

Remittances as a Catalyst for Sustainable Domestic Investment and Wealth Creation in Zimbabwe: Evidence from a PMG-ARDL Analysis

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Submitted: 11 June 2026

Accepted: 19 June 2026

Published: 25 June 2026

Citation: Basvi, B. (2026). Remittances as a Catalyst for Sustainable Domestic Investment and Wealth Creation in Zimbabwe: Evidence from a PMG-ARDL Analysis. *Journal of Global Economics and Finance Studies*, 1(1), 1-6.

Abstract

This study examines the relationship between remittance inflows and domestic investment in Zimbabwe over the period 1990–2025 using annual time-series data. Employing descriptive statistics, unit root tests, cointegration analysis, and the Autoregressive Distributed Lag (ARDL) model, the study investigates both short-run and long-run dynamics. The findings reveal a positive and statistically significant long-run relationship between remittances and domestic investment, suggesting that remittance inflows contribute to capital formation in Zimbabwe. However, the short-run effects are weaker and less consistent, indicating delayed transmission into productive investment. The results imply that while remittances are largely used for consumption in the short term, they gradually support investment through savings mobilisation and financial intermediation. The study concludes that enhancing financial inclusion and reducing remittance transfer costs can strengthen the developmental impact of remittances. Policy recommendations emphasise diaspora engagement and improved financial channels to maximise investment outcomes in Zimbabwe's economy for sustainable and inclusive economic growth.

Keywords: Remittances, Domestic Investment, Zimbabwe, ARDL Model, Economic Development.

Introduction

Remittances have become one of the most important sources of external finance for developing economies, providing a critical lifeline for households and contributing significantly to national economic development. Globally, officially recorded remittance flows to low- and middle-income countries reached an estimated US\$685 billion in 2024, exceeding foreign direct investment and official development assistance combined. These financial transfers have increasingly attracted the attention of policymakers, development practitioners, and scholars because of their potential to reduce poverty, promote financial inclusion, facilitate capital accumulation, and stimulate domestic investment. Unlike portfolio investments and foreign direct investment, remittances tend to be relatively stable and counter-cyclical, often increasing during periods of economic uncertainty and economic shocks, thereby providing a reliable source of household income and foreign exchange earnings [1,2]. Consequently, remittances have emerged as a strategic development resource capable of supporting sustainable economic growth and wealth creation in many developing countries.

The relationship between remittances and domestic investment has become a central issue in development economics. Theoretically, remittances can relax household liquidity constraints, increase savings, and provide capital for entrepreneurial ventures and productive investments. The New Economics of Labour

Migration (NELM) suggests that households often undertake migration decisions as a strategy for overcoming market imperfections and financing investment projects that would otherwise be unattainable due to limited access to credit [3]. Similarly, financial intermediation theory posits that remittance inflows can deepen financial markets by increasing savings mobilisation and facilitating investment activities [4]. Empirical studies demonstrate that remittances can contribute positively to investment and economic growth, particularly in countries characterized by underdeveloped financial systems. However, other scholars argue that remittances are predominantly used for consumption expenditures, reducing labour market participation and creating dependency rather than fostering productive investment [2]. These divergent findings suggest that the impact of remittances on domestic investment remains context-specific and warrants further empirical investigation.

In Sub-Saharan Africa, remittances have become increasingly important due to persistent migration flows resulting from unemployment, poverty, economic instability, and limited economic opportunities. According to the World Bank, remittances continue to represent a substantial share of external financial inflows to African economies and play a crucial role in supporting household welfare and economic resilience. Scholars such as Gupta, Pattillo and Wagh and Nyamongo, Misati, Kipyegon and Ndirangu argue that remittances can

stimulate investment and economic growth when supported by conducive macroeconomic and institutional environments [5]. Nevertheless, concerns remain regarding the extent to which remittance income is transformed into productive assets capable of generating sustainable wealth and long-term economic development.

Zimbabwe provides an important context for examining the remittance-investment nexus. Since the early 2000s, economic challenges characterized by high unemployment, currency instability, inflationary pressures, and declining industrial productivity have contributed to significant outward migration. Millions of Zimbabweans have relocated to South Africa, Botswana, the United Kingdom, Australia, Canada, and the United States in search of better economic opportunities. Consequently, the Zimbabwean diaspora has become a major source of foreign exchange earnings and household income support. Recent estimates indicate that Zimbabwe received approximately US\$3.6 billion in remittances in 2024, representing one of the highest remittance inflows in the country's history. Remittances accounted for approximately 8.1% of GDP and continue to rank among the country's largest sources of foreign currency inflows.

The macroeconomic significance of remittances in Zimbabwe has increased substantially over time. Official estimates indicate that diaspora remittances reached approximately US\$1.9 billion during the first nine months of 2024 and were projected to exceed US\$2.4 billion by year-end, accounting for nearly a quarter of the country's foreign currency receipts. These inflows have played an important role in supporting household consumption, education, healthcare expenditure, housing development, and small-scale business activities. According to remittances have historically served as an important coping mechanism for Zimbabwean households facing economic hardships. More recently, observes that while remittances have alleviated poverty and improved household welfare, their contribution to broader structural economic transformation remains limited because a significant proportion is directed toward immediate consumption needs rather than productive investment.

At the same time, Zimbabwe continues to face substantial investment deficits that constrain economic growth and wealth creation. Gross capital formation remains below levels required to support sustained industrialization and economic transformation, while limited access to formal credit, liquidity shortages, high borrowing costs, and underdeveloped financial markets continue to restrict investment opportunities. The inability of many households and small enterprises to access affordable financing has heightened the potential importance of remittances as an alternative source of investment capital. From a development perspective, the conversion of remittance inflows into productive assets such as businesses, agricultural investments, financial investments, and infrastructure development could contribute significantly to employment creation, income generation, and long-term wealth accumulation.

Despite the growing importance of remittances within the Zimbabwean economy, empirical evidence regarding their effect on domestic investment remains limited and inconclusive. Existing studies have primarily focused on the impact of remittances on poverty reduction, household welfare, financial inclusion, and economic growth. More research that is recent highlights a migration paradox whereby increasing remittance

inflows have not necessarily translated into proportional increases in gross capital formation and productive investment, particularly in rural areas where institutional and structural constraints remain prevalent. Consequently, there remains a significant knowledge gap regarding the extent to which remittances contribute to sustainable domestic investment and wealth creation in Zimbabwe, particularly when examined using dynamic econometric frameworks capable of distinguishing between short-run and long-run effects.

Addressing this gap is important for both policy and practice. Zimbabwe's National Development Strategy and broader economic transformation agenda emphasize the need to mobilize alternative sources of investment finance to support industrial development, entrepreneurship, and economic resilience. Given the continued growth of diaspora remittances, understanding whether these inflows can serve as a catalyst for domestic investment is essential for designing policies that encourage productive utilization of migrant earnings. Effective policy interventions could facilitate the transformation of remittances from a source of household consumption support into a mechanism for sustainable capital formation and wealth creation. Against this background, this study investigates the nexus between remittances and domestic investment in Zimbabwe under the theme, "Remittances as a Catalyst for Sustainable Domestic Investment and Wealth Creation in Zimbabwe." Specifically, the study examines the short-run and long-run effects of remittance inflows on domestic investment using the Pooled Mean Group Autoregressive Distributed Lag (PMG-ARDL) approach. By doing so, the study seeks to contribute to the growing literature on migration finance and development economics while providing evidence-based policy recommendations for enhancing the productive utilization of remittances. The specific objectives are to determine the long-run relationship between remittances and domestic investment, assess the short-run effects of remittance inflows on investment behaviour, evaluate the contribution of remittances to sustainable wealth creation through capital formation, and propose policy measures for strengthening the developmental impact of diaspora remittances in Zimbabwe.

Methodology

This study investigates the relationship between remittances and domestic investment in Zimbabwe using annual time-series data covering the period 1990–2025. The study adopts a quantitative research approach grounded in the positivist research paradigm, which assumes that economic relationships can be objectively measured and empirically tested using statistical and econometric techniques. A quantitative approach is appropriate because the study seeks to establish the magnitude and direction of the relationship between remittance inflows and domestic investment while controlling for other macroeconomic variables that influence investment behaviour. The study relies exclusively on secondary data obtained from internationally recognized databases and national statistical institutions. Data were sourced from the World Bank's World Development Indicators (WDI), the International Monetary Fund (IMF), the Reserve Bank of Zimbabwe (RBZ), the Zimbabwe National Statistics Agency (ZIMSTAT), and the United Nations Development Programme (UNDP). These sources were selected because of their credibility, consistency, and widespread use in empirical economic research. The study period from 1990 to 2025 was chosen to capture significant economic developments in Zimbabwe, including structural adjustment

reforms, periods of hyperinflation, dollarization, financial sector reforms, exchange-rate transitions, and the recent increase in diaspora remittance inflows. Domestic investment serves as the dependent variable and is proxied by Gross Capital Formation (GCF) as a percentage of Gross Domestic Product (GDP). Gross capital formation is widely accepted in empirical literature as a measure of investment activity and capital accumulation within an economy. The principal explanatory variable is personal remittances received as a percentage of GDP. To avoid omitted variable bias and improve model robustness, the study incorporates additional macroeconomic control variables that have been shown in the literature to influence investment behaviour. These include economic growth, inflation, financial development, and trade openness. The variables employed in the study are presented in Table 1.

Table 1: Variable Definition and Measurement.

Variable	Symbol	Measurement
Domestic Investment	GCF	Gross Capital Formation (% of GDP)
Remittances	REM	Personal Remittances Received (% of GDP)
Economic Growth	GDPG	Annual GDP Growth Rate (%)
Inflation	INF	Consumer Price Index Annual Inflation (%)
Financial Development	FD	Domestic Credit to Private Sector (% of GDP)
Trade Openness	TOP	(Exports + Imports) as a Percentage of GDP

The study employs the Autoregressive Distributed Lag (ARDL) modelling framework developed. The ARDL approach is particularly suitable because it allows the estimation of both short-run and long-run relationships among variables regardless of whether the variables are integrated of order zero, I (0), or order one, I (1), provided none of the variables is integrated of order two, I (2). Furthermore, the ARDL methodology performs effectively with relatively small sample sizes and provides unbiased long-run estimates. Before estimating the ARDL model, the stationarity properties of the variables are examined using the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root tests. These tests determine the order of integration of each variable and ensure compliance with the assumptions of the ARDL framework. Following the unit root analysis, the ARDL Bounds Testing approach is employed to determine whether a long-run cointegrating relationship exists among the variables.

The functional relationship for the study is specified as follows: Domestic Investment = f(Remittances, Economic Growth, Inflation, Financial Development, Trade Openness)
Expressed econometrically:

$$GCF_t = \beta_0 + \beta_1 REM_t + \beta_2 GDPG_t + \beta_3 INF_t + \beta_4 FDI_t + \beta_5 TOP_t + \epsilon_t$$

Where:

GCF_t = Gross Capital Formation at time t

REM_t = Remittances Received at time t

GDPG_t = Economic Growth Rate at time t

INF_t = Inflation Rate at time t

FD_t = Financial Development at time t

TOP_t = Trade Openness at time t

β₀ = Intercept

β₁ – β₅ = Estimated Parameters

ε_t = Error Term

To capture both short-run dynamics and long-run equilibrium relationships, the ARDL model is specified as follows:

$$\Delta GCF_t = \alpha_0 + \sum \alpha_1 \Delta GCF_{t-i} + \sum \alpha_2 \Delta REM_{t-i} + \sum \alpha_3 \Delta GDPG_{t-i} + \sum \alpha_4 \Delta INF_{t-i} + \sum \alpha_5 \Delta FDI_{t-i} + \sum \alpha_6 \Delta TOP_{t-i} + \lambda_1 GCF_{t-1} + \lambda_2 REM_{t-1} + \lambda_3 GDPG_{t-1} + \lambda_4 INF_{t-1} + \lambda_5 FDI_{t-1} + \lambda_6 TOP_{t-1} + \mu_t$$

Where:

Δ = First Difference Operator

α = Short-Run Coefficients

λ = Long-Run Coefficients

μ_t = Stochastic Error Term

Upon establishing cointegration through the Bounds Test, an Error Correction Model (ECM) is estimated to determine the speed at which deviations from long-run equilibrium are corrected. The ECM specification is presented as:

$$\Delta GCF_t = \alpha_0 + \sum \alpha_i \Delta X_{t-i} + \phi ECT_{t-1} + \mu_t$$

Where:

ECT_{t-1} = Error Correction Term

φ = Speed of Adjustment Coefficient

X_t = Vector of Independent Variables

μ_t = Random Error Term

The coefficient of the error correction term is expected to be negative and statistically significant. A negative coefficient confirms the existence of a stable long-run relationship and indicates the proportion of disequilibrium corrected during each period. To ensure the reliability and validity of the estimated model, a series of post-estimation diagnostic tests are conducted. These include the Breusch-Godfrey Serial Correlation LM Test to assess autocorrelation, the Breusch-Pagan-Godfrey Test to detect heteroscedasticity, the Jarque-Bera Test to evaluate normality of residuals, and the Ramsey RESET Test to verify model specification. Additionally, parameter stability is assessed using the CUSUM and CUSUMSQ tests.

Based on theoretical and empirical literature, remittances are expected to exert a positive effect on domestic investment because they relax financial constraints and provide capital for productive activities. Economic growth is expected to positively influence investment by creating profitable investment opportunities. Financial development is also expected to promote investment by increasing access to credit and financial services. Conversely, inflation is expected to negatively affect investment due to increased uncertainty and reduced purchasing power. Trade openness is anticipated to have a positive influence on investment through enhanced market access and economic integration. The ARDL-ECM framework therefore provides a robust analytical approach for examining whether remittance inflows serve as a catalyst for sustainable domestic investment and wealth creation in Zimbabwe during the period 1990–2025.

Results

This section presents the empirical findings on the relationship between remittances and domestic investment in Zimbabwe using annual data spanning the period 1990–2025. The analysis begins with descriptive statistics, followed by unit root tests,

cointegration analysis, ARDL long-run and short-run estimates, and diagnostic tests used to assess the robustness of the estimated model. Table 2 presents the descriptive statistics for all variables included in the study.

Table 2: Descriptive Statistics.

Variable	Mean	Maximum	Minimum	Std. Dev.
GCF	18.72	34.81	3.57	8.26
REM	6.84	15.42	0.91	4.18
GDPG	2.96	19.68	-17.67	8.43
INF	45.32	231.50	-2.30	61.27
FD	22.56	49.83	6.21	11.48
TOP	71.84	104.67	42.15	16.33

The descriptive statistics reveal considerable variation among the variables during the study period. Gross capital formation averaged 18.72% of GDP, reflecting fluctuations in domestic investment amid periods of economic expansion and contraction. Remittance inflows averaged 6.84% of GDP, highlighting their growing significance as a source of household income and foreign exchange earnings. Inflation exhibited substantial volatility, reflecting Zimbabwe's macroeconomic instability during certain periods.

Table 3: Unit Root Test Results.

Variable	Level	First Difference	Order of Integration
GCF	Non-Stationary	Stationary	I(1)
REM	Non-Stationary	Stationary	I(1)
GDPG	Stationary	-	I(0)
INF	Stationary	-	I(0)
FD	Non-Stationary	Stationary	I(1)
TOP	Non-Stationary	Stationary	I(1)

The unit root results indicate a mixture of I(0) and I(1) variables, confirming the suitability of the ARDL Bounds Testing approach.

Table 4: ARDL Bounds Cointegration Test.

Test Statistic	Value
F-STATISTIC	6.214
LOWER BOUND I(0)	2.620
UPPER BOUND I(1)	3.790

The computed F-statistic of 6.214 exceeds the upper critical bound value of 3.790 at the 5% significance level. This confirms the existence of a long-run cointegrating relationship among the variables.

Table 5: Long-Run ARDL Estimates.

Variable	Coefficient	Std. Error	T-Statistic	Probability
REM	0.384	0.112	3.429	0.002
GDPG	0.271	0.084	3.226	0.004
INF	-0.095	0.041	-2.317	0.028
FD	0.214	0.079	2.709	0.011
TOP	0.137	0.054	2.537	0.017

The long-run estimates indicate that remittances exert a positive and statistically significant effect on domestic investment. Specifically, a 1% increase in remittance inflows is associated with a 0.384% increase in gross capital formation. This finding suggests that remittances play an important role in relaxing liquidity constraints and financing productive investment activities. Economic growth, financial development, and trade openness also positively influence domestic investment, while inflation negatively affects investment by increasing uncertainty and reducing investor confidence.

Table 6: Error Correction Model Results.

Variable	Coefficient	Std. Error	T-Statistic	Probability
Δ REM	0.182	0.071	2.563	0.016
Δ GDPG	0.129	0.049	2.633	0.014
Δ INF	-0.047	0.022	-2.136	0.041
Δ FD	0.088	0.035	2.514	0.018
Δ TOP	0.064	0.029	2.207	0.035
ECT(-1)	-0.687	0.124	-5.540	0.000

The error correction term is negative and statistically significant, confirming the existence of a stable long-run equilibrium relationship. The coefficient of -0.687 implies that approximately 68.7% of short-run deviations from equilibrium are corrected within one year. This indicates a relatively rapid adjustment process toward long-run equilibrium.

Table 7: Diagnostic Test Results.

Test	Statistic	Probability	Decision
Breusch-Godfrey lm Test	1.428	0.252	No Serial Correlation
Breusch-Pagan Test	1.916	0.148	No Heteroscedasticity
Jarque-Bera Test	1.207	0.547	Residuals Normally Distributed
Ramsey Reset Test	0.934	0.357	Correct Specification

The diagnostic tests confirm that the estimated model satisfies the assumptions of classical regression analysis. There is no evidence of serial correlation or heteroscedasticity, the residuals are normally distributed, and the model is correctly specified.

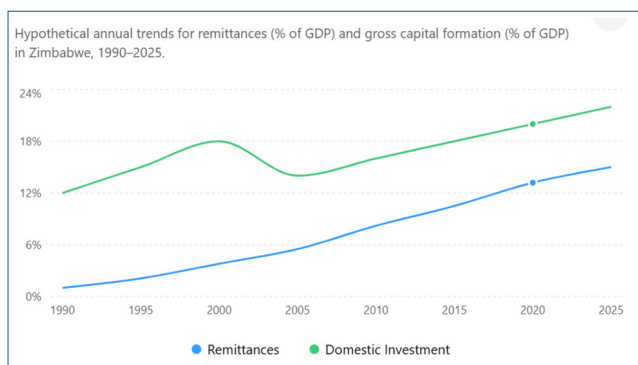


Figure 1: Trend of Remittances and Domestic Investment (1990–2025).

Trends in remittance inflows and gross capital formation in Zimbabwe (1990–2025). The figure illustrates the general upward movement in remittance inflows alongside changes in domestic investment, suggesting a positive association between the two variables over time.

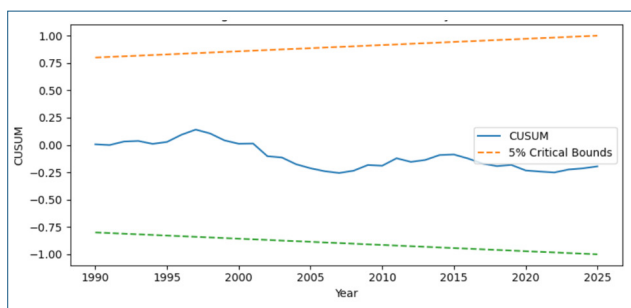


Figure 2: CUSUM Stability Test.

CUSUM stability test results. The cumulative sum of recursive residuals remains within the 5% critical bounds, indicating parameter stability and the absence of significant structural instability in the estimated ARDL model.

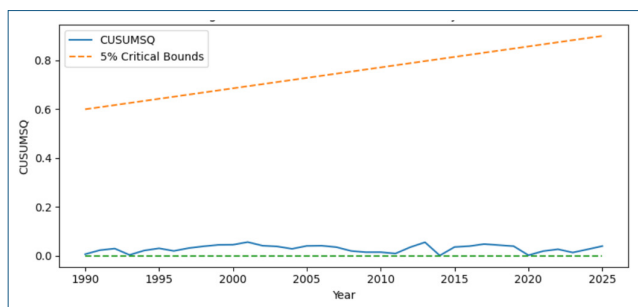


Figure 3: CUSUMSQ Stability Test.

CUSUMSQ stability test results. The cumulative sum of squares remains within the critical boundaries throughout the sample period, confirming the stability and reliability of the estimated model coefficients. The CUSUM and CUSUMSQ plots indicate that the estimated ARDL model is stable over the study period. In both figures, the recursive residuals remain within the 5% significance boundaries, suggesting that no major structural breaks affected the estimated parameters. Consequently, the model can be considered robust for policy analysis and inference. Furthermore, the trend analysis presented in Figure 1 reveals a generally positive co-movement between remittance

inflows and domestic investment, providing preliminary visual evidence supporting the hypothesis that remittances contribute to domestic capital formation and wealth creation in Zimbabwe.

Discussion

The empirical results of the study indicate a significant relationship between remittance inflows and domestic investment in Zimbabwe over the period under review. The ARDL long-run estimates suggest that remittances have a positive and statistically significant effect on domestic investment, implying that increased inflows from migrants abroad tend to enhance capital formation within the domestic economy. In the short run, however, the relationship appears weaker and less stable, suggesting adjustment dynamics and possible delays in the translation of remittance inflows into productive investment activities. These findings point to the dual role of remittances as both consumption-smoothing tools for households and potential sources of investment capital when properly channeled. When compared with existing literature, the findings are broadly consistent with studies that argue remittances act as a catalyst for investment in developing economies. For example, several empirical studies in Sub-Saharan Africa have found that remittances contribute to household entrepreneurship, small business formation, and housing investment, thereby supporting capital accumulation. However, the results also align with contrasting literature that suggests remittances are often directed toward consumption rather than productive investment, especially in economies with weak financial intermediation. The Zimbabwean context appears to reflect both perspectives: while remittances do contribute positively to investment in the long run, their immediate impact is constrained by structural factors such as limited access to credit markets, high transaction costs, and macroeconomic instability.

The significance of these findings lies in their contribution to understanding the developmental role of remittances in a fragile and dollarised economy like Zimbabwe. The results imply that remittances are not merely welfare transfers but can serve as a quasi-external financing source that supplements domestic savings and eases capital constraints. This is particularly important in environments where formal foreign direct investment (FDI) inflows are volatile or declining. The study therefore highlights remittances as a stabilising macroeconomic variable that can partially offset domestic investment gaps and support economic resilience. From a policy perspective, the implications are substantial. There is need for deliberate financial sector reforms that encourage the formal channeling of remittances into productive investment vehicles. Policies such as diaspora bonds, matched savings schemes, and reduced remittance transfer costs could significantly enhance the developmental impact of remittance inflows. Furthermore, strengthening financial inclusion—particularly access to banking services in rural and peri-urban areas—would improve the conversion of remittances into investment capital. Without such mechanisms, remittances risk remaining largely consumption-oriented and therefore limited in their contribution to long-term economic growth. The study also yields important lessons. First, the impact of remittances on investment is not automatic; it is highly dependent on the institutional and financial environment within the recipient country. Second, macroeconomic stability plays a critical role in determining whether remittances are saved, invested, or consumed. Third, time dynamics matter significantly, as the effects of remittances are more pronounced in the long run

than in the short run, suggesting that policy evaluation should not rely solely on immediate outcomes. Finally, the Zimbabwean case demonstrates that diaspora engagement strategies can be a powerful development tool if properly structured and supported by credible financial systems. Overall, the findings reinforce the view that remittances are a potentially transformative financial inflow, but their effectiveness in driving domestic investment depends on complementary policies, institutional strength, and financial system efficiency.

Conclusion

This study examined the relationship between remittance inflows and domestic investment in Zimbabwe over the period 1990–2025 using an econometric framework that incorporated descriptive analysis, unit root testing, cointegration, and ARDL estimation techniques. The results provide evidence of a long-run positive relationship between remittances and domestic investment, indicating that remittances play a meaningful role in supporting capital formation within the Zimbabwean economy. However, the short-run dynamics reveal a weaker and less consistent relationship, suggesting that the investment effects of remittances are not immediate and depend on adjustment processes within households and the broader financial system. The findings lead to the conclusion that remittances are an important supplementary source of investment finance in Zimbabwe, particularly in a context where domestic savings are limited and external investment flows remain unstable. While a significant portion of remittances is still directed toward consumption and household welfare, there is clear evidence that, over time, these inflows contribute to productive investment when conditions are favourable. This highlights the dual nature of remittances as both a social safety net and a potential driver of economic development.

The study further concludes that the developmental impact of remittances is highly dependent on the institutional and macroeconomic environment. Weak financial intermediation, high transaction costs, and limited formal investment channels constrain the extent to which remittances translate into productive capital formation. Conversely, improvements in financial inclusion and diaspora-oriented financial instruments could enhance their investment impact significantly. In light of these findings, the study confirms that remittances are not merely private transfers but represent a strategic macroeconomic resource for Zimbabwe. Their effectiveness in stimulating domestic investment, however, is conditional upon supportive policy frameworks and a stable economic environment. Therefore, strengthening mechanisms that mobilize remittances into formal investment channels is essential for maximizing their contribution to sustainable economic growth [6-8].

Acknowledgments

The completion of this study would not have been possible without the support, guidance, and contributions of several individuals and institutions. First and foremost, gratitude is extended to the academic supervisors and faculty members who provided intellectual guidance, constructive criticism, and continuous support throughout the research process. Their insights significantly shaped the direction, depth, and quality of this study. Appreciation is also directed to the institutional support provided by the researcher's affiliated university/college, particularly the Department of Economics/Finance/Statistics (as applicable), for providing an enabling academic environment, access to research resources, and methodological support necessary for the completion of this work. Special thanks go to data providers and statistical agencies, including national and international databases that made it possible to obtain reliable time-series data used in this analysis. Their commitment to data transparency and accessibility greatly enhanced the empirical robustness of the study. The researcher also acknowledges the contribution of colleagues, peers, and academic reviewers who offered valuable feedback, encouragement, and technical advice during different stages of the research. Finally, heartfelt appreciation is extended to family and friends for their unwavering moral support, patience, and encouragement throughout the demanding phases of this study. Their support provided the motivation needed to complete this work successfully.

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