



# Capability Trap and Constrained Freedom: A Sociological Analysis of Nepal's Remittance Economy



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## ABSTRACT

*During the last decade and more, Nepal has remarkably achieved its economic shifts and stability of macro-level institutions. With the help of remittance received against foreign labor migration, Nepal not only achieved in increasing its size of the economy, but also brought improvement in several other economic indicators. However, this achievement is not quite good and satisfactory, if it is viewed from the sociological eyes, from the lens of the capability approach developed by Amartya Sen. These indicators are creating confusion and giving misleading messages, because it is achieved by constraining human freedom, choices and options. Macroeconomic trajectory in brief. Thus, this paper critically assesses Nepal's development paths, which narrowly focused on economic growth, rather than enhancing human freedom, based on the secondary data from annual economic survey for FY 2019/20 to 2024/25. Nepal has been receiving a significant amount of remittance, but on the great sacrifices of human freedom and fundamental capabilities like family unity and community participation.*

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## Introduction

The last six years (2019-2025) has been remarkably the tough time for many underdeveloped and developing countries including Nepal for several reasons. First, the country has been going through federal transition as a new federal system was implemented with the promulgation of the constitution of Nepal 2015 from long-time practice of unitary system. Second, at the

end of the 2019 devastating coronavirus (COVID-19), emerged from Wuhan, China, spread all throughout the world, threatening human health and economy. Lastly, even though the country has managed macroeconomic stability, like GDP growth, controlled inflation, and reserve of foreign currency (Ministry of Finance, 2025), it was a capability trap as it has not been translated into real freedom and choice, but gained

through remittance. From an economic point of view, on the surface, and may be just for the present, these may be okay—these indicators may provide solid ground to Nepal’s development. However, there can be a big question on whether this economic gain is translated into real freedom that people in the county use in chasing their lives they value. This question may strike social scientists, and researchers several times. This is a central crux of Amartya Sen’s capability approach that focuses on sustained human freedom rather than mere economic growth.

This paper, based on Amartya Sen’s Capability Approach, offers a robust argument on development debate. Even though, Nepal has managed macroeconomic stability during the given time, but disguised a prevalent capability trap. Nepal’s economy has been sustained and managed to stabilize its economic indicators through remittance, but failed to expand the economic opportunities within a country. Thus, people of Nepal have been facing constraint choices, especially in remote provinces, making labor migration more act for fulfilling basic household needs than that of the voluntary pursuits.

### **The Capability Approach**

This paper portrays Amartya Sen’s Capability Approach as a theoretical lens to get into the development paradox of Nepal. However, what is important here is to know the contributions of various scholars, working together, to develop a full fledged approach, namely Amartya Sen, Mahbub ul Haq and

Martha Nussbaum. Among them, Sen (1999) played an important role in setting the stage, Haq (1995) extended the boundaries with some important practical tools, like Human Development Index (HDI) and Nussbaum (2000) contributed in encompassing her own conversations and philosophical expansion. Together, Sen contributed in theoretical development, the Capability Approach, Haq added HDI as a policy tool and Nussbaum worked in the level of philosophical expansion, contributing in the development of the human development approach, challenging the narrow economy-centered approach of development, or development as growth.

At its core, Capability Approach differentiates between means- economy- and ends-freedom- in development. For Sen, just economic resources or income cannot be the ends, but only instruments- means to the ends-not ends by themselves. The most important matter is “functionings”, the functions of the economic resources- the genuine states of being and doing that people have reason to value in their lives. For example, being well-nourished, getting good education, enjoying good health, and participating in community life. The set of capability approach signifies the combinations of all these “functionings” that a person can achieve in their real lives. It is all about, after all, having actual freedom to choose a life that one really values. In this approach, poverty is not just a lack of money, but capability deprivation- a lack of genuine options, or freedoms in life.

The Capability Approach came into being in practice through the ground breaking efforts of Mahbub Haq. He argues that the real wealth of a nation, challenging the concept developed by Adam Smith (1775), lies not in money, or material possessions, but in its people. For Haq, the purpose of development is not just to bring about monetary development, but to create a real environment where an individual person can live and lead a happy, healthy and desired life (Haq, 1995). In this context, economic growth is, of course, important, but this cannot be the sole focus of development policies, people should be placed at the center of development- not money- it must ultimately serve to uplift the quality of life and well-being of human beings. He took ideas from Sen's capability approach, abstract theory developed by Amartya Sen, and irrigated it from the empirical water by redefining what we measure and what we value- things we are looking for when we talk about development. Building on this, Nussbaum has backed a universal list of central human capabilities which are crucial for the dignified life and well-being, like such bodily integrity, and emotional well-being (Nussbaum, 2011). The framework developed by her is particularly important in the Nepalese context, where labor migrants face security threats, low payment, job insecurity, emotional health and separation from family members, left behind. Analysis of such costs paid by migrants and their families has been missing as policy makers highly focused on celebrating remittance as a key source of national income. These costs

have been often overlooked, or are invisible in traditional economic analysis.

Now, we utilize the concepts discussed to analyze how capability has been trapped in remittances has been celebrated. We can clearly see the fact that there have been systemic failures, like inadequate and inequality in education, lack of choice in work, leaving no options in choosing work, except for going abroad for dirty, dangerous and difficult (D3) jobs. One can state that people, as rational actors, are choosing to go abroad for employment, however, this is far away from a sustainable economy, pushing towards a remittance dependent economy, and closing all the doors of production in the home country. Consequently, it reduces the chances of expanding domestic capacity, where migration for labor becomes only the forceful option, not willful choice- pushing towards more unfreedom rather than freedom (Sen, 1999). Subsequently, this approach moves faraway from economic indicators, emphasizing on social indicators. This approach, further, asks us to consider the lived experiences of people, hidden costs of remittance (development) paid by migrants in the field as well as families left behind (wife, children and parents); thus, economic growth, the GDP, which is not even sustainable, can never reveal the choices, options and freedom.

### **Methodology**

This paper utilizes the data from Annual Economic Survey of Nepal for FY 2019/20 to 2024/25), by the Ministry of Finance, the government of Nepal with province wise

HDI supplementary (annex 1). We have conducted the thematic qualitative analysis of quantitative data from the secondary sources. Qualitative thematic analysis of numerical data helps in interpreting numerical findings, or facts and figures, through themes, narratives and contextual meaning rather than just leaving them as numbers, telling the story behind the number. It is a wide-ranged practice in mixed methods research. It provides a way of integrating rigorous and transparent numbers from reliable sources and qualitative reasoning (Nowell et al., 2017; Creswell & Creswell, 2023; Della Porta & Keating, 2008; Denzin & Lincoln, 2018). The primary purpose of this paper is to explore and explain trends and associations between macroeconomic indicators, such as remittance, GDP, sustained reserve of foreign currency, controlled inflation, etc. and its social implications from fiscal year 2019/20 to 2024/25- identifying gaps between economic gain and exercise of real freedom by people of Nepal. This trend is further analyzed from the lens of Capability Approach propounded by Amartya Sen- distinction between means

and ends. The necessary and detailed data on macroeconomic indicators, on an annual basis, data tables are presented in the following section. At the same time, some supplementary data are presented in the annex, like such human development index by provinces, migration outflow and remittance inflow of the same duration.

### Findings and Discussions: Capability Trap

In this section, findings and discussions, we analyze the required data from Nepal's annual economic surveys, and interpret it from the framework of Capability Approach, developed collectively by Amartya Sen, Mahbub ul Haq and Martha Nussbaum, Amartya Sen has been become name cited well behind. This paper famously demonstrates the fact that Nepal's economic model of development constraints substantive human freedom.

### Income Growth Versus Expansion of Choice

The Annual Economic surveys of Nepal (2019/20-2024/25) portray not only economic stability, but also gradual progress in GDP, GNP and per capita income.

**Table 1**

Key Macroeconomic Indicators of Nepal (FY 2019/20 - 2024/25)

Indicator	2019/20	2020/21 (COVID)	2021/22	2022/23	2023/24	2024/25*
GDP (NPR Trillion)	3.94	4.27	4.85	5.38	5.74	6.17
GDP Growth Rate (%)	2.1%	-2.4%	5.5%	5.8%	2.7%	4.61%
Inflation Rate (%)	6.2%	3.6%	6.3%	8.3%	7.7%	4.72%
Per Capita GNI (USD)	1,120	1,090	1,190	1,380	1,410	1,517

Source: Annual Economic Surveys 2019/20-2024/25), Ministry of Finance, Govt. of Nepal.

The GDP of the country Nepal is projected to reach NPR 6.17 trillion (Table 1) in fiscal year 2024/25, which has made significant increase in the past 7 years, from NPR 3.94 trillion in 2019/20 with estimated growth rate 4.61%. The inflation rate has been reduced significantly in the last four years, which was 6.3%, 8.3%, 7.7% and 4.72% (estimated) in 2021/22, 2022.23, 2023/24, and 2024/25 respectively. Moreover, there has been a significant positive shift in GNI per capita income in the given period, from USD 1,120 in the beginning of the period to USD 1,517 (estimated) in 2024/25.

This would be, for sure, considered as significantly unquestionable success, if it is

**Table 2**

External Sector (NPR Billion)

Indicator	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25 (8-months)
Exports	97.7	141.1	200.0	161.1	157.0	158.2
Imports	1,196.8	1,398.5	1,763.2	1,881.3	1,612.0	1,145.6
Trade Balance	-1,100.1	-1,257.4	-1,563.2	-1,720.2	-1,455.0	-987.4
Remittance Inflow	875.2	961.1	1,007.3	1,220.5	1,390.0	1,051.8

Source: Economic Surveys of Nepal 2019/20 to 2024/25

In analyzing this data from the Capability Approach, it appears problematic in development. The income is generated through significant sacrifice of human freedom, functionings and capabilities. Amartya Sen (1999) argues about good life, while discussing capability approaches. A question may be raised here: what is the component of good life? Human freedom is a key component. It is to enjoy family

analyzed from the economic point of view. However, if we revisit it from Amartya Sen's Capability Approach, a different picture could appear before us. From this point of view, we may ask the question: what is the source of this income and what cost of freedom did we have to trade to achieve this growth? This growth is not primarily the result of the domestic economy, but created based on the foreign employment, or economic growth driven by the remittances from the labor migrants. As per data, the very first eight months of FY 2024/25, Nepal received NPR 1.051 trillion, the money which is singlehandedly enough to finance the country's entire trade deficit (Table 2).

life and participate in one's community, instead of leaving it, sacrificing it, for the sake of insignificant economic gain by paying human cost. This remittance model of economy requires millions of Nepali citizens to work so hard in a terrible and unworkable environment, and forfeit their priceless freedoms for years and years, even for decades for some, and may be lifetime for others. Thus, the growing GDP and per

capita income does not entirely represent a net expansion of freedom, but rather labor sold under brutal conditions that were ever imagined in the twenty-first century human civilization. Nepalese youths have chosen to go abroad and migrate to earn higher income precisely due to the absence of capability to earn decent living while enjoying family and community life. The state of the domestic economy has snatched that freedom and choices from them.

### The Geography of Capability Deprivation

Nepal's national average annual per capita income is deeply uneven across the country. Contribution of different provinces into national GDP is widely dissimilar (Table 3). Data shows that the Bagmati province, highest among all, commands almost two-

third of the national GDP with 36.5% out of total, whereas Karnali province manages just 4.2% of it, becoming the lowest contributor of national GDP. This economic data is not just a figure, but speaks a lot about actual life-chances available to people of the particular provinces. Becoming more figurative and placing abstract theory to the empirical ground, a child born in Karnali province, the odds are stacked against them from the beginning of their lives as they face higher risks of underfeeding, or undernutrition, inadequate schooling, nearly absence of formal job predictions upon reaching adulthood, and forced to find jobs in the hills and capital of India, and if they are lucky enough to get education, than they can find some jobs in the simi-peripheral and core cities of Nepal.

**Table 3**

Provincial Contribution to National GDP (FY 2024/25)

Province	Contribution to GDP (%)
Bagmati	36.5%
Koshi	15.9%
Lumbini	14.2%
Madhesh	13.2%
Gandaki	9.0%
Sudur-pashchim	7.0%
Karnali	4.2%

Source: Nepal Economic Survey 2081/82, Ministry of Finance, and Government of Nepal.

As a result, freedom, options and choices are constrained from the time of birth to throughout one's entire life. Consequently, high rates of out-migration from those peripheral provinces, like Karnali, and

Sudur Paschim provinces are not accidental; they are direct outcomes to this geography of restricted freedoms. This implies that out-migration flows from the areas, where freedom, choice and options in life are

restricted to the areas where there are lots of freedom, choices, options and life chances. Thus, it can be stated that people, there, are not just seeking better wages, but rather they are attempting to escape the potentially systematically stifled environment.

### Structural Failure to Create Capabilities

The deep-seated structural imbalance in the country is not just coincidence, but rather a reflection of economic architecture, meaning to say, the country's economy is largely dominated by the informal service sector. Nepal lacks the firm development

of the industrial sector- Nepal has a very weak industrial base, which is key to the development of formal service sector employment. It is estimated that, in FY 2024/25, the industrial sector contributes only 13% of national GDP and agricultural sector contributes one-fourth portion of national economy, creating a “hollow middle”, the concept used to indicate the structural and systematic failure in developing domestic capabilities (Table 4). It indicates that the state of Nepal has failed to develop domestic capabilities.

**Table 4**

Sectoral GDP Contribution to GDP %

Sector	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25*
Agriculture	27.6%	27.7%	26.3%	24.7%	24.1%	25.16%
Industry	14.2%	13.6%	13.8%	13.9%	13.1%	12.83%
Services	58.2%	58.7%	59.9%	61.4%	62.8%	62.01%

Source: Economic Surveys in Nepal, the Ministry of Finance, the government of Nepal.

\* Indicates the projected data.

It is stated that a well-developed industrial sector is the base for formal employment. Such a solid industrial foundation helps drive large scale formal employment that Nepal has failed to develop. Large scale formal sector employment creates the foundation and base upon which a large number of semi-skilled workers are employed that helps them in their upward mobility and their economic stability. The economy of Nepal lacks this foundation and a large section of the population remains under the poverty

line. Even though the service sector has been expanded, managing over sixty-two percent of the national economy, it has expanded to largely informal employment and failed to provide secure jobs for the people of the country. Consequently, this caused the capability deprivation. The state has failed to create such an environment, which is yet to fulfill, where citizens of Nepal can translate their abilities to achievements they value and honor. Nepal's entire architecture of its economy rests on such systemic failure,

thus further failing to broaden the freedom, choices and options accessible to its people.

### Conclusion

This paper deliberately suggests that the macroeconomic stability in the country is in paradox. Nepal's economic resilience has been boosted by the remittance received from abroad, against labor we supply that comes at the expense and sacrifices of substantive freedom, choice and employment. Instead of creating domestic opportunities, the existing development model traps people of the country in the vicious cycle of migration, in which migration remains only one viable option, closing all the doors for genuine economic transformation.

Economic growth, GDP, and GNI per capita, are some of the important economic indicators, which reveals many things about society, however, it can mislead the development indicators if it is achieved by constraining human freedom and options. Moreover, economically measured regional inequalities help in mapping the areas of capability deprivation. Additionally, lack of industrial development in the country marks

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the systemic failure in laying the foundation upon which dignified lives filled with freedom and choice could be bloomed and flourished.

These findings are the key to this paper and have important policy implications. These findings suggest that Nepal has to pivot from narrow focus on economic metrics to the broader goal of capability expansion. This paper advocates the following points. To begin with, Nepal, as a country, must prioritize creating domestic opportunities by creating robust job markets, rather than just managing to send migrants to foreign countries for little and unsustainable remittance, through active support for labor intensive industries. Additionally, the country must address the regional gaps of human freedom. Federalism should be used as a tool to correct these regional, or provincial disparities by investment in health, education and infrastructure of the marginalized provinces. Moreover, Nepal has to redefine its own success- national progress should be measured not on remittance inflow, but expansion of choices and human freedom for all citizens.

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### Anex: Supplementary Data

**Table 5**

Nepal Human Development Index (HDI) by Province

Province	Human Development Index (HDI)	Rank
Koshi	0.605	3
Madhesh	0.550	7
Bagmati	0.685	1
Gandaki	0.640	2
Lumbini	0.595	4
Karnali	0.560	6
Sudurpaschim	0.575	5
Nepal	0.602	

Source: Nepal Statistical office 2024

**Table 6**

Labor Migration Outflow and Remittance Inflow in Nepal (2019/20–2022/23)

Fiscal Year	Labor Outflow	Remittance Inflow (Billion)
2019/20	166,698	875.03
2020/21	72,081	961.05
2021/22	630,090	1007.31
2022/23	771,347	1240.69
2023/24	741,000	1445.32
2024/2025	839,000	1533.00

*Note.* Labor outflow data represents the number of new labor permits issued and is sourced from Nepal's Department of Foreign Employment (DoFE). It does not include Nepalis migrating to India or those using irregular channels. Remittance inflow data is primarily sourced from Nepal Rastra Bank (NRB) databases. **Anex: Supplementary Data**

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