

A review on remittance and its effect on human development in Developing Countries

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Abstract

As a percentage of its GDP, Nepal is one of the nations that receive the most remittances worldwide. Remittance income in the context of developing countries like Nepal plays a significant role in determining the structure and dynamics of the entire economy. It also has an impact on important aspects of human development, including life expectancy at birth, the average number of years spent in school, and gross national income per person. The human development should be promoted in an economy because human beings are the end in each other without the need for any justification. Nonetheless, the link between remittances and human development in underdeveloped nations has received little research. Remittances also positively affect poverty, inequality, human capital, and life expectancy (Adams, 2011), especially in developing countries. This article reviewed the empirical evidence of ten different research article published in different journals after 2018 onwards to carry out the conclusion regarding the remittance and impact on human development.

Key words : Remittance, Human Development, Developing Nation, Economic Development, Poverty.

Introduction

People moving between nations in pursuit of opportunities and a better life has a variety of socioeconomic and cultural repercussions. The amount of money, goods, or

assets that migrant workers send to their households or families in their home countries are known as remittances inflows (Adams, 2011). Human development refers to the process of improving the quality of life for individuals and communities through increased access to education, healthcare, income, and other resources. Remittance inflows greatly improve recipients' lives by allowing households to balance their fluctuating income consumption restrictions and encourage the growth of physical and human capital. It has been argued that migrant families are, in many cases, financially better off than households that have no members working abroad (Imran et al., 2018; Kamalu et al., 2019). In the recent era, the developing countries' economy is heavily relies on remittance income but the question is that whether the increasing contribution of such remitted money is being able to increase the human capital or not.

Discussion

What consequence do remittance inflows have on human development? Previous research has discovered substantial links between remittances and economic progress, which has benefited human development. The optimistic school of human development, which arose from the neoclassical migration theory that remittances will boost development in recipient countries, underpins the link between remittances and human development (Huay, et al., 2019). Sahoo, and Sethi, (2020) found evidence of a positive association between remittances and human development in a limited panel of sub-Saharan African nations, claiming that remittances are foreign currency financial flows that contribute to human development. Azizi (2018) found that remittances could enhance investment in human capital, improve health outcomes, and have a favorable and substantial influence on education in developing countries, based on data from 122 developing countries from 1990 to 2015.

Dahal and Maharjan (2018) investigated on the use of Remittance in Nepal. The study mainly focused on a detailed desk review of rural investment policy, schemes and products and successful approaches for productive remittances in South Asia. In the study it is stated that remittances are also considered to be a major contributor to poverty reduction, from 42 percent to 30 percent between 1995-96 and 2003- 04, and down to 25 percent in 2010-11.

Sah (2019), in a study of Remittance and economic development of Nepal, found that increasing trends of labour migration placed Nepal as the high remittance recipient country among the least developed countries. Therefore, depending on foreign

employment, remittance plays a significant role in the growing nations GDP. He also concluded that remittance has significantly contributed to the economic development of the country and raised the living of standard of the people with the help of foreign employment and remittance income.

However, the human development approach put people back at the center stage of developmental agendas. The most important objective of any development agenda is to provide opportunities for all people to attain the maximum level of happiness. Therefore, the concept of human development is considered “richer and deeper” in capturing the real development than other previously used indicators (Streeten, 1994), for instance, GDP per capita. The capability approach to human development by Sen (1994) proposed a multidimensional approach to the concept of human development, which provided the framework used in constructing the human development index (HDI) considered as a better measure of wellbeing than the GDP/GNI per capita. However, south Asian countries have a lower ranking in HDI, especially the lower- and middle-income countries. These nations have lower life expectancies, greater rates of infant and child mortality, lower levels of enrollment and academic achievement, and the highest levels of human deprivation.

Various studies in the literature have provided different explanations on how remittances affect economic growth and development. Economic growth is just one of the three dimensions of human development. The other dimensions, however, relate to human capital as well as a long and healthy life. Therefore, this work reviews literature related to these three dimensions, as the empirical works on the impact of remittances on human development are scanty.

A thorough analysis was provided in Rapoport and Docquier (2005) on why migrants’ workers remit to their home country. They came up with three theoretical reasons that include altruism, insurance, and investment. Families and community consider migrants’ act of sending money or assets to help their household members as altruism. It is based on insurance when they transfer money or assets to protect family members against risk or financial shock and unforeseen adversities. Remittances are considered for investment purposes when migrants remit to their home country to purchase properties, stocks and equity or invest in physical capital.

Moreover, the existing research emphasizes the mechanism through which remittances influence economic growth, but there is no evidence of remittances' direct impact on human development. Sobiech, (2019) found that in 66 developing countries, an efficient banking system complements the favorable effect of remittances on economic growth. On the other hand, Abor, et al. (2021) examined the real exchange rate as the conduit through which remittances positively affect growth. Because human development is frequently a result of poverty reduction, it is critical to recognize the essential role remittances play in human development. Limited access to household spending on human development, such as the lack of or delays in obtaining vital healthcare, causes a decline in population health, which leads to lost income and denial of basic requirements such as food, housing, and health care, all of which contribute to poverty (Dahliah, & Nur, 2021). As a result, further research is needed to see a clear trade-off between remittances and human development.

Studies have proven how remittances improve human development (Üstübcü & İrdam, 2012), indicating a similar shift in perspectives on human development. They investigated the influence of remittances on human development using OLS to quantify the influence of remittances on human development. They compared the influence of remittances on human development to the effects of FDI and ODA using 32 randomly chosen nations, finding a positive link between remittances and human development. According to their empirical findings, remittances have a higher explanatory power on human development than FDI and ODA.

Aregbeshola, (2022) demonstrated the critical influence of remittances on human development in 15 sub-Saharan African (SSA) developing nations, giving considerable evidence on the effect of remittances on human development. He found that a 10% increase in remittances boosts human development by 0.1 percent, implying that remittance inflows are important for promoting human development, because they provide additional income to the SSA region, allowing it to meet basic human needs like education, healthcare, and protection healthcare and education, all of which enhance people's quality of life.

The study of Azizi (2018) examined the effect of workers' remittances on human capital and supply of labor in 122 developing countries and found that remittances inflows improve health care services and decrease mortality rate, thereby positively affect the supply of labor. Moreover, remittances inflows positively affect school enrolment rate

and attainment in developing countries. Another study by Gyimah-Brempong and Asiedu (2015) evaluated the impact of remittances on investment in education in Ghana and found that the remittances improve school enrolment in primary and secondary schools in Ghana. This study further concluded that remittances inflows negatively affect poverty in the long run via the channel of human capital. Borja (2020) examined the impact of remittances and corruption on five development indicators using a panel of 26 Latin American and Caribbean nations from 1985 to 2016. She discovered that remittances had a substantial impact on human capital indices, particularly in countries combating corruption. Asongu and Nting (2021) studied the direct and indirect links between financial development and inclusive human development in Africa. Using least squares method inequality-adjusted human development index taking as dependent variable they concluded that financial depth, activity, and scale enhance inclusive human development.

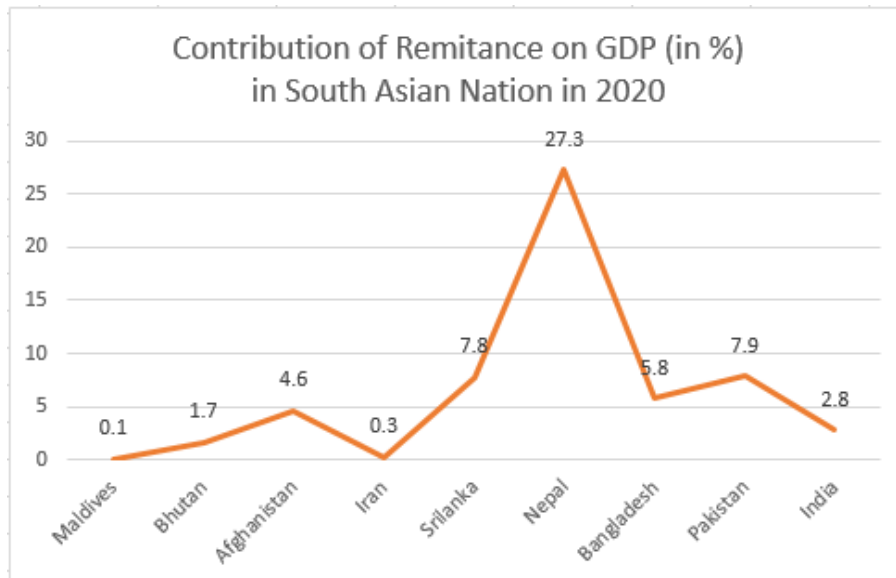
Nepalese context

Nepal is one of the nations that receives the most remittances worldwide. In South Asia, Nepal is the country where the contribution of remittance in GDP is 27.3% and by amount of remittance it is in third highest rank (i.e.\$8.1B) after India (\$83.1B), Pakistan (\$22.5B) and Bangladesh(\$18.3B) (World Bank ,2020). In the contrary, human development index of Nepal is quite behind in compare to other south Asian countries.

Table 1:
HDI and Contribution of Remittance in GDP in South Asian Nations

Countries	HDI	Rank	% contribution in GDP
Nepal	0.602	143	27.3
Pakistan	0.544	161	7.9
Srilanka	0.782	73	7.8
Bangladesh	0.661	129	5.8
Afghanistan	0.478	180	4.6
India	0.633	132	2.8
Bhutan	0.666	127	1.7
Maldives	0.747	90	0.1

Source: Human Development Report 2021/2022, World Bank Report, 2020



Source: World Bank (2020)

The above data figure out the problem that the developing countries in south Asia are not being able to capitalize the remittance income on the multiple aspect of Human Development

Conclusion

Remittances can play a significant role in human development by providing a source of income for families and communities in receiving countries. The income from remittances can be used to improve living standards, including access to food, housing, education, and healthcare. In terms of education, remittances can be used to pay for school fees, uniforms, and books, helping to increase enrollment rates and educational attainment. Improved education leads to improved human capital, which can have long-term positive effects on the individual and their community. In terms of healthcare, remittances can be used to pay for medical expenses and improve access to health services. This can result in improved health outcomes, reduced illness, and a more productive workforce.

In general, the studies mentioned above emphasize the impact of remittances on macroeconomic issues. However, there is limited evidence that the remittances have a direct effect on human development. This article might be significant to reveal the lack of studies conducted on Nepalese context by assessing the relationship between remittances and human development.

However, it is important to note that the impact of remittances on human development can be limited by various factors such as the availability of basic infrastructure and public services, the effectiveness of the receiving country's institutions, and the level of corruption.

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