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HARNESSING REMITTANCES FOR ENTREPRENEURSHIP DEVELOPMENT IN DEVELOPING COUNTRIES: OPPORTUNITIES AND CHALLENGES

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Abstract:

Remittances, financial transfers made by migrant workers to their home countries, have become a critical driver of economic development in developing nations. This paper is a conceptual paper which presents the role of remittances as a lifeline for household consumption and a catalyst for entrepreneurship. By providing vital financial resources, remittances empower marginalized groups, stimulate the growth of small and medium enterprises (SMEs), and contribute to poverty reduction and economic inclusivity. However, their full potential is constrained by challenges such as inadequate financial infrastructure, high transaction costs, and the risk of dependency. To maximize the transformative impact of remittances, targeted policies and strategies are essential. These include reducing transaction fees, enhancing access to financial services, and fostering an entrepreneurial culture. By addressing these barriers, remittances can significantly contribute to sustainable development, economic diversification, and the achievement of global development goals.

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Keywords:

Developing Countries, Entrepreneurship, Remittances, Small and Medium Enterprises (SMEs)

Introduction

Naturally, an international migrant is typically defined as an individual or person who resides in a country different from their country of origin or someone who moves from one country to another, have become a significant aspect of global economic development (United Nations, 2017; Ahmed et al., 2018; Mohamad et al., 2022; Mabrouk, 2024). While working abroad, these individuals often remit their earnings back to their family members in their home countries or their country of birth, a process referred to as remittances (Adams, 2011; Chowdhury et al., 2022; Mabrouk, 2024: World Bank, 2024). Remittances are steadily growing in their own size (Chowdhury et al., 2022). For many developing nations, remittances exceed foreign direct investments (FDIs) and official development assistance, making them a key source of external financing (Ratha et al., 2019). The flow of remittances to developing countries has seen a substantial increase, growing from US$56 million in 1995 to US$335 billion in 2010 (Masron & Subramaniam, 2018). Similarly, the global number of international migrants has steadily risen, from 173 million in 2000 to 191 million in 2005, 220 million in 2010, 248 million in 2015, and reaching 258 million by 2017 (United Nations, 2017).

Remittances have emerged as a powerful force with a global impact, reflecting the growing interconnectedness of the world and have now become a crucial source of foreign income for many developing countries (United Nations, 2017; Chowdhury et al., 2022; Mabrouk, 2024). Remittances play a crucial role in driving economic growth, especially in developing countries, by providing a vital source of income for recipient households, which in turn boosts family incomes (Ahmed et al., 2018; Huay & Bani, 2018). Encouraging remittance flows can prioritize support for low-income groups, improving the welfare of family members who remain behind and stimulating economic growth in recipient nations. Families in migrants home countries can use these funds to access more opportunities and elevate their quality of living (Mohamad et al., 2022).

The scope of remittances includes not only the direct financial support to families but also the broader socio-economic implications for the recipient countries, such as poverty alleviation, human capital development and entrepreneurship. The impact of remittances extends beyond household consumption to broader economic and social dimensions. Remittances contribute leading to greater investments in education, healthcare, and business activities, often serving as startup capital for small and medium enterprises (SMEs) (Adams & Page, 2005; Mabrouk, 2024). In developing countries, remittances can serve as a critical tool for entrepreneurship by providing much-needed capital for individuals to invest in small businesses and start-ups. Entrepreneurship, on the other hand, refers to the creation of new businesses, typically with the aim of addressing market gaps, stimulating economic activity, creating jobs, and fostering economic growth (Parker, 2009; Blanchflower, 2000; Acs et al., 2018; Farinha et al., 2018, Ngea, 2024).

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When directed towards the neediest groups, remittances can significantly reduce poverty (Huay & Bani, 2018; Mohamad et al., 2022). Their impact on economic development is especially profound when allocated to productive investments, such as human capital development, physical assets, household spending, savings, and consumption (Ratha, 2007; Ahmed et al., 2018; Awdeh, 2018; Huay & Bani, 2018; Masron & Subramaniam, 2018; Mohamad et al., 2022). In addition, remittances can fund entrepreneurial ventures once basic household needs are met, enabling families to start small businesses. This will offer the benefit by increases household income and fosters the growth of small and medium enterprises (SMEs), creating jobs opportunities and filling critical labor gaps that occur (United Nations, 2017).

Meanwhile, remittances play a role in fostering inclusive and sustainable economic growth, both within the home countries and host communities, particularly when supported by effective policies (Masron & Subramaniam, 2018; Mohamad et al., 2022). This sustained economic benefit can lead to long-term development outcomes for individuals and societies alike. In host communities, remittances indirectly support economic growth by enabling migrant workers to send funds home without creating financial strain abroad. Migrants often fill labor gaps in host economies, contributing to productivity and innovation. When these earnings are sent back to their home countries, they create cross-border economic linkages that enhance global economic interconnectivity. When effectively leveraged, remittances can serve as a strong catalyst for achieving the United Nations Sustainable Development Goals (SDGs), particularly those focused on poverty reduction, gender equality, quality education, economic growth, and reducing inequalities (Mohamad et al., 2021; Mohamad et al., 2022; Mabrouk, 2024; United Nations, 2024).

Background of the Study

Remittances growth in Developing Countries

Figure 1 shows that remittance flows of developing countries have been growing steadily and significantly over a prolonged period, especially between 2021 and 2022. Approximately, thirteen developing countries have shown an increasing trend of remittances score from 2021 to 2022, namely, Belarus, Colombia, Croatia, Morocco, Mexico, Rwanda, Serbia, Sierra Leone, Philippines, Tajikistan, Togo, Thailand and Ukraine. The figure also implies that Tajikistan, emerged as country with the highest remittances score among others developing country with 32.69 percent in 2021 and 49.90 percent in 2022 respectively. The second larger number of remittances score of developing countries in 2021 and 2022 was recorded by El Salvador with 26.25 percent and 24.54 percent respectively. Additionally, although the flow of remittances to developing countries is quite smaller but it shows a positive movement, which is important in helping developing countries to escape from the poverty trap.

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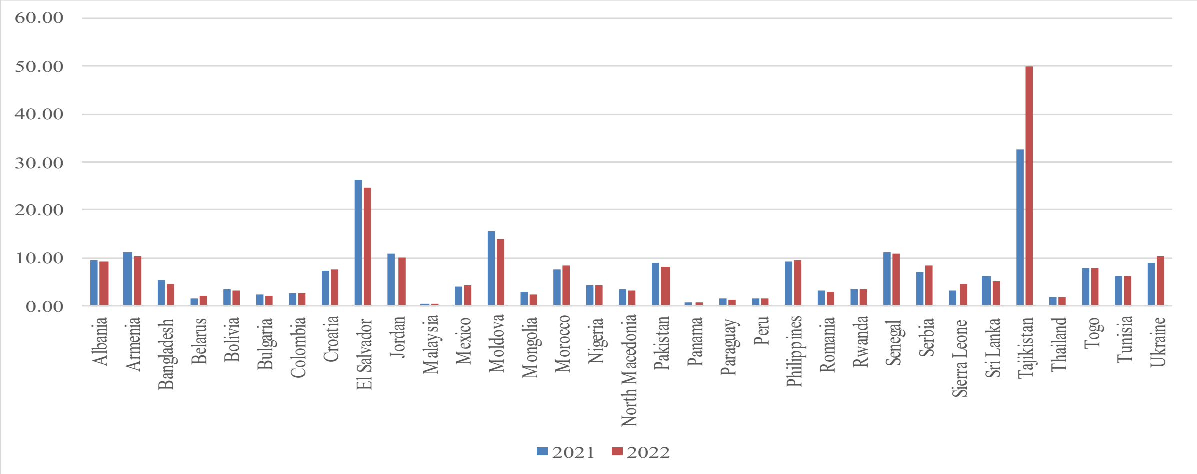

Figure 1: Remittances in Developing Countries for 2021 and 2022

Source: World Bank (2024)

Entrepreneurship growth in Developing Countries

Specifically, Figure 2 reveals some facts about the development of entrepreneurship in developing countries. It indicates that the New Business Density (NBD) can be observed that only 6 out of 28 developing countries experiencing increasing trends in entrepreneurship between 2019 and 2020. Those countries are Morocco, Nigeria, Pakistan, Rwanda, Serbia and Togo. Meanwhile, another 22 developing countries has shown a decreasing trend of entrepreneurship, namely, Albania, Armenia, Belarus, Bolivia, Bulgaria, Colombia, Croatia, El Salvador, Jordan, Malaysia, Mexico, Moldova, Mongolia, North Macedonia, Panama, Paraguay, Peru, Philippines, Romania, Senegal, Thailand and Tunisia. On the contrary, the lowest of entrepreneurship level is observed in Paraguay. Nevertheless, country with the largest drop in entrepreneurship level is Bulgaria for the given periods.

This disparity highlights the challenges and barriers faced by many developing nations in fostering entrepreneurial growth. For example, the issue is further exacerbated by countries like Paraguay and Bulgaria, which exhibit the lowest levels of entrepreneurship and the most significant declines, respectively. This situation calls for a deeper understanding of the factors influencing entrepreneurship in these regions and the identification of effective strategies to support and promote entrepreneurial activities in developing countries.

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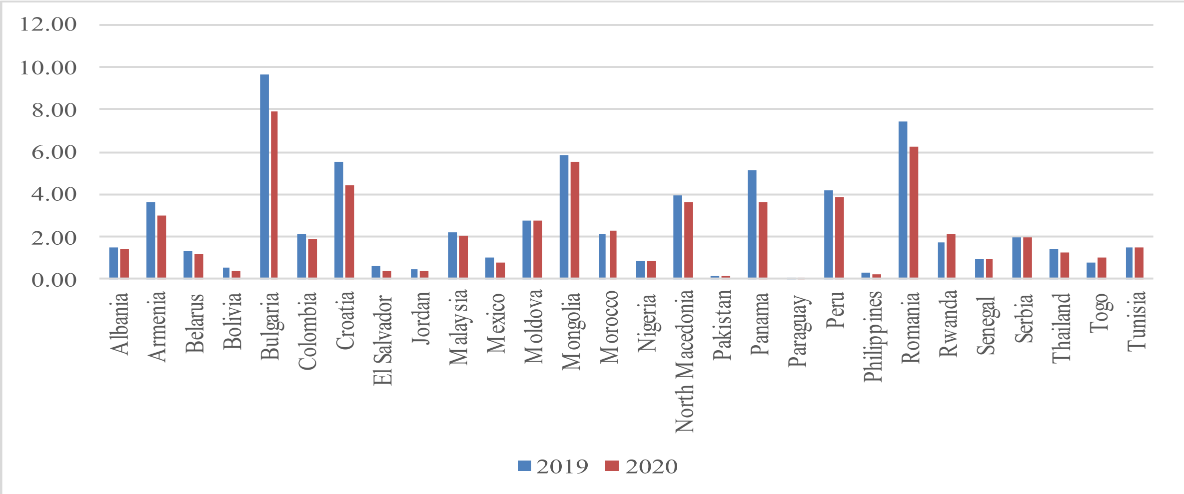

Figure 2: Entrepreneurship in Developing Countries for 2021 and 2022

Note: Entrepreneurship is represented by new business density (NBD). NBD is measured by the number of newly registered limited liability corporations per calendar year, normalized by working age population. It ranges from 0 to 100 percent. The higher percentages of NBD indicate the better level of entrepreneurship.
Source: World Bank (2024)

Linking Remittances to the Creation of New Businesses and Startups

Remittances, primarily sent by migrant workers to their family members in their home or origin countries, are increasingly being recognized as a reliable form of capital for entrepreneurs who lack access to traditional financial services, such as bank loans (Giuliano & Ruiz-Arranz, 2009; Ratha, 2013). These financial transfers are particularly vital in rural and underdeveloped areas, where financial institutions are often scarce, and the credit market is either non-existent or highly inaccessible (Mbaye, 2021; Mohamad et al., 2021). Unlike traditional loans, remittances come without the burden of interest rates or collateral requirements, making them an attractive option for aspiring entrepreneurs who would otherwise face significant barriers in securing funding for their businesses (Giuliano & Ruiz-Arranz, 2009; Mbaye, 2021).

By offering flexibility in terms of how the funds are used, remittances enable recipients to invest in a wide variety of entrepreneurial ventures. From small-scale businesses such as retail shops, food stalls and cassava chips to larger investments in manufacturing or service industries, remittances empower individuals to take the first step towards business creation and economic self-sufficiency (Giuliano & Ruiz-Arranz, 2009; Mbaye, 2021; Mohamad et al., 2022). The ability to invest in these ventures not only supports the entrepreneur's family but also stimulates local economic growth by creating new jobs and increasing the supply of goods and services within communities (Giuliano & Ruiz-Arranz, 2009; McKenzie 2017; Mohamad et al., 2022; Ngea, 2024). In addition to creating new businesses, remittances can provide the initial capital needed for expanding or diversifying existing family-run businesses, thus fostering broader economic development and diversification (Mbaye, 2021; Ngea, 2024).

For instance, a significant number of remittance recipients in Mexico have used the funds to establish businesses in sectors like agriculture, retail, and manufacturing, contributing to the country's economic development (Meyer & Shera, 2016). Similarly, in Bangladesh, remittances have been channelled into micro-enterprises, leading to increased business activity

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and improved living standards in rural areas where access to formal financial markets remains limited (Goldring, 2004). These examples highlight how remittances not only provide essential financial capital but also serve as a catalyst for entrepreneurship in economies that may otherwise be stagnant or reliant on external aid. As a result, remittances are crucial in fostering the establishment of new businesses and startups, driving sustained economic growth in developing countries.

Opportunities Created by Remittances for Entrepreneurship

Remittances have become a significant source of financial support for individuals and communities in developing countries (Mohamad et al., 2022). In addition to their role in household consumption and poverty alleviation, remittances can offer transformative opportunities for entrepreneurship, especially among marginalized groups such as rural populations and women. These financial transfers provide crucial access to capital, enabling individuals to overcome the barriers of inadequate credit markets, high-risk environments, and insufficient financial infrastructure. For many entrepreneurs in developing countries, remittances serve as an alternative source of funding, free from the stringent requirements of formal lending institutions. This financial influx not only supports the initiation and growth of small businesses but also fosters broader economic development by creating jobs, enhancing community welfare, and contributing to long-term economic growth. As a result, remittances play an essential role in unlocking entrepreneurial potential, driving inclusive growth, and promoting gender equality and social empowerment.

One of the most profound opportunities that can offer by remittances is the enhanced access to capital for marginalized groups, particularly rural populations. In many developing economies, access to formal credit markets is often limited due to factors such as low financial literacy, inadequate collateral, and the high-risk environment surrounding new ventures. As a result, small-scale entrepreneurs, especially those from rural or impoverished backgrounds, struggle to secure funding for their businesses (Adam & Page, 2005; Messey et al., 2011). Remittances provide an alternative source of financing that is not subject to the stringent requirements of formal lending institutions. This ability to access funds directly from family members abroad can play a transformative role in overcoming financial barriers to entrepreneurship.

Secondly, remittances can be particularly empowering especially for women in developing countries. In many societies, women face additional social and economic constraints that limit their participation in the formal economy, including limited access to credit, education, and employment opportunities. Remittances often represent a stable and dependable income stream that women can use to finance small businesses, which are critical to their financial independence and empowerment (Ellis, 2000; Ullah 2013). According to Mabrouk (2024), remittances offer women the ability to invest in entrepreneurship, helping them overcome the traditional barriers to starting a business, such as lack of access to credit or the need for male endorsement in patriarchal societies. As a result, remittances can help break the cycle of poverty by enabling women to participate in the economic life of their communities, thereby fostering social change and gender equality.

Thirdly, rural populations also benefit from remittances in terms of capital access. In rural areas, where financial institutions are scarce and the economic environment is often unstable, remittances provide a crucial financial lifeline. Farmers and rural entrepreneurs can use remittances to fund agricultural ventures, small businesses, or local service-oriented

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enterprises, thereby improving their standard of living and contributing to local economic development (Mohamad et al., 2022). In areas with limited infrastructure and access to traditional banking services, remittances serve as a practical and reliable alternative for entrepreneurs seeking to invest in their ventures. Moreover, remittances can help mitigate the seasonal income shocks faced by rural populations, enabling them to sustain or expand their businesses even during economic downturns (Adam & Page, 2005; Ratha et al., 2011).

Furthermore, remittances play a significant role in promoting economic growth and stimulating community development, primarily through the creation of small-scale businesses and entrepreneurial ventures. They ease credit limitations by supplying recipients with capital, allowing them to invest in income-generating ventures or activities. Over time, remittances contribute to long-term economic benefits, supporting job creation and enhancing the development of the communities that receive them. This process can lead to more inclusive and sustainable economic growth, helping to reduce income inequality in the long run. As entrepreneurship grows in these communities, the beneficial impact of remittances on poverty reduction becomes more pronounced. Ultimately, remittances have the potential to serve as a stable and reliable source of external capital, crucial for the economic development of developing countries, particularly those facing high levels of poverty and limited access to traditional forms of financing (Mohamad et al., 2022).

In essence remittances serve as an essential financial resource that helps marginalized groups, such as low-income and rural communities, overcome obstacles to entrepreneurship. By providing a stable and accessible source of funding, remittances empower these groups to invest in their economic futures, create jobs, and contribute to broader economic development in their communities.

Challenges in Harnessing Remittances for Entrepreneurship

As an essential means of economic survival and poverty reduction, remittances are a significant and vital source of income for millions of families in developing countries. Remittances also have the potential to serve as a catalyst for entrepreneurship and business development in low-income economies and middle-income economies as well (Masron & Subramaniam, 2018; Adams, 2011; Mohamad et al., 2022; Mabrouk, 2024). However, despite experiencing rapid growth, the global remittance sector still faces challenges that hinder the effective use of remittances for entrepreneurial ventures such as high costs, risk of dependency, limited access to financial services and cultural barriers (Adams & Page, 2005; Chami et al., 2005; Christodoulou et al., 2024).

One of the most significant challenges in leveraging remittances for entrepreneurship is the high transaction costs associated with international money transfers. Depending on factors such as the amount, transfer method, transfer service fees, destination, exchange rate margins and type of transaction. In 2004, the average cost was estimated at around 12 percent of the principal (Taylor, 2004; Kalan et al, 2005). While it is believed that remittance fees have decreased in recent years, they remain significantly high, particularly in low-volume countries. Unfortunately, high transaction fees reduce the amount of money available for investment in business ventures and discourage recipients from using formal financial channels, limiting the potential impact of remittances on entrepreneurship.

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While remittances can serve as a valuable source of seed capital for new ventures or businesses, there is a significant risk that recipients may become overly dependent on this external financial inflow. This is particularly true when remittances are primarily used for household consumption rather than being channelled into productive investments. In many low-income countries, remittances are often used to fulfil basic living expenses of human such as food, education, and healthcare, rather than fostering business creation or contributing to economic development (Adams & Page, 2005; Chami et al., 2005). This consumption-driven pattern can create a cycle of limited economic mobility and limits the transformative potential of remittances, as recipients are not utilized to create jobs or stimulate economic growth such as investing in sustainable business ventures.

Studies have shown that, while remittances can reduce poverty in the short term, they do not always contribute to long-term economic mobility or business development. For example, in some regions, households that receive remittances may become trapped in a cycle of dependency, with little incentive to invest in sustainable business ventures or self-sustaining economic activities (Ratha, 2003; Mendelson, 2007; Mohamad et al., 2022). The dependency on remittances can weaken the motivation to diversify income sources or invest in local economies. As a result, recipients may not develop the entrepreneurial skills or access the resources necessary to create scalable and lasting businesses. This, in turn, limits their ability to break out of poverty and leads to a scenario where remittances serve as a cushion for basic needs rather than a catalyst for economic transformation.

Other than that, access to formal financial services is one of the most critical challenges in leveraging remittances for entrepreneurship. In many developing countries, the financial infrastructure required to support entrepreneurs is either inaccessible or insufficient. This is especially problematic for those who wish to channel remittances into productive business ventures. The International Finance Corporation (2014) states that a limited number of small and medium-sized enterprises (SMEs) in developing countries have access to formal financing, mainly due to high costs, strict collateral demands, and the reluctance of traditional financial institutions to lend to high-risk, small-scale businesses. This barrier restricts the ability of remittance recipients to scale their ventures, even when they have access to seed capital in the form of remittances.

The lack of access to business loans, credit facilities, and microfinance options significantly limits the entrepreneurial potential of many remittance recipients. Without formal financial services, entrepreneurs are forced to rely on informal lending or self-financing, which can be insufficient to meet the capital requirements for business growth (Ratha, 2003; Chami et al., 2005). The high costs and complicated procedures of securing loans from formal financial institutions further dissuade potential entrepreneurs from pursuing business opportunities (International Finance Corporation, 2014). As a result, even if remittance recipients have the motivation and initial capital to start a business, they often lack the resources or means to expand or diversify their enterprises.

In addition to financial constraints, the absence of business development support services further hinders the entrepreneurial success of remittance recipients. These support services, including mentorship, training, and networking opportunities, are vital for transforming capital into viable business ventures. However, in many low-income economies, the infrastructure to provide these services is either underdeveloped or entirely absent (Mendelson, 2007). Without

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proper business development support, remittance recipients may struggle with issues like poor business management, lack of market knowledge, and limited ability to connect with potential customers or partners. This lack of institutional support creates a significant barrier to turning remittances into successful, sustainable businesses.

Discussion and Conclusion

Remittances represent a substantial opportunity to advance entrepreneurship and stimulate economic growth in developing countries. Beyond meeting basic needs, remittances provide the critical seed capital necessary for individuals to start businesses, expand existing enterprises, and invest in long-term economic activities. This allows marginalized groups, including rural communities and women, to overcome financial obstacles and engage actively in economic activities, fostering greater inclusivity and reducing inequality. The potential of remittances extends far beyond their immediate financial value. By empowering individuals to pursue entrepreneurial ventures, remittances contribute to job creation, community development, and the diversification of local economies. For instance, they enable recipients to invest in small and medium enterprises (SMEs), which are crucial drivers of economic development in many developing nations. Additionally, remittances facilitate access to education and healthcare, further enhancing human capital and creating a more skilled and resilient workforce.

Despite these significant opportunities, several challenges hinder the optimal utilization of remittances for entrepreneurship and broader economic development. One of the primary barriers is the high transaction cost associated with remittance transfers, which can consume a significant portion of the funds meant for recipients. These costs are particularly burdensome for low-income households, limiting the amount of money available for productive investments. Furthermore, the lack of robust financial infrastructure in many developing countries makes it difficult for remittance recipients to channel these funds into entrepreneurial activities. The problem is further worsened by limited access to formal banking services, credit options, and financial literacy programs. In many cases, recipients rely on these funds primarily for household consumption rather than for investments in income-generating activities. This consumption-driven approach can create a cycle of dependency, where households fail to develop sustainable sources of income or diversify their economic activities. Without targeted interventions, the transformative potential of remittances may remain underutilized, contributing to short-term poverty alleviation but failing to achieve long-term economic empowerment.

Addressing these challenges requires a comprehensive strategy involving governments, financial institutions, and international organizations. A key priority is to reduce transaction costs, which can be done through regulatory reforms, the implementation of digital financial services, and encouraging competition among remittance service providers. Additionally, increasing access to formal financial services like savings accounts, credit, and microfinance is crucial for helping recipients use and invest their funds productively. Capacity-building programs that enhance financial literacy and entrepreneurship skills can further empower individuals to use remittances effectively for economic growth. Policymakers also play a crucial role in fostering an enabling environment for entrepreneurship by addressing structural barriers, such as inadequate infrastructure, bureaucratic hurdles, and cultural constraints. By implementing supportive policies, governments can encourage the productive use of remittances and stimulate broader economic participation. Initiatives such as providing

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mentorship programs, tax incentives for startups, and access to business development services can significantly enhance the impact of remittances, especially on the economic development of the country.

In summary, while remittances have the potential to be a significant driver of entrepreneurship mainly in developing countries, several challenges prevent their full utilization. Due to that, to harness the full potential of remittances for entrepreneurship, it is essential to reduce transaction costs, improve access to financial and business development services, foster cultural shifts towards entrepreneurship, and create supportive policies in both sending and receiving countries. However, realizing this potential requires coordinated efforts to overcome existing barriers and create a supportive ecosystem for leveraging remittances effectively.

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