries. The World Economic Forum, WEF, estimates, as of 2019, that over 258 million people live outside their country of birth.

There have been issues raised around the pros and cons of migration. Some see migration from the viewpoint of brain drain. Frequently those who migrate are under or unemployed in their home country. Some see migration as an essential export of human capital that should be actively encouraged. From whichever perspective one may consider it, people in the diaspora have huge, sizable remittances following in their trail. This is because migrants employed in the diaspora usually send money home.

India has successfully managed migration, with their nationals as CEOs of many blue-chip companies, including Tech giants in the USA. An Indian whose family migrated to the UK a couple of decades ago is currently the UK's Prime Minister [PM]. If he were home in India, could he have become the PM of India? India was rewarded with an estimated $100 billion in remittances in 2022 for her efforts at achieving high migration volume. Therefore, a sub-national government with an entrepreneurial mindset may actively consider the human capital needs of high-income countries so that their educational and skill acquisition institutions may be deliberately biased in that direction.

Symbiotic Migrations

In a World Bank World Development Report 2023: Migrants, Refugees and Societies issued on April 25th in Washington, the fact that the global population was aging at an unprecedented pace made many countries rely increasingly on migration to realize their long-term growth potential. The Report considered this trend a unique opportunity to improve migration for economies and people. According to World Bank's Senior Managing Director Axel Van Trotsenburg, Migration can be a powerful force for prosperity and development. When adequately managed, it benefits all people - origin and destination societies."

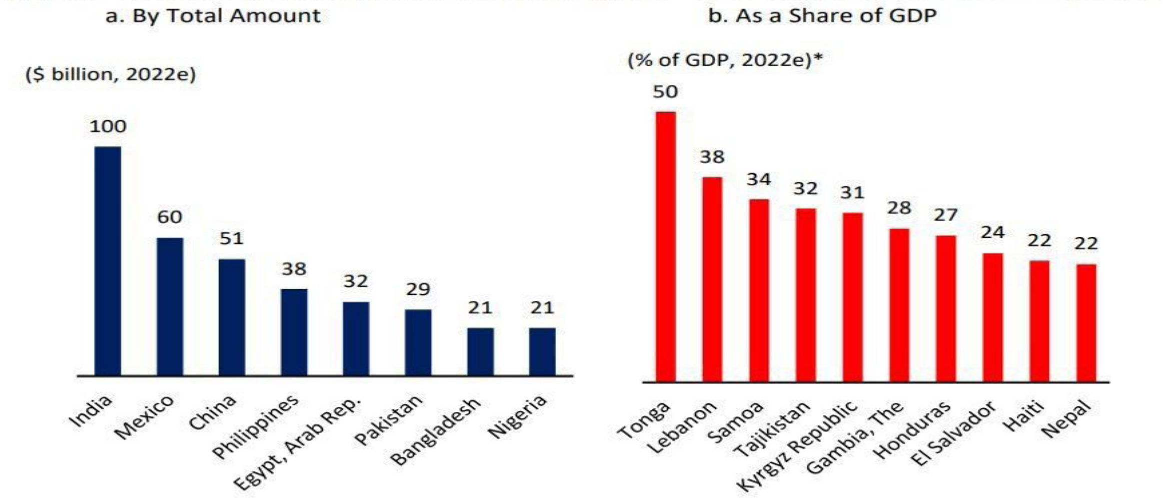
The Report proposed a simple but powerful framework to aid the making of migration and refugee policy. Part of its recommendations is that "Origin countries [like Nigeria] should make labour migration an explicit part of their development strategy. They should lower remittance costs, facilitate knowledge transfers from their diaspora, build skills in high demand globally so that citizens can get better jobs if they migrate, mitigate the adverse effects of 'brain drain,' protect their nationals while abroad, and support them upon return".

The World Bank thought space shared in the Report above is entirely in tandem with the conclusions shared by this writer in a webinar hosted by IGR Initiative on April 15th, 2023.

Diaspora remittances - worldwide

According to a report by the World Economic Forum, migrant workers sent home almost $800 billion in 2022. According to the World Bank, this amount exceeds the value of Foreign Direct Investment, Official Development Aid, and Portfolio and Equity flows. India's share topped $100 billion and was the highest. Among the low and middle-income countries, Nigeria was number 8 at $21 billion. On a per capita basis, India and Nigeria were roughly the same. Remittances contribute 50% of the GDP of Tonga. Nearer home in Gambia, 25% of GDP comes from remittances. This comes from transferring financial and social remittances, encouraging trade linkages, and making investments. (fig 1.1)

Figure 1.2 Top Recipients of Remittances among Low- and Middle-Income Countries, 2022e



Source: KNOMAD/World Bank staff.
Note: GDP = gross domestic product; e =estimate.
* South Sudan is excluded due to data validity.

It is noteworthy that the figures given are those recorded through official sources. World Bank reckons the figures may be more than 50% by considering informal remittance routes. Countries that suffer from foreign exchange shortages and have multiple exchange rates are more likely to have a considerable volume of remittances through unofficial routes. Nigeria is one such country.

Diaspora Remittances - Nigeria

The 2018 [pre-Covid] remittance figure of $25.1billion was 6.1% of GDP, 83% of the Federal government budget, and 113% of oil revenue, which stood at $18 billion and 11 times more than FDI [according to KNOMAD, CBN, PwC Analysis], remittances have been higher than oil revenue from 2015 to 2018. This pattern has not changed.

There are various estimates of the number of Nigerians in the Diaspora. While the UN Department of Economic and Social Affairs puts the estimate at 1.7 million in 2020, the Reuters news agency, citing money transfer services of Western Union, put the figure at 5 million. These figures do not include those born of Nigerian parents in the diaspora and therefore hold the citizenship of the country of their birth. PwC says unofficial reports suggest about 15 million Nigerians are in the diaspora.

The median household income of Nigerians in the diaspora in the US is about $52,000, according to a report published by migrationpolicy.org. One may ask: How many households are in this population? What percentage of this income is remitted to Nigeria? To what use is this remittance put back home? Do we have data at National, sub-national, and community levels concerning migrants' income and remittances and uses?

Current Uses of Diaspora Remittances

About 70% of diaspora remittances support consumption (school fees, medical bills, burials, religious demands and obligations, family meeting dues, birthday celebrations, marriages, debt servicing etc.) and 30% into investment-related issues. Investment-related issues refer to setting up new businesses and real estate. Real estate here is mainly in the form of village mansions. Apart from job creation during construction, these mansions presently add little or no value to the economy of their locale as the owners may not reside nor even visit to occupy them for years. Until home-hotel chains gain ground, this may remain sadly so.

Diaspora Remittances and IGR Expansion

There is a need for sub-national governments to encourage their residents/indigenes that are desirous of migrating to the diaspora. This encouragement may be in the form of giving them the necessary education and or skills to excel abroad. It may also involve providing linkages for successful emigration. A report by Pew Research shows that 50% of adult Nigerians are willing and desirous to migrate. That is the highest rate in the world.

Secondly, SNGs should motivate their people in the diaspora to increase the percentage of their income remitted. The additional remittance should be funnelled to income-generating investments.

Thirdly, there is the need for SNGs to shift the remittance focus of their people in the diaspora from consumption to investment activities. Investment should be less in real estate and more of income generating ventures like industries, large-scale farming, power plants, etc.

SNGs must actively reach out to and maintain registers of their indigenes abroad. They should encourage the formation of associations in their states or even LGAs and towns where they do not exist and actively support links where they already exist. Building relationships based on trust is a sine qua non for success.

Subnationals must also actively share the details and profiles of existing business opportunities across the different local governments in the state with their people in the diaspora. The investment opportunity details should also indicate the extent of the willingness of the SNG to enter into a PPP arrangement and what they are bringing to the table. Reasonable cases will comprise about 10% to 20% of the equity and the responsibility for providing the enterprise's land, access roads, power, water, and security. The host community and, perhaps, the LGA will hold shares in the organization, but all the shareholdings of the state, LGA, and host community will not be more than 40%. The public will have at least 60% of the equity and appoint the CEO and most Executive directors. Where migrants are not mainly at home with the prospect of sub-national government ownership of shares in the business, there may be provisions in the Memo and Articles that government shares be offloaded to other shareholders after a given time. Such sales of shares will boost SNG IGR in the year they occur.

The achievement of the above will need a lot of mobilization and sensitization strategies, including enlightenment campaigns. A collaboration between the national and sub-national governments and LGA\town unions will achieve the best results. The three parties also share benefits. After all, the establishment of income-generating investments will yield company income tax for the federal, personal income tax for the state, and employment opportunities for the communities.

Desirable Prospects

Suppose more Nigerians migrate and the Nigerians in the diaspora are motivated and persuaded to remit a more significant percentage of their income back home and up the share of remittance for investment purposes. In that case, subnationals may target an investment pool from the diaspora of up to $20 billion annually for Investment in Small and Medium scale businesses. Big-ticket investments may also be implemented. More businesses mean a tremendous potential to increase SNG IGR.

For instance, $ 1 billion will establish businesses worth N1 billion in each of the 774 LGAs in the country [forex rate: $1/N775]. $20 billion will establish businesses worth 20 N1 billion in each of the 774 LGAs in the country.

Equipment for a mid-sized company using Chinese or Indian equipment may generally be between N150 million and N330 million. Imagine creating at least 20 mid-size to large businesses in your LGA annually. Unemployment and insecurity will beat a retreat. Notably, the migrants are more likely to invest in businesses sited in their towns and LGAs. It is not unexpected that the distribution of firms will not be even across the LGAs in the country.

State IGR will expand from numerous taxes that will follow in the wake of the businesses established especially personal income tax of the workforce and service providers and withholding tax on suppliers. Sales of shares and earnings from the share of profit will become big players in SNG's IGR profile. Licenses and fees will also receive a huge boost. SNGs will have every motivation to ensure a conducive business climate in their jurisdictions.

Mobilizing Diaspora remittances for IGR Expansion

Each SNG may need to establish a State Diaspora commission, Agency, or Department to operationalize this initiative. The body should be in the State Ministry of Investment, Trade and Industry or under the Governor's office.

The work of the body will be divided into local and international:

Supply-side Focus

1. Identify favourable target countries for migration regarding ease of visa, residency and citizenship laws, wage levels, and respect for human rights.
2. Continuously identify areas of labour gaps in those countries
3. Identify skills and knowledge required to fill labour gaps
4. Establish a communication strategy to bring the above information to willing residents
5. Set up "japa" focused training schools to retool our willing residents with identified skills and knowledge necessary to fill those gaps.
6. Inculcate moral and ethical values into our willing migrant labour exports, rebuild our image, and lessen the negative perception of Nigerians in the mind of host countries.
7. Identify, mobilize and retool willing residents that will fill those gaps
8. Re-jig our school curriculum at secondary and tertiary levels to be more up-to-date with labour needs not only locally but also in target foreign countries

Demand side Focus

1. Serve as a linkage between the state and the people in the diaspora.
2. Commission feasibility studies on suitable industries in the different local government areas [LGAs] to align with the state industrial development master plan [if any] and make such information available to the Diaspora people.

   It is crucial that each SNG has an industrial development plan and industry location is in tandem with such a plan. This is to mitigate the likelihood of the bandwagon effect where for example, a successful rice mill is established in one LGA, and many other LGAs follow suit, not minding if the state and neighbours grow enough rice paddy to support all the mills. Such an effect may see the collapse of such industries.
3. Liaise with people in the diaspora to obtain information on export needs etc., of their host countries.

4. Liaise with other MDAs for government acquisition of land for industrial parks and oversee all community relations issues that may arise.

5. Liaise with other MDAs for inclusion in the State budget and its implementation of infrastructural developments like roads, power, water, housing, and police posts in the industrial parks. The SNG provision of these infrastructures is the premise for the SNG's equity holding in each business.

6. Liaise with the Federal government and its agencies like Customs, CBN, FIRS, CAC, NEPC, MAN, NAFDAC, etc., in the cross-cutting areas.

Investment Fund Warehousing and Management

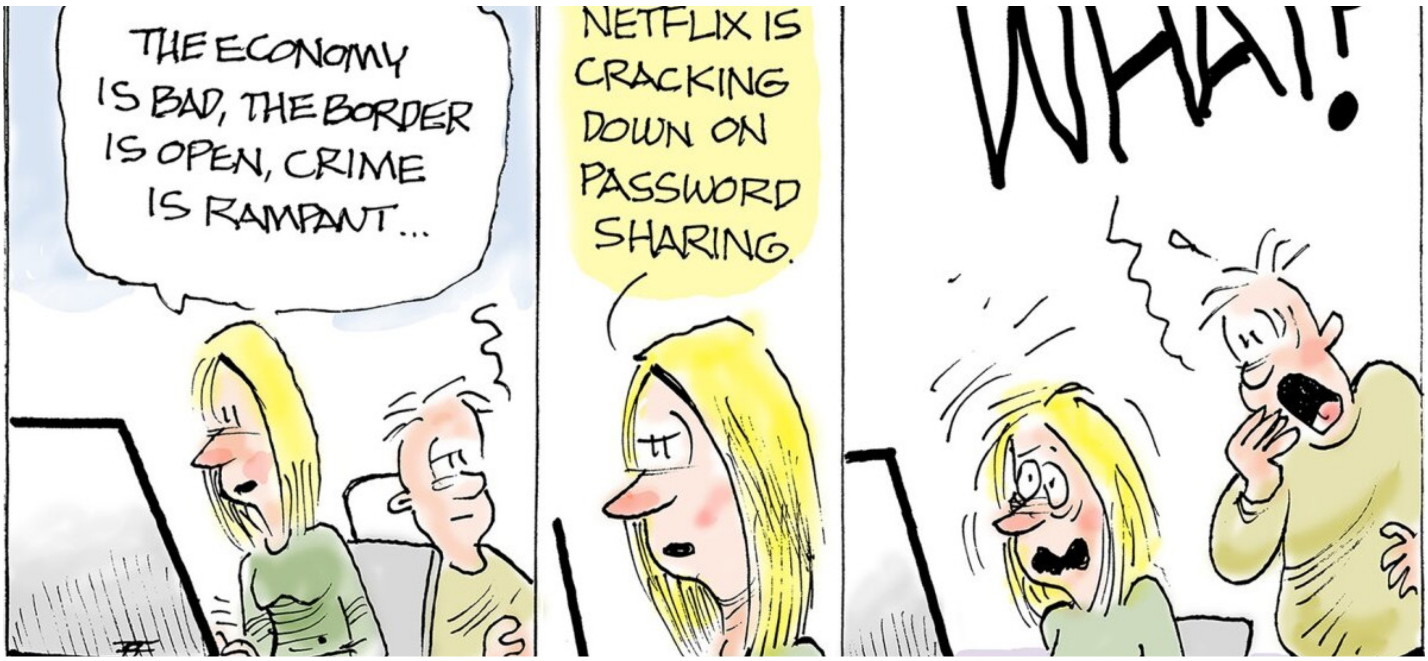
The Nigeria Diaspora Investment Trust fund is not yet the success envisaged. It has been suggested that this results from people still distrusting the government and its policies.

A State Diaspora Investment Trust fund may have better chances of success since most people in the diaspora are wont to think locally rather than nationally regarding investments. Most would want to identify intimately with the funded project. "This is my own" is a stronger identity than "This is our own". Diasporans may not have money as their primary measure of return on investment. The employment of their kith and kin, resultant peace and security of their hometowns and villages, which implies their security whenever they visit home, recognition for having contributed to their ancestral homes, struggle for their hometowns not to be left behind in development strides, etc. may weigh even more than monetary rewards. However, there is still the problem of government distrust in a State Diaspora Investment Fund.

Some have suggested a privately managed Diaspora Investment Fund. Growing the economy of their hometowns and Local governments will be uppermost in the people's minds in the diaspora. The passion for this provides the fuel to actualize the necessary sacrifices to make the requisite remittances. A privately managed investment fund that will finance establishing a business in Lokoja while my hometown is in Udi may not meet most people's mark.

In time past, development funds were channeled through town unions and the like and with robust accountability, birthing numerous development projects. This is the reason for the actualization of many self-help projects in some parts of the country in yore years. Towns, Local Governments, and State development Unions are springing up amongst Nigerians living in the diaspora. They can very well warehouse and manage their development funds. When a State's Industrialization master plan and feasibility studies premised on those plans are shared as sensitization materials, the development unions may enter into MOUs with the State Governments and directly fund the project penciled in for the locality of their interest. They may even directly procure relevant machinery and equipment from abroad.

Pending when the State governments can put their acts together to key into the above, much we individually can sensitize and mobilize our brothers and sisters in the diaspora to invest in business ventures back home just as we sensitize and mobilize them in making consumption expenditure is that same much we will be contributing to potential IGR growth for our sub-national governments.



Jumpstarting the Expansion

An SNG keen on jumpstarting the IGR expansion process may decide to establish three N1 billion companies in her three Senatorial Zones following her industrialization road map and feasibility studies. She may then securitize the capital invested and sell to her people in the diaspora through private placement. Funds realized, which will increase the IGR for the year, may then be applied to establishing another three N1 billion companies in another set of local governments in the three senatorial zones. And so the circle goes round. The Diaspora people may seize the initiative at some point in the loop.

Many will agree that a government that has facilitated the establishment of about 12 N1 billion companies in her four-year tenure would deserve another 4-year term.

At a more micro level, communities and families may conceive business opportunities, establish linkages with the Sub-national government for their support, and mobilize their people living in the diaspora for technical input and funding to develop such income-generating investments. This will enhance employment creation, security, and the general development of their communities.

Possibilities: Economic Expansion

1. $25 billion is realizable if five million Nigerians remit an average of $5,000 annually. This amount is more or less our currently attainable amount.
2. The game is to increase the 5 million Nigerians, or the $5,000 average yearly remittance, or the about 30% going into investments or a combination of all to form an annual pool of investment\industrialization fund of at least $25 billion.
3. $1 billion will establish a N1 billion company in each of the 774 LGAs in the country [parallel rate].
4. $25 billion will establish 25 firms worth about N1billion in each of the 774 LGAs in the country
5. Equipment for a mid-sized company using Chinese or Indian equipment may generally be between N150 million and N330 million.
6. This is to happen yearly.

Possibilities: IGR Expansion

1. Personal Income taxes from both direct employees of these establishments and numerous service providers
2. Withholding tax on suppliers of goods and services to these establishments
3. Withholding taxes from rent payments consequent upon these establishments
4. Tenement rates\ground rents from houses that will come to support the workforce

5. Sales of Shares and Earnings from the profit share will become significant players in the SNG's IGR profile.

SNGs will have every motivation to ensure a conducive business climate in their jurisdictions.

Conclusion

The period of the Oil boom supported FAAC distribution as the overall contributor to SNGs revenue for carrying out her program is phasing out if not over. While many lament the appropriateness of a nation allowing many of her bright nationals to migrate to where their skills are better appreciated and rewarded, we, looking at the phenomenon with an entrepreneurial mindset, recognize an opportunity for SNGs to increase their IGR. This increase will go through the process of investment in the state's industrialization, perhaps under PPP arrangements where the State and Nigerians living in the diaspora that identify with the state come together to establish industries.

Employment will be generated, taxes will be paid, and non-tax revenues like the share of profits, rents, fees, sale of shares, etc, will significantly enhance the IGR of the State annually.

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