

Migration, Remittances, and Development Dependence in Small Economies

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ABSTRACT

This article examines the double character of remittances in small economies. On one hand, they stabilize households, support consumption, finance education, and provide foreign exchange. On the other, sustained reliance on migrant income can deepen structural dependence, mask domestic productivity weaknesses, and reorient development around out-migration rather than transformation at home. Drawing on contemporary migration and remittance evidence, the article argues that the policy challenge is not to reduce remittances, but to avoid building a development model that depends on permanent labour export. Small economies need strategies that convert remittance inflows into broader productive capacity through financial inclusion, investment intermediation, skills return pathways, and diaspora-linked enterprise ecosystems. The article concludes that remittances are best understood as development support, not development strategy in themselves.

Keywords- migration; remittances; small economies; diaspora; dependency.

I. INTRODUCTION

Remittances are one of the most consequential financial flows in many small economies. They sustain household consumption, reduce short-term poverty, support schooling and health expenditure, and often provide more stable foreign exchange than some forms of private capital. The World Bank continues to show the scale and persistence of these flows, which remain critical for low- and middle-income countries and particularly significant in vulnerable economies (World Bank, 2024a). In this sense, remittances are undeniably developmental (World Bank & KNOMAD, 2024; IOM, 2024).

Yet a more difficult question follows: what happens when remittances move from being supportive to being systemic? In small economies marked by limited productive diversification, high emigration, and thin labour markets, migrant transfers can become part of a broader equilibrium of dependence. The economy stabilizes, but not necessarily transforms (Ratha, 2003; de Haas, 2010).

II. THE DEVELOPMENTAL VALUE OF REMITTANCES:

The positive case for remittances is strong. They reach households directly, often with greater speed and lower leakage than public transfers. They can smooth shocks after disasters, income loss, or inflationary pressure. They also help households finance housing, education, and small enterprise. The IOM's World Migration Report documents the

extraordinary rise of remittance flows over the past two decades and their centrality to livelihoods across many regions (IOM, 2024) (Kapur, 2004; World Bank & KNOMAD, 2024).

For small states and small economies, remittances also support external balances. They increase foreign exchange availability and can help stabilize consumption during downturns or after climate shocks. In countries with volatile export structures, this cushioning effect is economically and politically significant. For households, remittances are not abstract macroeconomic inflows. They are daily survival, opportunity, and social insurance (IOM, 2024; de Haas, 2010).

III. WHEN SUPPORT BECOMES DEPENDENCE

The problem arises when remittances substitute for domestic structural reform. If consumption is stabilized by out-migration, governments may face weaker pressure to create productive employment, deepen manufacturing, improve logistics, or modernize local enterprise ecosystems. Households may rationally invest in migration pathways rather than in domestic production because migration yields more predictable returns. Over time, the economy can become organized around departure (World Bank & KNOMAD, 2024; IOM, 2024).

This does not mean remittances are harmful. It means their macro-social effects are conditional. In small economies, large remittance inflows can contribute to exchange-rate pressures, import dependence, rising reservation wages in some sectors, and a development imagination centered on diaspora support rather than domestic capability. Skills shortages can deepen when the most mobile and educated leave first. The state receives foreign exchange, but loses segments of its human capital base (Ratha, 2003; de Haas, 2010).

A dependence framework is therefore useful. It asks whether remittances are complementing domestic transformation or compensating for its absence. Where the latter is true, remittances may keep households afloat while the national production structure remains shallow (Kapur, 2004; World Bank & KNOMAD, 2024).

IV. FROM REMITTANCE ECONOMY TO DIASPORA DEVELOPMENT STRATEGY:

The appropriate policy response is not to discourage remittance inflows. It is to widen their developmental pathways. Financial inclusion matters: lower transfer costs, stronger digital payment systems, savings products, and instruments for channeling remittances into productive investment all matter. So do diaspora bonds, co-investment vehicles, and business-support systems that reduce the distance between migrant capital and domestic enterprise opportunity (IOM, 2024; de Haas, 2010).

Equally important is the treatment of migration itself. Small economies should not think only in terms of exit, but also in terms of circulation. Skills partnerships, return incentives, professional networks, and remote diaspora engagement can convert migration into capability transfer rather than one-way extraction. Remittances are more developmentally valuable when they are linked to knowledge, markets, and enterprise networks, not only to consumption (World Bank & KNOMAD, 2024; IOM, 2024).

Public policy should therefore ask a strategic question: how can migrant-linked resources strengthen the domestic economy rather than permanently compensate for its weaknesses? That is the threshold between remittance dependency and diaspora-enabled development (Ratha, 2003; de Haas, 2010).

V. HOUSEHOLD STABILIZATION AND MACRO DEPENDENCE

Remittances are developmentally powerful because they operate through household balance sheets rather than through slow administrative pipelines. They stabilize consumption, finance education, support health expenditure, and provide liquidity during crisis. For many small economies, they also strengthen foreign-exchange positions and soften the social costs of weak domestic labour demand. These effects explain why remittance inflows are often more stable than private capital flows and why policymakers treat them as a pillar of national resilience (World Bank & KNOMAD, 2024; Ratha, 2003).

The difficulty arises when this stabilizing function becomes a substitute for productive transformation. If migration systematically relieves pressure on domestic labour markets while remittances support consumption without adequate investment channels, the economy can settle into a pattern of external dependence. This is not a moral problem about migration. It is a structural problem about the terms on which mobility, labour export, and domestic capability interact. Economies can be protected by remittances in the short term while becoming more fragile in the long term (de Haas, 2010; Kapur, 2004).

VI. FROM REMITTANCE RECEIPTS TO DIASPORA STRATEGY

The policy objective should therefore be to widen the developmental uses of migration-linked resources. Lower transaction costs, migrant savings instruments, housing finance, SME co-investment platforms, skills-recognition schemes,

and structured return pathways can convert private transfers into broader economic capability without coercing households. States that engage their diasporas strategically treat migrants not only as senders of money but also as bearers of knowledge, networks, market access, and institutional credibility (IOM, 2024; World Bank & KNOMAD, 2024).

A serious diaspora strategy also requires domestic reform. Migrants invest where property rights are clearer, regulatory procedures are more predictable, and public institutions are easier to navigate. In that sense, remittance policy is inseparable from governance policy. The key distinction is whether migration complements a national development project or quietly compensates for the absence of one. Small economies that recognize this distinction are better placed to convert mobility into capability rather than dependency into permanence (de Haas, 2010; Kapur, 2004).

VII. CONCLUSION

Remittances are indispensable in many small economies, but they should not be mistaken for a self-sufficient development model. They are most effective when they protect households while the state builds productive capacity, investment channels, and labour-market opportunity at home. The goal is not less migration support, but less structural dependence on migration as the primary engine of economic survival (Kapur, 2004; World Bank & KNOMAD, 2024).

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