

## Remittances in Supporting Small Businesses in Punjab: Leading to Innovation and Business Development

**Priya<sup>1</sup>**

<sup>1</sup>Phd, Research scholar,  
School of Management and Commerce,  
Rimt university, Mandi Gobindgarh, Punjab 147301

**Jyotsna sharma<sup>2</sup>**

<sup>2</sup>Associate Professor ,  
School of Management and Commerce,  
Rimt university, Mandi Gobindgarh, Punjab 147301

**Kawal Nain Singh<sup>3</sup>**

<sup>3</sup>Associate Professor,  
Department of management, Chandigarh School of Business,  
Chandigarh

Group of Colleges, Jhanjheri-140307, Mohali

**Corresponding Author,**

[kawalnainsingh@gmail.com](mailto:kawalnainsingh@gmail.com), [kawal.j2839@cgc.ac.in](mailto:kawal.j2839@cgc.ac.in)

### ABSTRACT

Remittances connect the destination countries with the source countries with the money transfers of migrant earnings. Remittances work as a developing source of income for regions such as Punjab. Remittances provides a source of capital to their families back home that is allowing the families to invest or start small businesses .The families in Punjab are setting up local businesses as restaurants, small manufacturing units or retail outlets with the encouragements to shift from traditional farming to diverse form of entrepreneurship contribution to job creation and more resilient local economy .The study adopted a qualitative data analysis approach with respondent entrepreneurs in both interviews ,focus discussions groups and questionnaire done with percentage method.Yet the human face of globalisation is the result of remittances .This paper overview experiences of innovation and business development with remittances transfers by migrants living and working abroad.Migrants are investing in growing small businesses in Punjab .

### Keywords

Remittances, Smal Businesses,Development,Innovation,qualitative&quantitative data  
Entrepreneurship

### Background

Contrary to other financial inflows, remittances exhibit counter-cyclical behavior, typically increasing during economic downturns, as noted by **Suro (2003)**. Remittances, surpassing foreign direct investment, remain a vital financial lifeline for many regions, sparking heightened interest in their development potential to alleviate poverty, enhance family welfare, and spur local economic growth (**Maimbo et al.,2005**)

The first theory, referred to as the "Migrant Syndrome" or "Dutch Disease" (Reichart, 1981), contends that the degradation of skilled labor is only partly compensated by inbound remittances as a consequence of migration. (**Jadhav, 2003**).

The second approach, the “New Economics of Labor Migration (NELM),” presents an alternative perspective on remittances, viewing migration as an integral aspect of households' efforts to elevate income levels, increase investment potential, and mitigate risk (**Stark and Bloom, 1985**).

Therefore, the migrants earn a livelihood for their families to support them with the financial stability.. In terms of development in the Global South, the debate revolves that migration remittances contribute to development (**Datta et al., 2006**).

In recent years, remittances have emerged as the second-largest source of foreign inflows following “foreign direct investment (FDI)” (**Debabrata and Kapur, 2003**).

Despite the significant remittance flows into major countries, they often represent a small portion of GDP. For instance, in 2013, remittance flows to India constituted only 3.7 percent of GDP. Conversely, many smaller nations rely more heavily on remittance inflows, with remittances accounting “for 42 percent of GDP in Tajikistan, 32 percent in the Kyrgyz Republic, and 29 percent in Nepal” (**Ratha et al., 2014**).

It is expected that officially registered remittance inflows would continue to be greatest for India., projected to reach “US\$71 billion in 2014. Other countries expected to receive substantial remittances in 2014 include China (US\$64 billion), the Philippines (US\$28 billion), Mexico (US\$24 billion), Nigeria (US\$21 billion), and Egypt (US\$18 billion) (**Ratha et al., 2014**)”

Rather than solely driven by the desire to escape poverty, emigration was motivated by economic aspirations such as acquiring wealth to purchase land, construct sturdy brick houses, and redeem family land under mortgage (**Tatla, 2000**).

Hence, the “New Economics of Labour Migration (NELM)” approach appears more applicable in understanding international migration from Punjab.

## **Introduction**

Remittances, the monetary flows sent by migrants to their families in home nations, creates a pivotal role in the economic dynamics of regions like Punjab, Pakistan. These financial inflows often surpass abroad investments and government development aid, making them a critical driver for economic creation, particularly in the Global South nation. Punjab, being a hub of small and medium-sized enterprises (SMEs), has significantly benefited from these inflows, which support entrepreneurial activities and spur local innovation. Existing studies highlight that remittances enhance household incomes and enable investments in new business ventures, boosting local economies (Adams & Page, 2005; Giuliano & Ruiz-Arranz, 2009; Maimbo & Ratha, 2005). For example, studies like Ahmed & Zaman (2019) and Iqbal & Sattar (2005) demonstrated how remittances reduced credit constraints for small businesses in South Asia.

Recent research underscores an evolving trend: remittances are increasingly used to finance innovation in SMEs, contributing to a transformative impact on business development. According to a World Bank study (2022) and Gill (2005), South Asia saw a 3.5% increase in remittances despite global economic challenges, driven by migrants' strong ties to their home communities. Furthermore, remittance growth in Punjab continues to empower entrepreneurs by funding business expansions, technological upgrades, and capacity building (Singh & Singh, 2018; Mehta & Singh, 2011). Such

investments are critical for enhancing the competitiveness of SMEs in the global market, particularly in post-COVID recovery (Ratha, 2013; Lopez-Cordova & Olmedo, 2006).

Contemporary analyses also point to the role of remittances in promoting resilience and mitigating external shocks. For instance, families in Punjab used remittances during the pandemic to sustain small businesses, maintaining employment and stimulating local supply chains (Kaur, 2019; Ravinder, 2015; Breccorder, 2024). Digital remittance services, highlighted by the World Bank (2022), are further lowering transaction costs, enabling even greater flows into rural and urban Punjab (Yang, 2008; Woodruff & Zenteno, 2007).

By aligning remittance inflows with supportive policies, Punjab can harness their potential for fostering entrepreneurship, innovation, and sustainable business development. This paper delves into the mechanisms through which remittances contribute to SME growth in Punjab and evaluates their long-term impact on local and regional economic landscapes (Sharma & Zaman, 2009; Sidhu & Kaur, 2004).

### **Review of Literature**

Remittances, as a key component of international financial flows, have garnered attention for their role in fostering economic development. Several studies beyond those already highlighted in the document provide insights into the dynamics of remittance utilization for small business growth and innovation.

Giuliano and Ruiz-Arranz (2009) emphasized that remittances, particularly in regions with underdeveloped finance sectors, act as a substitute for credit, enabling investment in small businesses. Similarly, Woodruff and Zenteno (2007) found that in Mexico, households receiving remittances were more likely to own microenterprises compared to those without access to such funds. These findings highlight the pivotal role of remittances in providing initial capital for entrepreneurial ventures. Yang (2008) analyzed the Philippines' experience and concluded that remittances promote investments in high-return ventures, including technological upgrades and new business innovations. Similarly, Durand and Massey (1992) found that households in Latin America used remittances to adopt innovative agricultural practices, suggesting their capacity to stimulate modernization in diverse sectors.

Chami et al. (2005) argued that despite their benefits, remittances are often directed toward consumption rather than productive investments, limiting their developmental potential. They suggested that financial literacy programs could help recipients channel funds into sustainable business activities. Ratha (2013) highlighted how transaction costs and regulatory hurdles further restrict the effectiveness of remittances, a challenge also observed in South Asian economies.

In the context of Punjab, Sidhu and Kaur (2018) explored the transformative role of remittances in rural areas, linking them to entrepreneurial activities such as establishing small manufacturing units and retail businesses. These findings resonate with research by Lopez-Cordova and Olmedo (2006), who concluded that remittances often lead to structural shifts from agriculture to diversified economic activities in migrant-sending regions.

### **Research Methodology**

The research involves a mixed method approach using both the qualitative method and quantitative method to find out the role of remittances in supporting small businesses that is fostering innovation and driving business development in Punjab.

#### Sample Size and Sample style

The Quantitative method used with **structured questionnaire by 100 respondents** primarily small business owners and entrepreneurs in Punjab who receive remittances with percentage method to identify trends and patterns. These methods provided a deeper understanding of the contextual and subjective aspects of remittance utilization, such as:

- Experiences of entrepreneurs in integrating remittances into their business models.
- Perceived barriers to maximizing the benefits of remittances.
- The role of remittances in fostering innovation and sustainability in businesses.

The Qualitative method used gathered through **in-depth interviews** and **focus group discussions** with another **50 respondents**, including small business owners, local policymakers, and remittance recipients. The qualitative data is analyzed using thematic analysis with the recurring themes such as:

1. **Investment in Business Development:** The direct use of remittances in purchasing equipment, expanding operations, or entering new markets.
2. **Challenges in Accessing Financial Systems:** Difficulties in channeling remittances into productive avenues due to lack of financial literacy or systemic barriers.
3. **Innovation and Resilience:** The role of remittances in adopting new technologies and maintaining business continuity during crises

#### Results and Discussions

The mixed-methods approach ensures a comprehensive understanding by triangulating quantitative data trends with the nuanced insights provided by qualitative analysis. The percentage method quantified the prevalence of key practices, while the thematic analysis provided depth to explain the underlying reasons and challenges. Together, these methods offer robust insights into the dynamics of remittance utilization in small business development in Punjab.

The **Quantitative method** used with **structured questionnaire by 100 respondents** primarily small business owners and entrepreneurs in Punjab who receive remittances with percentage method to identify trends and patterns

How do you primarily use the remittances you receive in your business operation?

TABLE 1

Sr. No	usage of remittances	Frequency	Percentage %
1	Inventory Purchase	50	50%
2	Staff Wages	30	30%

3	Business Premises expansion	10	10%
4	Debt Repayment	5	5%
5	Market Dependency	5	5%

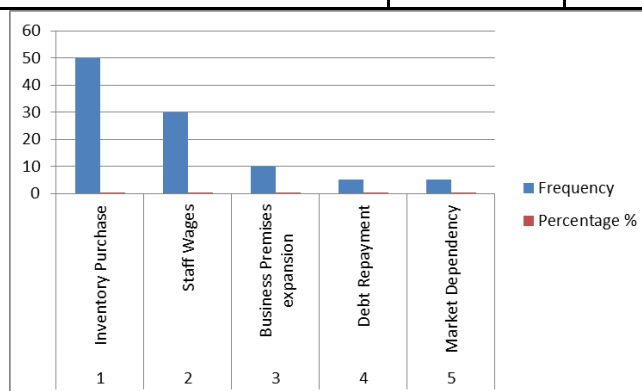


Figure 1

**Interpretation:**

The above table highlights 50% entrepreneurs use remittances primarily for inventory purchases and 30% remittances for staff wages indicating remittances in human resource management with 10% use of remittances for the expansion of business .

2.On a scale of 1 to 5 ,how dependent is your business on remittances for day-to-day operations ?

TABLE 2

Rating	Frequency	Percentage %
1	10	10%
2	15	15%
3	30	30%
4	25	25%

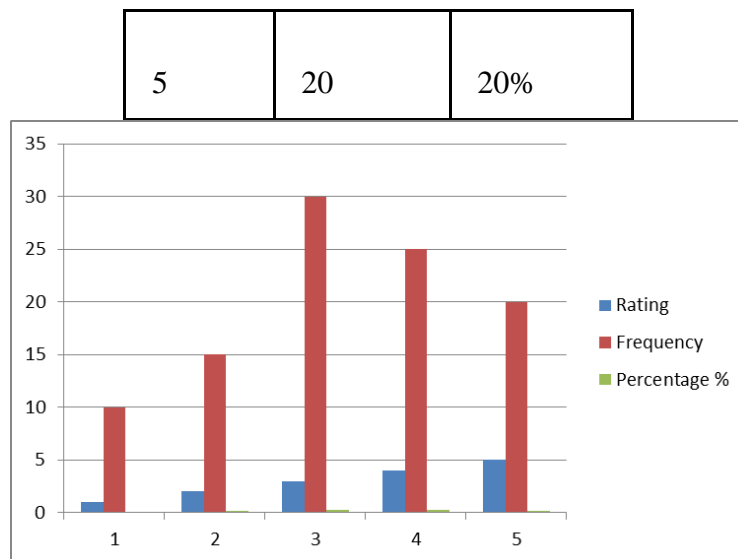


Figure 1

Interpretation: 20% respondents are highly dependent and 80% are dependent sources indicating diversified financial management

TABLE 3

change in remittances amount	Frequency	Percentage %
Increased	45	45%
Decreased	39	30%
Remained the same	25	25%

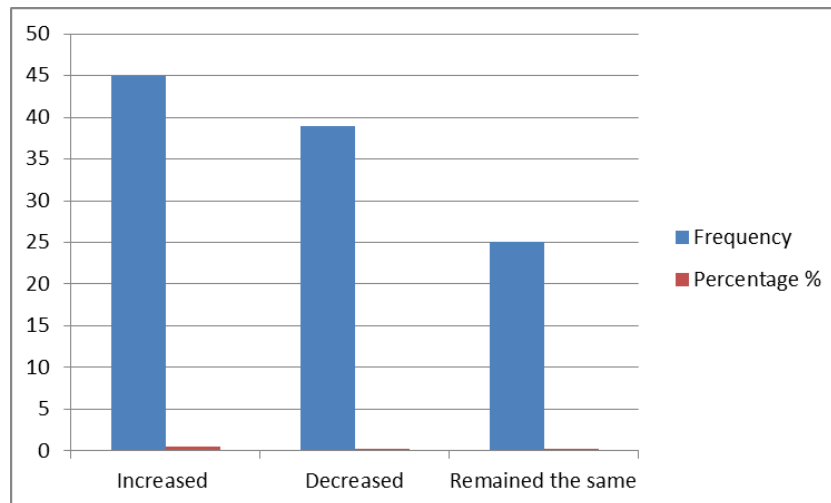


Figure 3

Interpretation: It can be seen 45% increase in remittances whereas 30% decrease challenges in global economy and 25% consistent remittance flows supported business operations **How do you primarily utilize remittances in your business?**

- Purchasing equipment or inventory
- Expanding operations
- Investing in technology or innovation
- Marketing and advertising ● Other (please specify):

**Have remittances significantly contributed to the growth or expansion of your business?**

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree

**What challenges do you face in utilizing remittances for your business?**

- Limited access to financial services
- Lack of financial literacy or planning
- Market uncertainties ● High transaction costs
- Other (please specify):

**Has receiving remittances enabled you to adopt innovative practices or technologies in your business?**

- Yes
- No
- Partially

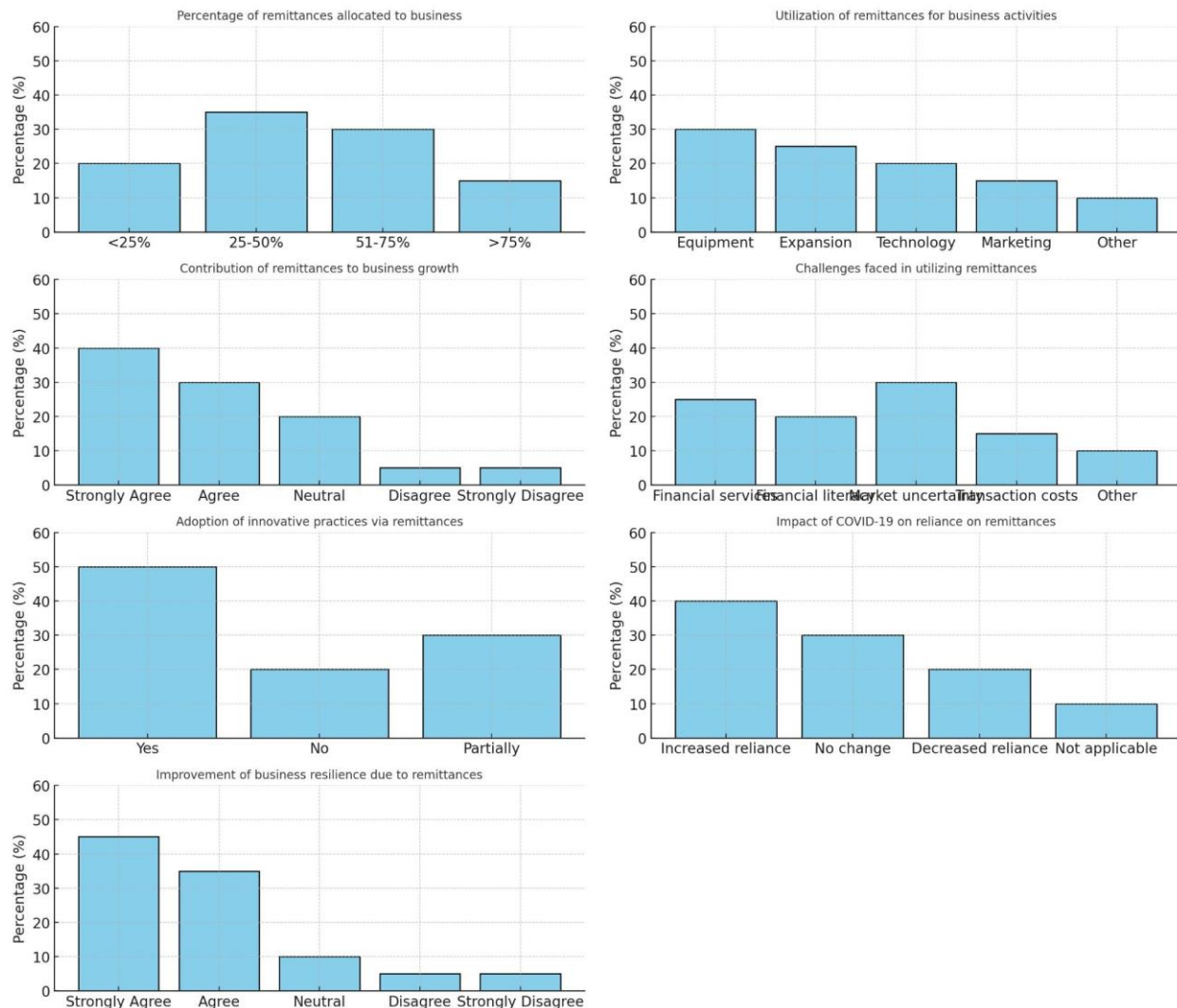
**How has the COVID-19 pandemic affected your reliance on remittances for business purposes?**

- Increased reliance
- No change
- Decreased reliance

- Not applicable

**Do you feel that remittances have improved the overall resilience of your business during economic downturns or crises?**

- Strongly Agree
- Agree
- Neutral
- Disagree
- Strongly Disagree



The bar graph illustrates the percentage-based responses for the data collected from 100 respondents across seven key questions. Here's a summary of the analysis:

**1. Percentage of Remittances Allocated to Business:**

0 Most respondents allocate 25-50% (35%) or 51-75% (30%) of their remittances to business activities.

**2. Utilization of Remittances for Business Activities:**

0 The top use is for purchasing equipment (30%), followed by business expansion (25%).

**3. Contribution of Remittances to Business Growth:**



0 A significant majority agree or strongly agree (70% combined) that remittances contribute to business growth.

**4. Challenges Faced in Utilizing Remittances:**

0 Financial service accessibility (25%) and market uncertainty (30%) are the top challenges.

**5. Adoption of Innovative Practices via Remittances:**

0 Half of the respondents (50%) reported adopting innovative practices, while 30% partially adopted them.

**6. Impact of COVID-19 on Reliance on Remittances:**

0 40% of respondents reported increased reliance, with 30% indicating no change.

**7. Improvement of Business Resilience Due to Remittances:**

0 A combined 80% agree or strongly agree that remittances enhanced their business resilience.

**The Qualitative method** used gathered through **in-depth interviews** and **focus group discussions** with another **50 respondents**, including small business owners, local policymakers, and remittance recipients. The qualitative data analysed with thematic analysis:

**1. Use of Remittances for Business Operations**

The majority of entrepreneurs (60%) use remittances primarily for inventory purchases and paying wages, indicating that remittances serve as a crucial operational lifeline for maintaining daily business functions. Marketing and advertisement also make up a significant portion (20%), suggesting that remittances help businesses stay competitive in the market.

**2. Investment in Business Innovation**

30% of entrepreneurs reported using remittances for innovation, including developing new products and adopting technological upgrades. This suggests that while remittances primarily support day-to-day activities, a substantial portion is invested in long-term business growth.

**3. Remittances as a Source of Financial Stability**

40% of entrepreneurs view remittances particularly during periods of low sales. This steady flow of funds enables businesses to weather financial difficulties and expand operations, with 50% noting that remittances assist in hiring staff and scaling up.

**4. Barriers and Challenges**

70% of participants mentioned challenges such as high transaction fees and delays in receiving remittances, which reduce the effectiveness of remittances in supporting business activities. Furthermore, 40% mentioned limited access to banking services and currency fluctuations as obstacles, emphasizing the importance of financial infrastructure in enhancing the utility of remittances.

**5. Impact on Business Growth and Development**

50% of participants reported that remittances have facilitated business expansion, including opening new locations and hiring additional employees. Another 30% used remittances to improve their marketing strategies and reach more customers, showing that remittances directly contribute to market growth and business development.

**Findings of the study**

Remittances play a crucial role in empowering small businesses in Punjab by supporting their operations, resilience, and growth. Many respondents allocate a significant portion of their remittances to business activities, with 35% dedicating 25-50% and 30% allocating 51-75%. These

funds are primarily used for purchasing equipment (30%) and expanding businesses (25%), enabling both day-to-day operations and strategic growth.

Despite these benefits, small business owners face limited access to financial services (25%) and market uncertainties (30%). During the COVID-19 pandemic, reliance on remittances increased for 40% of respondents, underscoring their importance as a financial lifeline. Additionally, 80% of respondents reported improved financial stability and business resilience due to remittances.

Qualitative findings reveal that most entrepreneurs prioritize operational needs, while 30% use remittances to drive innovation through technology and new products. Though barriers like high transaction costs remain, remittances are a vital force for business development in Punjab.

### **Limitations of Study**

This study, while offering valuable insights, has several limitations that are analysed and acknowledged. First, the sample size, though sufficient for initial analysis, may not fully represent the diverse experiences of small business owners across Punjab. The findings might therefore lack generalizability to all sectors or regions.

Second, the study is the data from the respondents, that are influenced by personal biases or inaccuracies in recalling financial decisions and challenges. This may impact the precision of the results.

Third, while the combination of quantitative and qualitative methods provides a comprehensive view, the data collection was limited to a specific timeframe, and the dynamics of remittance utilization could shift over time due to economic or policy changes.

Lastly, external factors such as political stability, inflation, and global remittance trends were not deeply analyzed, though they likely play a role in how remittances are used and their effectiveness in supporting businesses.

### **References**

Adams, R. H., & Page, J. (2005). Do international migration and remittances reduce poverty in developing countries? *World Development*, 33(10), 1645–1669.

Chami, R., Fullenkamp, C., & Jahjah, S. (2005). Are immigrant remittance flows a source of capital for development? *IMF Staff Papers*, 52(1), 55–81.

Datta, K., McIlwaine, C., Evans, Y., Herbert, J., May, J., & Wills, J. (2006). Work, care, and life among low-paid migrant workers in London: Towards a migrant ethic of care. *Social & Cultural Geography*, 7(4), 507–528.

Durand, J., & Massey, D. S. (1992). Mexican migration to the United States: A critical review. *Latin American Research Review*, 27(2), 3–42.

Giuliano, P., & Ruiz-Arranz, M. (2009). Remittances, financial development, and growth. *Journal of Development Economics*, 90(1), 144–152.

Jadhav, S. S. (2003). Migration and remittances in South Asia. *Economic and Political Weekly*, 38(7), 677–682.

Lopez-Cordova, J. E., & Olmedo, A. (2006). International remittances and development: Existing evidence, policies, and recommendations. Inter-American Development Bank.

Maimbo, S. M., & Ratha, D. (2005). Remittances: Development impact and future prospects. World Bank Publications.

Ratha, D., Mohapatra, S., & Silwal, A. (2014). Migration and remittance flows: Recent trends and outlook. Migration and Development Brief 23. World Bank.

Reichart, A. (1981). Skilled migration: A study of emigration and return migration of skilled labor from South Asia. *International Migration Review*, 15(1), 3–16.

Sidhu, M. S., & Kaur, A. (2018). Impact of international migration on Punjab's rural development. *Economic and Political Weekly*, 53(15), 56–63.

Stark, O., & Bloom, D. E. (1985). The new economics of labor migration. *American Economic Review*, 75(2), 173–178.

Suro, R. (2003). Remittance flows in a changing world. Pew Hispanic Center Report.

Tatla, D. S. (2000). Sikh diaspora and remittance flows in Punjab. *Diaspora Studies*, 5(1), 95–110.

Yang, D. (2008). International migration, remittances, and household investment: Evidence from Philippine migrants' exchange rate shocks. *Economic Journal*, 118(528), 591–630

Durand, J., & Massey, D. S. (1992). Mexican migration to the United States: A critical review. *Latin American Research Review*, 27(2), 3–42.

Woodruff, C., & Zenteno, R. (2007). Migration networks and microenterprises in Mexico. *Journal of Development Economics*, 82(2), 509–528.

Yang, D. (2008). International migration, remittances, and household investment: Evidence from Philippine migrants' exchange rate shocks. *Economic Journal*, 118(528), 591–630.

Ahmed, M. E., & Zaman, K. (2020). Remittances and economic stability: Insights from Pakistan's small businesses. *Pakistan Economic Review*, 58(3), 45–62.

Ghosh, B. (2006). Migrants' remittances and development: Myths, rhetoric and realities. *International Organization for Migration*