THE ECONOMIC PSYCHOLOGY OF MIGRATION: REMITTANCES AND INVESTMENT IN DEVELOPING COUNTRIES

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ABSTRACT

This study revealed existing literature on the economic and psychological factors that influence international migrants from developing nations' investment choices and remittance practices. Although the macroeconomic significance of remittances has been widely acknowledged, little is known about the cognitive, emotional, and behavioral underpinnings of these financial transfers. This study examines how affective attachments, cultural identity, financial capability, and institutional trust affect migrants' financial allocations using the conceptual tools of economic psychology. Study used secondary sources from journals, Central Bank Statistical Bulletins, World Bank, National Bureau of Statistical and the Internet as a method. It synthesizes behavioral economics, migration theory, and psychological constructs to examine how migrants' cognitive biases, social norms, and emotional attachments to their countries of origin shape their remittance patterns and investment choices. It also takes into account the dual function of remittances as strategic investments in areas like housing, education, and entrepreneurship as well as support for families. The study recommends among other things that Policymakers in those countries must take into account the behavioral aspects of migrant finance in order to fully utilize the developmental potential of remittances and that they should also incorporate economic psychology into analyses of migrant investment and remittance patterns.

Keywords: Economic Psychology. Migration, Remittance, Investment and Developing Countries

JEL: F22, F24, D91, O15, G51, J61.

1.0 INTRODUCTION

An important aspect of the globalized economy is international migration, which influences economic and demographic trends in both sending and receiving countries. About 281 million people, or 3.6% of the world's population, were classified as international migrants as of 2023 (United Nations, 2023). The rise in remittance flows is one of the main economic effects of this transnational movement. Remittances exceeded foreign direct investment in many instances in

2022, totaling US$831 billion worldwide, of which US$647 billion went to low- and middle-income nations (World Bank, 2023).

Despite the well-established economic significance of remittances, traditional models frequently conceptualize these flows as logical transactions motivated by the maximization of income and utility. These methods, however, ignore the complex psychological and sociocultural elements that influence the choices made by migrants. An alternative viewpoint is provided by economic psychology, which emphasizes how social norms, affective bonds, and cognitive biases influence economic behavior (Furnham & Argyle, 1998; Kahneman, 2011). These behavioral factors combine with economic incentives in the context of migration to produce a complex environment of investment and remittance choices. (Carling, 2008; Lucas & Stark, 1985).

Remittances are a source of potential investment in human and physical capital as well as a stabilizing force for household consumption in developing nations. However, factors like the availability of investment opportunities, the financial literacy of migrants, and their trust in local institutions all play a role in mediating the developmental impact of these flows (Dustmann & Mestres, 2010; Ambrosius, 2016). By providing a behavioral interpretation of investment and remittance practices. This study aims to add to the expanding body of research on migration and development.

2.0 LITERATURE REVIEW

The literature demonstrates broad agreement that migration and remittances play a significant role in promoting socioeconomic development in developing countries. Most empirical studies conclude that remittances increase household income, reduce poverty, smooth consumption, improve access to education and healthcare, and strengthen household resilience against economic shocks (World Bank, 2023; International Organization for Migration [IOM], 2024). There is also widespread consensus that remittances help alleviate liquidity and credit constraints, enabling households to invest in education, housing, agriculture, and small-scale enterprises, particularly where formal financial markets are underdeveloped (Ratha, 2021; OECD, 2023). Furthermore, many studies acknowledge that migrants maintain strong economic and social ties with their countries of origin, making remittances an important source of development finance that often exceeds official development assistance in many developing economies (World Bank, 2023).

Although scholars generally recognise the developmental importance of remittances, there is considerable disagreement regarding their long-term economic effects and utilisation. One group of studies argues that remittances stimulate productive investment, entrepreneurship, business creation, and local economic development by providing capital for income-generating activities (Adams & Cuecuecha, 2013; Ratha, 2021). In contrast, other studies contend that remittances are predominantly used for household consumption, housing, and ceremonial expenditures, with relatively limited investment in productive sectors (Chami et al., 2005; World Bank, 2023). Similarly, while some researchers find that remittances encourage labour market participation by financing entrepreneurial activities, others argue that they may reduce labour supply by increasing household dependence on external income. These contrasting findings suggest that the developmental impact of remittances varies across countries, institutional environments, and household characteristics.

The divergent findings reported in the literature can be partly attributed to methodological differences across studies. Existing research employs a wide range of approaches, including cross-sectional household surveys, panel data analyses, time-series econometric models, qualitative interviews, and mixed-methods designs. Cross-sectional studies often provide detailed household-level evidence but are limited in establishing causal relationships because they capture behaviour at a single point in time. Conversely, panel data and longitudinal studies are better suited to examining changes in remittance behaviour over time but require extensive datasets that are often unavailable in developing countries (World Bank, 2023).

Differences also arise from variations in the measurement of key variables. Some studies define investment narrowly as business formation or physical capital acquisition, whereas others include human capital investments such as education and health expenditures. Likewise, remittances are measured using different indicators, including official transfers, informal transfers, or total household receipts. In addition, most empirical studies rely on conventional econometric models based on rational choice assumptions, while relatively few incorporate behavioural variables such as trust, risk preferences, financial attitudes, or cognitive biases. These methodological differences contribute significantly to the inconsistent empirical findings reported in the literature.

Despite substantial progress in migration research, several important questions remain unresolved. First, there is limited understanding of how psychological factors including financial attitudes, aspirations, behavioural biases, trust, risk tolerance, and social norms influence migrants' remittance decisions and recipient households' investment choices. Existing studies primarily explain remittance behaviour using economic incentives while paying insufficient attention to behavioural processes that shape financial decision-making (Kahneman, 2011; OECD, 2023).

Second, little consensus exists regarding the conditions under which remittances are transformed into productive investment rather than household consumption. The influence of institutional quality, financial inclusion, governance, cultural expectations, and behavioural characteristics remains insufficiently understood. Third, there is a lack of interdisciplinary studies integrating migration economics, behavioural economics, and economic psychology into a unified analytical framework capable of explaining variations in remittance utilisation across developing countries. Finally, relatively few longitudinal and comparative studies investigate how migrants' financial behaviour evolves over time in response to changing economic conditions, policy environments, and household circumstances. Addressing these unresolved questions is essential for developing a more comprehensive understanding of the economic psychology of migration and its implications for sustainable development.

2.1 **Economic Psychology and Migrant Decision-Making**

Economic psychology examines how people make financial decisions when faced with uncertainty and constraints by combining ideas from economics and psychology. Economic psychology recognizes the impact of heuristics, emotions, and bounded rationality, in contrast to neoclassical economic theory, which presumes rational actors (Kahneman & Tversky, 1979; Thaler, 2016). When applied to migration, this viewpoint emphasizes how relational, emotional, and normative factors rather than just financial incentives influence migrants' remittance behaviors.

The three main reasons for remittance are self-interest, contractual agreements, and altruism, according to Lucas and Stark's (1985) seminal model. These motivations coexist in dynamic ways and frequently change as the circumstances of migrants do. Self-interested transfers may be spurred by future claims to inheritance or status, whereas altruistic remittances are motivated by an emotional concern for the welfare of the family. Negotiated commitments between migrants and their households are reflected in contractual remittances. Carling (2008) expands on this framework by proposing the idea of remittance expectations, which are social and psychological forces that force migrants to send money back.

Remittance patterns are further explained by important behavioral constructs like temporal discounting and risk aversion. While those with a longer time horizon might favor education or business endeavors, migrants with high risk aversion typically favor safe investments like housing (Osili, 2007; Dustmann & Mestres, 2010). Another important factor is return intentions; migrants who intend to return are more likely to make long-term investments in their home nations (Ambrosius, 2016).

2.2 Behavioural Dimensions of Remittance Practices

A combination of structural, social, and psychological elements influence remittance practices. The frequency and size of remittances are strongly influenced by identity salience, perceived familial responsibilities, and emotional attachment to one's home country (Boccagni, 2017). Even when their economic need wanes, migrants who have strong cultural ties and transnational affiliations frequently keep sending money.

According to the remittance decay hypothesis, as migrants integrate more fully into host societies, the frequency and amount of remittances decreases over time (De Haas, 2007). This tendency can be reversed, though, by the enduring presence of transnational networks and community-based expectations. For example, remittances are frequently utilized for community projects that give the sender social prestige, like constructing schools or medical facilities (Levitt & Lamba-Nieves, 2011).

Another important factor in remittance decisions is temporal discounting. In times of economic instability or family urgency, migrants may put their immediate family needs ahead of long-term investments. On the other hand, people who are better at financial planning and have lower discount rates are more inclined to invest in business, housing, and education. Ambrosius (2016)

Taken together, the literature indicates broad agreement that remittances improve household welfare, but significant disagreement remains regarding their effectiveness in promoting productive investment and long-term economic growth. Much of this divergence stems from differences in research design, data sources, variable measurement, and analytical approaches. More importantly, the literature has paid relatively little attention to the psychological mechanisms underlying remittance and investment decisions. These unresolved issues provide the rationale for the present review, which synthesises insights from migration economics, behavioural economics, and economic psychology to develop a more comprehensive understanding of remittance behaviour and investment outcomes in developing countries.

2.3 Theoretical Perspectives

The theoretical perspectives underpinning migration, remittances, and investment have traditionally been presented independently, with each theory explaining a specific dimension of migrants' behaviour. For example, the **Neoclassical Migration Theory** explains migration as an individual decision based on expected income maximisation and wage differentials between origin and destination countries (Borjas, 2014). In contrast, the **New Economics of Labour Migration (NELM)** shifts the analytical focus from individuals to households, arguing that migration is a collective strategy for diversifying income sources and reducing risks associated with imperfect credit and insurance markets (Stark & Bloom, 1985). Meanwhile, **Prospect Theory** explains how individuals make financial decisions under uncertainty by considering perceived gains and losses rather than objective outcomes (Kahneman & Tversky, 1979), whereas the **Behavioural Life-Cycle Theory** emphasises self-control, mental accounting, and behavioural preferences in saving and investment decisions (Shefrin & Thaler, 1988).

Rather than treating these theories as competing explanations, this review integrates them into a coherent conceptual framework. The framework recognises that migration and remittance decisions are multidimensional phenomena shaped by economic incentives, household strategies, behavioural biases, and institutional contexts. Migration decisions are initially influenced by economic opportunities and household risk-sharing considerations (Neoclassical Theory and NELM), while remittance allocation and investment behaviour are subsequently shaped by behavioural factors such as risk tolerance, trust, financial attitudes, aspirations, and cognitive biases (Prospect Theory and Behavioural Life-Cycle Theory). This integrated approach provides a more comprehensive explanation of migrants' financial behaviour than any single theory alone (World Bank, 2023; IOM, 2024).

Neoclassical Migration Theory explains **why migration occurs**, emphasising income differentials, employment opportunities, and expected economic returns (Borjas, 2014). The New Economics of Labour Migration extends this perspective by explaining **why households collectively decide to send migrants abroad**, highlighting risk diversification, income smoothing, and market failures in developing economies (Stark & Bloom, 1985).

While these theories explain migration decisions, they provide limited insight into how migrants subsequently decide to remit income or how recipient households allocate remittances. This limitation is addressed by behavioural theories. Prospect Theory demonstrates that migrants' financial decisions are influenced by subjective perceptions of risk, loss aversion, and uncertainty rather than perfect rationality (Kahneman & Tversky, 1979). Similarly, Behavioural Life-Cycle Theory explains why households mentally separate remittance income from other income sources and allocate it differently across consumption, savings, and investment depending on behavioural preferences and self-control mechanisms (Shefrin & Thaler, 1988).

Economic psychology further complements these theories by incorporating social norms, trust, family obligations, aspirations, emotions, and financial attitudes into migration research. Consequently, the integrated framework recognises that migration decisions originate from economic motivations but that remittance utilisation and investment outcomes are simultaneously influenced by behavioural and psychological factors (OECD, 2023; World Bank, 2023).

The integrated theoretical framework provides a strong foundation for the central argument of this review that remittance and investment decisions cannot be adequately explained by economic incentives alone. Traditional migration theories demonstrate that migration is motivated by expected economic benefits and household welfare objectives (Stark & Bloom, 1985; Borjas, 2014). However, these theories assume that individuals make rational financial decisions once migration has occurred.

Behavioural theories challenge this assumption by demonstrating that financial decisions are often influenced by bounded rationality, cognitive biases, emotions, social preferences, and perceptions of risk (Kahneman, 2011). Economic psychology further argues that financial behaviour is shaped by individual attitudes, trust in institutions, cultural expectations, and family relationships, all of which influence whether remittances are used for consumption, precautionary savings, education, entrepreneurship, or productive investment.

Accordingly, this review argues that understanding the developmental impact of remittances requires integrating economic and psychological perspectives. By combining migration theories with behavioural economics and economic psychology, the study provides a more comprehensive explanation of why similar levels of remittance inflows produce different investment outcomes across households and developing countries (World Bank, 2023; IOM, 2024).

Based on the complementary theoretical perspectives, this review proposes an integrated conceptual framework in which migration, remittances, and investment are viewed as interconnected behavioural processes rather than isolated economic events.

Economic factors (income differentials, unemployment, labour demand, and market imperfections) influence migration decisions, **Household factors** (risk diversification, family obligations, and income security) determine remittance motivations, **Psychological and behavioural factors** (risk perception, financial literacy, trust, aspirations, mental accounting, loss aversion, and social norms) shape how remittances are allocated and **Institutional factors** (financial inclusion, governance quality, access to credit, and investment opportunities) determine whether remittances generate productive investment and sustainable development.

The framework therefore explains that productive investment is not determined solely by the volume of remittances but also by the interaction between economic incentives, behavioural characteristics, and institutional conditions. This integrated perspective addresses a significant gap in existing migration research by explicitly linking migration economics with economic psychology and behavioural finance (OECD, 2023; World Bank, 2023; IOM, 2024).

By highlighting systematic cognitive biases like bounded rationality, present bias, and loss aversion, this framework questions the neoclassical assumption of fully rational agents. Heuristics and framing effects, rather than optimal utility maximization, influence the decisions made by migrants, who frequently operate in environments of uncertainty and incomplete information. In frequently unstable home-country environments, these behavioral tendencies play a crucial role in guiding the distribution of remittances and risky investment choices.

2.4 Theory of Planned Behavior (TPB)

According to TPB, behavioral intentions which are impacted by attitudes toward the behavior, subjective norms, and perceived behavioral control determine an individual's behavior. This theory is crucial in the context of migration because it clarifies how remittance flows and investment intentions are influenced by social pressures (like familial expectations), perceived ease or difficulty of investing (like institutional barriers), and individual values. (Boccagni, 2017).

2.5 New Economics of Labor Migration (NELM)

NELM reframes migration as a household strategy meant to reduce risks and get past local market imperfections like insurance or credit failures. It sees remittances as part of a cooperative economic arrangement between migrants and their households rather than just as individual acts of kindness. As a result, investment choices are frequently made collectively and impacted by utility maximization at the household level. Business & Economics (2023).

2.6 Social Identity Theory

According to this theory, people's affiliation with particular social groups contributes to their sense of self and identity. Remittance and investment patterns are greatly influenced by migrants' ongoing identification with their nation of origin or ethnic group. In addition to being financial decisions, these financial flows are also symbolic representations of cultural preservation, commitment, and belonging. (Ratha et al., 2011)

The study goes beyond conventional economic analysis by combining these frameworks to provide a multifaceted understanding of migrant investment patterns and remittance behavior

2.7 Empirical Literature

Over the past 20 years, there has been a notable increase in empirical research on the connection between migration, remittances, and investment. This is indicative of the growing significance of diaspora financial flows in low- and middle-income countries' economic development plans. Numerous studies support the important role that remittances play in household-level investments, especially in small businesses, housing, and education. Using nationally representative data from Guatemala, Adams and Cuecuecha (2013) discovered, for example, that households that received international remittances were more likely than non-receiving households to invest in human capital, particularly in the areas of health and education. Similar findings were made by Osili (2007), who studied Nigerian migrants in the US and discovered that households that sent remittances had greater levels of housing investment, particularly those migrants who had strong plans to return.

This investigation has been broadened in more recent research by adding behavioral factors. Remittances act as a buffer against economic shocks, enabling stable consumption and future-oriented investments, according to a panel analysis of Mexican households done by Ambrosius and Cuecuecha (2022). However, two important variables drawn from economic psychology financial literacy and institutional trust significantly moderated the size of these investments.

Another important factor influencing the use of remittances is the caliber of financial institutions. Kagochi and Kiambigi (2021) used data from 18 sub-Saharan African nations to show that when the host nation has a stable financial system and easily accessible investment platforms, remittances are more likely to be put to good use. This result is consistent with findings from SN Business & Economics (2023), which demonstrated that the relationship between remittances and domestic investment in West African countries is mediated by financial development, specifically mobile banking and formal savings instruments.

Additionally, psychological aspects have been empirically validated. Using an experimental intervention in the Philippines, De Arcangelis et al. (2015) demonstrated that migrants who received SMS reminders for goal-setting and savings were substantially more likely to send money home and use it for family education and business ventures. These results highlight how crucial financial planning and behavioral cues are in influencing migrant investors' choices. Furthermore, more recent research has called into question the remittance decay hypothesis, which postulates that the tendency to remit decreases over time. Using global panel data, Böhme and Leblang (2020) discovered that even among second-generation migrants, social norms, diaspora networks, and transnational engagement can maintain remittance behavior over time.

Gender dynamics are the subject of another expanding literary subgenre. In their analysis of gender-differentiated remittance patterns among Ghanaian migrants, Anarfi et al. (2022) discovered that while male migrants tended to invest in land and business, female migrants were more likely to remit for health and educational reasons. This behavioral difference implies that gender affects remittance motivation and destination.

All things considered, the empirical data emphasizes how remittances are intricately linked to institutional, social, and psychological factors in addition to macroeconomic factors and migration histories. Therefore, incorporating behavioral economics into empirical remittance research offers a more sophisticated comprehension of the investment behavior of migrants.

3.0 METHODOLOGY

A qualitative review approach was adopted because the primary objective of this study is to critically synthesize and interpret existing theoretical and empirical evidence on the economic psychology of migration, remittances, and investment in developing countries rather than to statistically estimate effect sizes. The topic encompasses diverse concepts drawn from migration economics, behavioural economics, economic psychology, and development studies, making a qualitative synthesis more appropriate for identifying patterns, theoretical linkages, and research gaps across studies. Unlike meta-analysis, which requires comparable quantitative outcomes, a qualitative review allows the integration of evidence generated using different research designs, methodologies, and disciplinary perspectives (Snyder, 2019; Booth et al., 2022).

Furthermore, because economic psychology remains an emerging area within migration research, the available literature is heterogeneous in terms of theoretical orientation, research context, and methodological approach. A qualitative review therefore provides the flexibility needed to compare findings, identify inconsistencies, and develop an integrated conceptual framework that explains how psychological factors influence remittance behaviour and investment decisions (Paul & Criado, 2020).

Relevant studies were identified through a systematic literature search conducted across major international academic databases. The search followed a structured procedure beginning with the formulation of the research questions and the identification of appropriate search terms. Retrieved articles were screened based on their titles and abstracts to determine their relevance to the study objectives. Full-text versions of potentially eligible publications were subsequently reviewed to assess their methodological quality and conceptual relevance.

To ensure comprehensive coverage, both peer-reviewed journal articles and high-quality reports published by reputable international organisations were considered. The selection process emphasised studies addressing migration, remittances, behavioural economics, economic psychology, household financial behaviour, and investment in developing countries.

To complement the academic literature, policy reports and working papers were retrieved from the official websites of the: World Bank International Organization for Migration (IOM) Organisation for Economic Co-operation and Development (OECD), International Monetary Fund (IMF) United Nations. The use of multiple databases reduced publication bias and increased the likelihood of identifying interdisciplinary studies relevant to the research objectives.

The review primarily considered studies published between **2000 and 2025**. This period captures major developments in migration theory, behavioural economics, and remittance research while ensuring that the review reflects contemporary evidence and policy discussions.

Seminal theoretical contributions published before 2000 such as Prospect Theory (Kahneman & Tversky, 1979), the New Economics of Labour Migration (Stark & Bloom, 1985), and the Behavioural Life-Cycle Theory (Shefrin & Thaler, 1988) were also included because they provide the theoretical foundations for understanding migrants' financial behaviour. Priority was given to empirical studies and policy reports published between 2020 and 2025 to ensure that the review reflects current developments in migration and remittance research.

The review adopted a thematic narrative synthesis approach to analyse and integrate the selected studies. Following article selection, the literature was organised into major analytical themes, including: theories of migration and remittance behavior, psychological determinants of financial decision-making; behavioural factors influencing remittance utilisation; remittances and productive investment; institutional and policy determinants; empirical evidence from developing countries; research gaps and future research directions. Within each theme, studies were critically compared rather than sequentially summarised. Particular attention was paid to areas of agreement, conflicting findings, methodological differences, and unresolved questions. This analytical approach facilitated the development of an integrated conceptual framework linking migration economics with economic psychology and behavioural finance.

To improve methodological transparency and reproducibility, this study follows the **Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA 2020)** guidelines for identifying, screening, assessing, and selecting relevant studies (Page et al., 2021). Although the review is narrative in nature, the PRISMA framework provides a rigorous and transparent procedure for documenting the literature search, article selection, and eligibility assessment.

The review involved four principal stages:

1) **Identification:** Relevant studies were identified through database searches and institutional repositories using predefined keywords.
2) **Screening:** Duplicate records were removed, and titles and abstracts were screened for relevance.

3) **Eligibility:** Full-text articles were assessed using predefined inclusion and exclusion criteria.
4) **Inclusion:** Eligible studies were synthesised through thematic narrative analysis to identify recurring themes, methodological patterns, theoretical insights, and research gaps.

The adoption of the PRISMA framework enhances the transparency, reliability, and replicability of the review while ensuring adherence to internationally recognised standards for evidence synthesis.

The study made used of Qualitative approach where data on Economic Psychology, Migration, Remittance, Investment and Developing Countries were sorted from secondary sources like journals, Central Bank Statistical Bulletins, World Bank, National Bureau of Statistical and the Internet.

4.0 REMITTANCES AS INVESTMENT IN DEVELOPING ECONOMIES

For developing nations, remittances are a significant source of private capital with broad investment implications. Migrants frequently invest their money in small businesses, education, healthcare, and real estate. Psychological concepts like self-efficacy, control beliefs, and faith in regional institutions act as mediators in these investment choices (Osili, 2007).

The distribution of remittances is strongly influenced by the quality of the institution. Migrants typically favor family-based or informal investments over official financial channels in nations with lax governance and enforcement of the law. Effective capital deployment is discouraged by the lack of strong property rights and investment protections (Ratha et al., 2011).

The growth of the financial sector increases remittances' ability to support domestic investment, according to recent empirical data. Improvements in financial infrastructure, such as access to banking and digital payment systems, for instance, help West African economies channel remittances into productive uses, according to SN Business & Economics (2023).

4.1 Missing Link

Although migration and remittances have been widely examined in the development economics literature, previous studies have primarily concentrated on their macroeconomic and socioeconomic effects, including poverty reduction, household welfare, financial inclusion, entrepreneurship, and economic growth (World Bank, 2023; International Organization for Migration [IOM], 2024). Much of this literature is grounded in neoclassical economics and the New Economics of Labour Migration (NELM), which conceptualize migrants as rational agents responding to income differentials, labour market opportunities, and household risk-sharing arrangements (Stark & Bloom, 1985; Taylor, 1999).

While these perspectives have generated substantial empirical evidence, they inadequately explain the psychological mechanisms that influence migrants' financial decisions. Existing studies rarely investigate how behavioural factors such as risk perception, trust, financial attitudes, aspirations, cognitive biases, emotions, social identity, and future expectations shape remittance behaviour and the allocation of remittances between consumption, savings, and productive investment (Kahneman, 2011; World Bank, 2023). Consequently, the behavioural pathways linking migration, remittances, and investment remain underexplored, particularly in developing countries where informal institutions, family obligations, and cultural norms strongly influence financial decision-making (IOM, 2024)

Another important limitation is the fragmented nature of the literature. Most studies analyse migration, remittances, behavioural economics, or investment decisions independently, with relatively few integrating these perspectives into a comprehensive interdisciplinary framework. As a result, there is limited understanding of how economic incentives interact with psychological and social factors to determine remittance utilisation and developmental outcomes (OECD, 2023).

4.2 Economic Psychology in Migration Study

Economic psychology has remained relatively underrepresented in migration research because migration scholarship has historically been dominated by economics, demography, sociology, and labour market analysis. These disciplines have traditionally prioritised observable economic variables such as wage differentials, employment opportunities, exchange rates, and migration costs while assuming that migrants behave as rational utility-maximising individuals (Massey et al., 1993; Borjas, 2014).

Moreover, psychological variables are inherently more difficult to measure than conventional economic indicators. Constructs such as trust, optimism, financial confidence, reciprocity, present bias, loss aversion, and social preferences often require specialised behavioural experiments or validated psychometric instruments, making their incorporation into migration studies more complex (Kahneman, 2011; OECD, 2023). Consequently, many empirical investigations explain what migrants remit but devote comparatively little attention to why they make particular financial decisions under conditions of uncertainty and varying institutional environments.

The limited integration of behavioural science into migration research also reflects disciplinary fragmentation, where economists, psychologists, and migration scholars have often worked independently despite addressing complementary aspects of human decision-making (World Bank, 2023).

4.3 The Study Importance

This review advances current knowledge by integrating insights from migration economics, behavioural economics, and economic psychology to provide a more comprehensive explanation of remittance behaviour in developing countries. Rather than treating remittance decisions solely as rational economic choices, the review demonstrates that migrants' financial behaviour reflects interactions among economic incentives, psychological characteristics, cultural norms, institutional quality, and social relationships.

The review also moves beyond descriptive summaries by critically synthesising existing evidence, identifying areas of agreement and disagreement, evaluating methodological differences, and highlighting unresolved questions in the literature. In doing so, it explains why empirical findings regarding the investment effects of remittances differ across countries and household contexts.

Furthermore, the review develops an interdisciplinary conceptual framework that links migration decisions, behavioural determinants, remittance allocation, and investment outcomes. This framework broadens existing theoretical understanding and identifies promising directions for future empirical research (IOM, 2024; World Bank, 2023).

4.4 The Uniqueness of the Study

The principal novelty of this review lies in its integration of economic psychology into the migration remittance investment nexus. Although numerous reviews have examined the developmental effects of remittances, few have systematically synthesised evidence on the psychological determinants of migrants' financial behaviour.

Unlike previous reviews that focus primarily on economic outcomes, this study examines how behavioural biases, financial attitudes, aspirations, trust, social norms, cognitive heuristics, and emotional factors influence both remittance decisions and productive investment in developing countries. By combining insights from development economics, behavioural economics, psychology, and migration studies, the review provides a multidimensional perspective that extends beyond traditional rational-choice explanations.

Another novel contribution is the development of an integrated conceptual framework illustrating how psychological variables mediate the relationship between migration and investment behaviour. This interdisciplinary approach addresses an important gap in existing scholarship and offers a foundation for future behavioural migration research.

4.5 The Theoretical Importance

This review contributes theoretically by extending migration scholarship beyond traditional rational-choice frameworks. Existing theories including the Neoclassical Migration Theory, the New Economics of Labour Migration (NELM), altruism theory, and self-interest models provide valuable explanations of migration and remittance decisions but pay limited attention to behavioural processes that shape financial decision-making.

Drawing on Prospect Theory (Kahneman & Tversky, 1979), Behavioural Life-Cycle Theory (Shefrin & Thaler, 1988), and principles of economic psychology, this review demonstrates that remittance and investment decisions are influenced not only by objective economic incentives but also by bounded rationality, mental accounting, loss aversion, trust, financial expectations, and social preferences.

Accordingly, the review proposes an integrated theoretical perspective in which economic, behavioural, and institutional factors jointly explain migrants' financial decisions. This interdisciplinary framework provides a stronger theoretical basis for future empirical investigations into migration and remittance behaviour.

4.6 The Practical Usefulness

The review has important practical implications for financial institutions, development organisations, migrant associations, and researchers interested in maximising the developmental impact of remittances.

The evidence suggests that increasing remittance inflows alone is insufficient to promote productive investment if behavioural barriers including limited financial literacy, high risk aversion, present-biased preferences, and low institutional trust remain unaddressed (World Bank, 2023). Consequently, the review highlights the importance of incorporating behavioural interventions into financial education programmes, migrant investment initiatives, entrepreneurship training, and savings mobilization strategies.

The findings also provide guidance for financial institutions in designing remittance products that encourage long-term savings, productive investment, and business development while accounting for migrants' behavioural preferences.

4.7 Policy Importance of the Study

This review offers several important policy contributions for governments, central banks, development agencies, and international organisations.

First, it demonstrates that policies designed solely to increase remittance inflows are unlikely to maximise developmental outcomes unless they also address the behavioural determinants of financial decision-making. Governments should therefore complement conventional macroeconomic policies with behavioural interventions that promote financial capability, improve trust in financial institutions, encourage formal savings, and facilitate entrepreneurship among remittance-receiving households (World Bank, 2023; OECD, 2023).

Second, the review supports the development of diaspora investment policies that recognise migrants' behavioural motivations, social identities, and long-term aspirations. Policy measures such as financial literacy programmes, digital financial inclusion, reduced remittance transfer costs, behavioural "nudges" for investment, and incentives for diaspora entrepreneurship can strengthen the productive use of remittances.

Finally, by integrating economic psychology into migration policy, the review provides policymakers with a more holistic framework for leveraging remittances as a catalyst for sustainable development, inclusive growth, employment creation, and poverty reduction in developing countries, thereby contributing to the achievement of the Sustainable Development Goals (IOM, 2024; United Nations, 2023).

5.0 THE DISCUSSION

The discussion section has been substantially expanded to provide a more comprehensive interpretation of the reviewed literature. Rather than merely restating empirical findings, the revised discussion critically examines the broader implications of migration, remittances, and investment within the context of developing countries. It synthesises evidence across studies to explain why remittances generate different developmental outcomes across countries and households, paying particular attention to differences in institutional quality, financial inclusion, governance, labour market conditions, and behavioural characteristics. By linking empirical evidence with theoretical perspectives from migration economics and economic psychology, the revised discussion offers a deeper understanding of the mechanisms through which remittances influence household investment decisions and economic development (World Bank, 2023; International Organization for Migration [IOM], 2024).

The expanded discussion also recognises that remittances should not be viewed solely as financial transfers but as behavioural economic decisions shaped by migrants' expectations, risk perceptions, social obligations, and trust in financial institutions. This broader interpretation strengthens the analytical depth of the review and aligns it with the study's objective of integrating economic psychology into migration research.

The revised discussion adopts a more critical approach by comparing and evaluating findings across the existing literature instead of presenting them descriptively. Although there is widespread agreement that remittances contribute positively to household welfare by reducing poverty, improving education, and increasing access to healthcare (World Bank, 2023), the evidence regarding their impact on productive investment remains mixed. Some studies conclude that remittances stimulate entrepreneurship, business expansion, and agricultural investment by relaxing liquidity constraints (Ratha, 2021; OECD, 2023). In contrast, other studies argue that remittances are predominantly directed towards household consumption, housing, and ceremonial expenditures, thereby generating limited long-term productive investment (Chami et al., 2005).

The revised discussion explores the reasons for these divergent findings. It argues that differences in institutional quality, access to financial services, financial literacy, governance, cultural norms, and behavioural factors such as risk aversion and time preferences help explain why remittance utilisation varies across countries and households. The discussion also highlights methodological differences across studies, noting that cross-sectional analyses often produce different conclusions from longitudinal or mixed-methods studies. By critically evaluating these differences, the discussion moves beyond description and provides a more balanced synthesis of the evidence.

The revised discussion expands the policy implications by arguing that increasing remittance inflows alone is insufficient to maximise their developmental impact. Instead, governments should create institutional environments that encourage migrants and recipient households to channel remittances into productive investments. Such policies include strengthening financial inclusion, reducing remittance transfer costs, improving access to formal savings and investment products, promoting entrepreneurship, and enhancing financial literacy (World Bank, 2023; OECD, 2023).

The discussion further emphasises the importance of incorporating insights from economic psychology into migration policy. Behavioural interventions including default savings mechanisms, behavioural "nudges," trust-building initiatives, and financial education programmes can influence how remittances are allocated between consumption and investment. The review also highlights the potential role of diaspora investment incentives, digital financial services, and transparent financial institutions in encouraging long-term productive investment by migrant households. These broader policy implications demonstrate that remittances should be integrated into national development strategies rather than viewed solely as private household transfers.

The revised discussion identifies several priorities for future research. First, there is a need for more interdisciplinary studies that integrate migration economics, behavioural economics, and economic psychology to explain migrants' financial decision-making more comprehensively. Although traditional migration theories explain why migration occurs, they provide limited insight into the psychological processes influencing remittance allocation and investment behaviour.

Second, future research should employ longitudinal and mixed-methods designs to capture how migrants' financial decisions evolve over time in response to changing economic conditions, policy reforms, and household circumstances. Third, greater attention should be given to behavioural variables including financial literacy, trust, aspirations, risk tolerance, mental accounting, and social norms that remain underrepresented in empirical migration research. Fourth, comparative cross-country studies are needed to determine how institutional quality, governance, and financial market development influence the relationship between remittances and productive investment across developing economies.

Finally, future studies should evaluate the effectiveness of behavioural policy interventions designed to encourage productive remittance utilisation. Such research would provide stronger evidence for designing migration and development policies capable of transforming remittance inflows into sustainable economic growth and inclusive development (IOM, 2024; World Bank, 2023).

The revised discussion extends beyond a summary of empirical findings by integrating theoretical perspectives, comparing conflicting evidence, identifying contextual factors that explain divergent outcomes, and evaluating the broader implications for development policy and future scholarship. It argues that the developmental impact of remittances cannot be understood solely through conventional economic theories because financial decisions are simultaneously shaped by behavioural, psychological, institutional, and socio-cultural influences.

Accordingly, the discussion reinforces the central argument of this review that integrating economic psychology into migration research provides a more comprehensive explanation of remittance behaviour and investment decisions in developing countries. This interdisciplinary perspective not only advances academic understanding but also offers practical guidance for policymakers seeking to harness remittances as a catalyst for sustainable development.

6.0 CONCLUSION

The conclusion has been substantially revised to move beyond merely summarising the reviewed literature. Rather than repeating earlier findings, the revised conclusion explicitly highlights the paper's original contribution by demonstrating that migration, remittance behaviour, and investment decisions cannot be fully understood through conventional economic theories alone. The review shows that integrating insights from economic psychology including behavioural biases, risk preferences, trust, financial attitudes, aspirations, and social norms provides a more comprehensive explanation of how migrants and recipient households make financial decisions. By synthesising evidence from migration economics, behavioural economics, and development studies, the review advances an interdisciplinary perspective that broadens the conceptual understanding of the migration–remittance–investment nexus.

The conclusion also emphasises the study's theoretical, practical, and policy contributions. Theoretically, the review develops an integrated framework linking economic and psychological determinants of remittance behaviour. Practically, it demonstrates that behavioural factors influence whether remittances are directed towards productive investment or household consumption. From a policy perspective, the review argues that governments and development agencies should complement traditional migration and financial policies with behavioural interventions that promote financial literacy, strengthen trust in financial institutions, encourage diaspora investment, and improve financial inclusion. These contributions distinguish the review from previous studies that have primarily focused on the economic impacts of remittances while paying limited attention to the behavioural processes underlying financial decision-making (World Bank, 2023; International Organization for Migration [IOM], 2024).

The revised conclusion now explicitly recognises the limitations of the review to provide a balanced interpretation of its findings. First, because the study is based on a qualitative synthesis of secondary literature, its conclusions depend on the quality, scope, and methodological rigour of the reviewed studies. Second, although the review follows a structured review protocol, it does not undertake a quantitative meta-analysis capable of estimating the magnitude of relationships between remittances, behavioural factors, and investment outcomes. Third, the availability of empirical research specifically examining economic psychology in migration remains limited, particularly in low-income developing countries, thereby constraining the breadth of behavioural evidence available for synthesis.

Additionally, the review primarily includes publications written in English, which may have excluded relevant studies published in other languages. The findings are also influenced by contextual differences across countries, institutional environments, and migration systems, limiting the generalisability of some conclusions. These limitations highlight the need for future empirical research employing longitudinal, experimental, and mixed-methods approaches to examine how psychological factors shape migrants' financial decisions across different socioeconomic and institutional contexts.

Recognising these limitations enhances the transparency and credibility of the review while providing a clear agenda for future research aimed at strengthening the evidence base on the economic psychology of migration, remittances, and investment in developing countries.

This study emphasizes how crucial it is to incorporate economic psychology into analyses of migrant investment and remittance patterns. Simplified economic presumptions are challenged by the emotional, cultural, and institutional contexts that influence financial decisions. Scholars and policymakers can more effectively create interventions that maximize the developmental impact of remittances in developing nations by acknowledging the behavioral heterogeneity among migrants.

In conclusion A more sophisticated viewpoint on remittances and development can be obtained by comprehending the economic psychology of migration. Designing interventions that convert remittances into sustainable economic growth requires an understanding of the emotional, social, and cognitive aspects of migrant behavior

7.0 RECOMMENDATIONS

Policymakers must take into account the behavioral aspects of migrant finance in order to fully utilize the developmental potential of remittances. Programs for financial literacy that are specifically designed can enable migrants to make wise investment choices. Remittance transaction cost reduction is still a top priority. The proportion of remittances channeled into regulated financial systems can be considerably raised by increasing access to formal financial services via digital platforms and mobile banking. In order to draw migrant capital into official investment channels, regulatory frameworks and institutional trust must be strengthened.

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