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Diaspora Remittance as a Form of Sustainable Finance: Case Studies in Underdeveloped and Developing Countries

Abdihakin Mohamoud Ibrahim
The Program of Master of Finance in Sustainable Finance, The Faculty of Economics and Business, Universitas Islam Internasional Indonesia, Indonesia
**Correspondence author: abdihakin.ibrahim@campus.uiii.ac.id*

Abstract. *Diaspora remittances are a major and relatively stable external financing source for underdeveloped and developing countries, often surpassing aid and foreign direct investment. Drawing on a narrative review of recent empirical studies, meta-analyses, and country cases, this paper examines how remittances contribute to sustainable finance by affecting economic growth, poverty and inequality, financial inclusion, and environmental outcomes. The evidence shows that remittances generally reduce poverty and enhance financial inclusion, while their growth and environmental impacts are heterogeneous and depend on factors such as financial development, human capital, and institutional quality. The paper argues that targeted policies lowering transaction costs, strengthening and digitizing financial systems, and designing instruments to channel remittances into productive and green investments are essential to fully integrating remittances into national sustainable finance and development strategies. Furthermore, strengthening institutional governance and promoting financial literacy among remittance recipients can improve the effective use of these funds for long-term development. In addition, collaboration between governments, financial institutions, and diaspora communities can help maximize the developmental and sustainability impacts of remittance flows.*

Keywords*: Diaspora Remittances; Environmental Sustainability; Financial Inclusion; Sustainable Finance; Underdeveloped Countries.*

1. INTRODUCTION

Migrant workers' remittances from overseas immediately supplement the family's regular income, enabling them to cover their necessities. Humanitarian aid, relief efforts, and health and education services can all benefit from remittances sent home by people or communities living and working overseas. The business concepts and skills that migrant workers acquire from the communities in their host nations constitute social remittances. When they return, they take such concepts back to their own nations. By doing this, they lessen poverty and generate jobs in their own country (Devkota, 2015).

Remittances from diaspora communities represent a significant and stable source of external finance for many underdeveloped and developing countries. As global migration increases, remittance flows have grown, often exceeding foreign direct investment and official development assistance in several regions (Cazachevici et al., 2020; Meyer & Shera, 2017). These financial transfers are not only vital for household consumption but also have the potential to drive sustainable development by supporting economic growth, reducing poverty, fostering financial inclusion, and, increasingly, contributing to environmental sustainability (Islam et al., 2024; Azizi, 2019; Masron & Subramaniam, 2018; Djeunankan et al., 2023). However, the effectiveness of remittances as a tool for sustainable finance depends on a range of factors, including recipient economies' absorptive capacity, the development of financial

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systems, and the presence of enabling policies and institutions (Azizi et al., 2023; Sobiech, 2019; Chitambara, 2019). This paper synthesizes recent research to assess the multifaceted role of diaspora remittances in sustainable finance, with a focus on underdeveloped and developing countries.

Although they occur gradually, remittances play a significant role in promoting economic development. In addition to encouraging savings, entrepreneurship, investment, and the creation of new job opportunities, remittances can also raise overall spending on health and education to achieve a high quality of life. Remittances have a favorable impact on development, as they boost overall investment and growth. However, remittances are beneficial during natural disasters and macroeconomic crises. On a smaller scale, remittances help families save more money, buy more durable products, enhance their human capital by enabling their children to attend school, improve their health, and more. If remittances are used immediately, they will boost bank deposits and credits, thereby aiding the growth of the financial industry. Remittance-receiving households in Haiti, the Dominican Republic, and Guatemala are more likely to save money and make deposits than non-remittance-receiving households. Large-scale remittance-receiving localities in Mexico now have more bank branches and a comparatively higher saving ratio (Fajnzylber and Lopez, 2008).

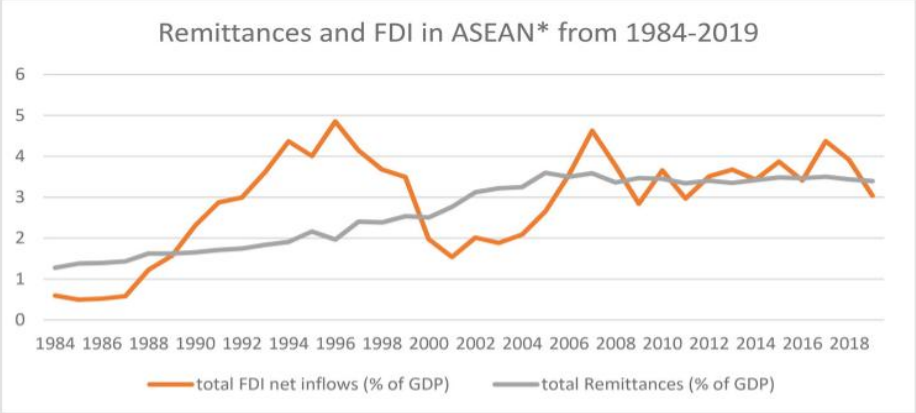


Figure 1. Remittances and FDI in ASEAN from 1984–2019.Source: World Bank.

Remittances are now the main external source of funding for Southeast Asian nations (Figure 1). Remittances have been a substantial source of foreign income for nearly thirty years, surpassing Foreign Direct Investment (FDI). They can significantly reduce poverty (Adams & Page, 2005; Huay & Bani, 2018; Noureen et al., 2022).

According to World Bank data, FDI inflows and remittances in Southeast Asian nations1 represented 3.03 and 3.39 percent of GDP in 2019, respectively. However, FDI's erratic pattern suggests major risk during a global economic slowdown, even as it plays a vital role in supporting economic growth (Kurniawan & A'yun, 2022).

2. LITERATURE REVIEW

Remittances and Economic Growth

Meta-analyses and cross-country studies reveal that remittances can have a positive, albeit modest, effect on economic growth in developing countries, particularly where financial systems are less developed (Cazachevici et al., 2020; Islam et al., 2024; Topxhiu & Krasniqi, 2025; Meyer & Shera, 2017; Eggoh et al., 2019; Dutta & Saikia, 2022). The impact is more pronounced in middle-income countries and those with higher levels of human capital, while low-income countries with limited human capital see less benefit (Azizi et al., 2023). Remittances can substitute for weak financial systems, providing capital for investment and consumption smoothing (Topxhiu & Krasniqi, 2025; Sobiech, 2019).

Poverty Alleviation and Income Inequality

Remittances are strongly associated with poverty reduction and decreased income inequality in recipient countries (Azizi, 2019; Masron & Subramaniam, 2018). A 10% increase in per capita remittances can lead to a 1–2.5% reduction in poverty headcount and gap, and also improve the income share of the poorest segments of society (Azizi, 2019; Masron & Subramaniam, 2018). However, the effect on income inequality is mixed and may depend on the level of financial development and the distribution of remittance recipients (Ofori et al., 2022; Ofori et al., 2023; Mili & Tarchoun, 2025).

Financial Inclusion and Development

Remittances promote financial inclusion by increasing the use of formal financial services, such as bank accounts and mobile banking, especially when transaction costs are low and digital platforms are accessible (Bonina et al., 2021; Ajefu & Ogebe, 2019; Rodima-Taylor & Grimes, 2019). In countries with underdeveloped financial sectors, remittances can fill gaps left by inefficient markets, but their positive impact diminishes as financial systems mature (Topxhiu & Krasniqi, 2025; Sobiech, 2019; Ofori et al., 2023; Chitambara, 2019).

Environmental Sustainability and Green Finance

Recent research explores the role of remittances in supporting environmental sustainability, such as reducing energy poverty and financing clean energy solutions (Islam et al., 2024; Djeunankan et al., 2023; Zafar et al., 2021; Wang et al., 2021; Zhang et al., 2021).

Remittances can be channeled into investments that lower carbon emissions and ecological footprints, especially when combined with green finance initiatives and supportive policies (Islam et al., 2024; Zafar et al., 2021; Wang et al., 2021; Zhang et al., 2021).

Case Studies: Nigeria, Kenya, South Asia and Somalia

a. Nigeria: Remittances have a significant impact on financial inclusion and economic growth, especially when formal channels are used and transaction costs are minimized (Ajefu & Ogebe, 2019; Tariq & Hassan, 2023; Sadiq et al., 2024).
b. Kenya: The expansion of mobile money platforms has enhanced the developmental impact of remittances, promoting financial inclusion and supporting small business growth (Bonina et al., 2021; Bekele, 2022; Rodima-Taylor & Grimes, 2019).
c. South Asia: In countries like Bangladesh, India, and Pakistan, remittances contribute to poverty reduction, education, and energy access, but their effect on sustainable development is contingent on regulatory frameworks and financial infrastructure (Khan et al., 2023; Zaman et al., 2021; Djeunankan et al., 2023).
d. Somalia: Remittance Flows in Somalia

Since the 1990s refugee crisis and the tightening of the Gulf labor market, the West is thought to be the most important source of remittances. Compared to the Somali Diaspora worldwide, Somalian refugees in nearby nations contribute far less money; in other words, they are more likely to receive remittances from other members of the diaspora than to send them themselves (Horst, 2003).

Regardless of their disparities in gender, demographics, and credentials, Somali Diaspora members who live and work overseas play a substantial and crucial part in the Somali economy. They also help the Somali people back home make a living. They also aid in the economy's revival after it was wrecked and collapsed.

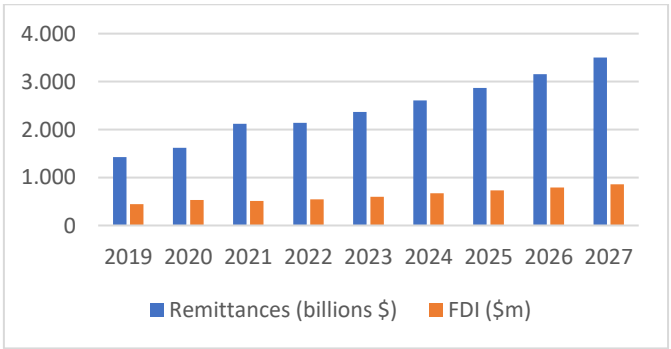


Figure 2. Comparison of Remittance and Foreign Direct Investment (FDI) Growth 2019–2027.

Source: Federal MOF; IMF reports

Remittances are crucial to Somalia's economic and social progress because they give millions of people a financial safety net and directly contribute to the SDGs, which include reducing poverty, increasing access to healthcare and education, and reducing inequality. In addition to being vital for local business investment and household resilience, the amount of remittances sent by the Somali diaspora is significantly larger than the FDI inflows that Somalia receives annually; in 2024, remittances accounted for up to 23% of the country's GDP, which is nearly double or more than the FDI that Somalia receives, which is still far less than $600 million annually, as the above figure illustrates. In Somalia's precarious situation, remittances are a key factor in achieving the SDGs, especially those related to inclusive growth and reduced poverty, by empowering families to invest in human capital and weather shocks while bridging gaps created by insufficient FDI and state development aid.

Poverty Incidence Among Recipient And Non-Recipient Households

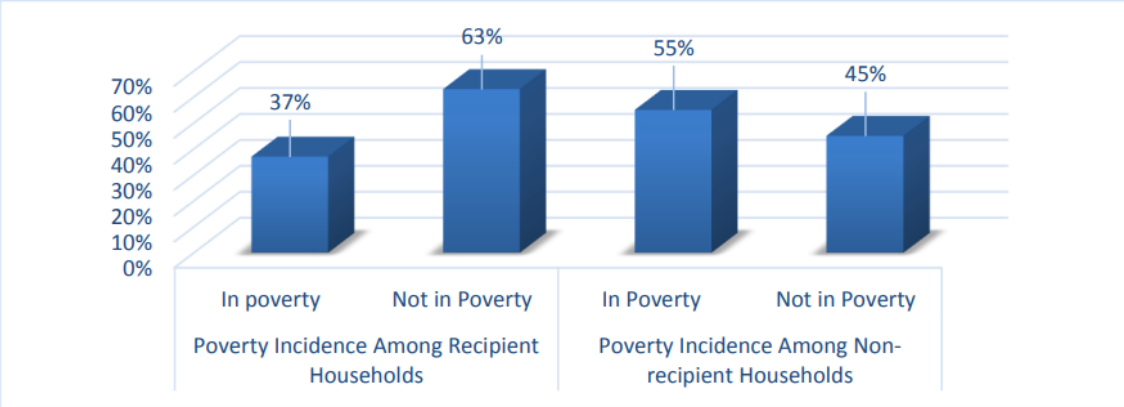


Figure 3. Comparison of Poverty Levels between Remittance Receiving and Non-Receiving Households.

Source: World Bank

By immediately raising household earnings and lowering the poverty rate among recipient families, remittances are essential to the fight against poverty in Somalia. Remittance-receiving households have a 18% lower poverty prevalence than those without this financial assistance, according to the World Bank's Somali High Frequency Survey (SHFS). According to the data, just 37% of remittance-receiving households live in poverty, compared to 55% of non-recipients, demonstrating how remittances assist recipients in affording basic consumption needs and frequently move families out of extreme poverty. Remittances thus serve as an efficient social safety net, improving overall well-being and protecting vulnerable groups from economic shocks.

3. METHODOLOGY

This paper synthesizes findings from a comprehensive review of recent empirical studies, meta-analyses, and case studies published between 2018 and 2024. The literature was identified through academic databases and filtered for relevance to the themes of remittances, sustainable finance, and development outcomes in underdeveloped and developing countries. Both quantitative and qualitative studies were included to capture the breadth of evidence and policy perspectives.

4. DISCUSSION

Opportunities

Remittances offer a stable and countercyclical source of finance that can support economic resilience, poverty alleviation, and financial inclusion in underdeveloped and developing countries (Cazachevici et al., 2020; Azizi, 2019; Masron & Subramaniam, 2018; Meyer & Shera, 2017). When channeled through formal financial systems and combined with digital platforms, remittances can foster innovation, entrepreneurship, and even environmental sustainability (Bonina et al., 2021; Islam et al., 2024; Ajefu & Ogebe, 2019; Djeunankan et al., 2023; Rodima-Taylor & Grimes, 2019). Policy interventions that lower transaction costs, improve regulatory frameworks, and promote financial literacy can amplify these benefits (Khan et al., 2023; Ajefu & Ogebe, 2019; Bekele, 2022).

Limitations

The developmental impact of remittances is not uniform. In countries with low human capital or weak institutions, remittances may have limited or even negative effects on growth and income distribution (Azizi et al., 2023; Ofori et al., 2022; Ofori et al., 2023). There is also evidence of publication bias in favor of positive effects, and the actual impact may be smaller than often reported (Cazachevici et al., 2020). Additionally, remittances can sometimes increase income inequality if primarily received by better-off households (Ofori et al., 2022; Ofori et al., 2023; Mili & Tarchoun, 2025).

Policy Implications

To maximize the sustainable finance potential of remittances, policymakers should:

a) Reduce transaction costs and incentivize the use of formal channels (Khan et al., 2023; Ajefu & Ogebe, 2019).
b) Strengthen financial infrastructure and promote digital financial services (Bonina et al., 2021; Bekele, 2022; Rodima-Taylor & Grimes, 2019).

c) Develop targeted policies to channel remittances into productive and green investments (Islam et al., 2024; Zafar et al., 2021; Wang et al., 2021; Zhang et al., 2021).
d) Address structural barriers such as low human capital and weak institutions (Azizi et al., 2023; Sobiech, 2019; Chitambara, 2019).

5. CONCLUSION

Diaspora remittances emerge from this review as a critical pillar of sustainable finance in underdeveloped and developing countries, providing stable, countercyclical resources that often exceed traditional external flows and supporting economic growth, poverty reduction, and financial inclusion, particularly in countries with shallow domestic financial systems and households facing liquidity constraints. Their potential contribution to environmental sustainability is also evident when remittance flows are intermediated through digital platforms and aligned with green investment opportunities, although structural weaknesses such as low human capital, weak institutions, and limited financial infrastructure can prevent these private transfers from becoming engines of structural transformation and inclusive, low-carbon growth.

These findings highlight the need for deliberate policy efforts to integrate remittances into broader sustainable finance and development strategies, including reducing transaction costs, strengthening and digitizing financial infrastructure, enhancing regulatory and consumer protection frameworks, and designing instruments to channel a share of remitted funds into productive and environmentally sustainable uses. Future research should examine the long-term and distributional effects of remittances, their interaction with green finance and climate policies, and the role of emerging digital and fintech infrastructures in reshaping the remittance development nexus in underdeveloped and developing countries.

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