

Assessing the Social Implications of Remittances in Nepal

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Abstract

Remittances, constituting monetary and non-monetary transfers from migrants to their home countries, have emerged as a crucial driver of economic growth in developing nations. Nepal, witnessing a surge in remittance inflows since the 1980s amidst global economic liberalization, is a pertinent case study. This paper delves into the ramifications of remittance-induced consumption on Nepal's economic landscape, traversing historical trajectories and contemporary realities. Despite the substantial influx of remittances, a significant portion is funneled into everyday consumption, constraining its potential for catalyzing productive investment. Through a meticulous examination of diverse data sources and prior research, this study underscores the imperative for efficacious policies aimed at redirecting remittances towards sectors conducive to fostering sustainable economic development. While existing literature predominantly scrutinizes remittances through an economic lens, this research endeavors to illuminate the understudied social implications, particularly pertaining to consumption patterns. By comprehensively analyzing the impacts of consumption-based remittances on household dynamics, community structures, and cultural practices, this article seeks to contribute to a nuanced understanding of Nepal's socio-economic fabric.

Keywords: *Remittances, Capital Inflow, Consumption, Social Implication, Nepal*

Introduction

Remittances, defined as monetary and in-kind transfers sent by migrants to their home countries, serve as a critical economic lifeline for many developing nations (IOM, 2021). In Nepal, the practice of Nepalis working abroad and sending remittances back home has deep historical roots, dating back several decades. This phenomenon has gained momentum alongside global economic liberalization and the expansion of the global labor market, particularly since the 1980s (IOM, 2021). The Department of Foreign Employment reported a significant surge in Nepali individuals seeking labor approval for overseas employment, with figures escalating from 3,605 in 1993/94 to a staggering 519,638 in 2013/14 (DoFE, 2020). Correspondingly, remittance inflows into Nepal have

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witnessed a remarkable increase, soaring from 2.15 billion rupees in 1994/95 (Nepal Rastra Bank, 2073 B.S.) to 1,445.32 billion rupees in 2023/24 (Nepal Rastra Bank, 2081 B.S.), underscoring their burgeoning significance in Nepal's economic landscape.

Despite the undeniable contributions of remittances to Nepal's Gross Domestic Product (GDP) (World Bank, 2021), their impact on economic development has yielded mixed results. While remittances possess the potential to fuel economic growth if channeled into productive sectors, prevailing trends in Nepal depict a predominant utilization of remittances for daily consumption purposes. Approximately 79% of remittances are allocated towards meeting daily needs, with only a marginal fraction directed towards investment in productive assets (CBS, 2011). This consumption-based remittance pattern finds its historical antecedents, evidenced in the post-World War I era when Nepali soldiers returning home infused significant remittances into the economy, primarily earmarked for consumption rather than investment in productive ventures (Pande, 2076 B.S.).

This paper aims to explore the social implications of remittances in Nepal, analyze their impact on economic growth, and identify potential policy interventions to enhance the effective use of remittances for sustainable development. Through a meticulous analysis of historical and contemporary data, this study seeks to offer insights into strategies for effectively harnessing remittances to bolster economic productivity and foster holistic development in Nepal.

Methodology

The research methodology for this article employed a qualitative approach, incorporating narrative analysis and desk review to explore the impact of remittances on Nepal's economy and society. A comprehensive desk review was conducted, analyzing secondary data from reputable sources such as reports from the Department of Foreign Employment, Nepal Rastra Bank, and the World Bank. This included a review of academic literature, policy documents, and historical records to contextualize contemporary trends within broader socio-economic and historical frameworks.

Consumption Patterns of Remittance in Nepal

Remittances are migrants' transfers in money, and goods or commodities sent to their home countries. This international money flow can be an important source of economic growth and development of developing countries. The trend of going abroad for work and sending the remittance to the home country has a long history in Nepal. However, the economic liberalization and globalization has a great impact in world manpower market from 1980s. While the employment opportunity as well as labor cost is depressing, the trend of going to the developed countries for employment has been increasing (Table 1).

Table 1: The detail of going abroad for employment

Year	Number of Labor Permit Issued by DoFE
1993/94	3605
1994/95	2159
1995/96	2134
1996/97	3259
1997/98	7745
1998/99	27796
1999/00	35543
2000/01	55025
2001/02	104736
2002/01	105043
2003/04	106660
2004/05	139718
2005/06	165252
2006/07	204533
2007/08	249051
2008/09	219965
2009/10	294094
2010/11	354716
2011/12	384665
2012/13	429525
2013/14	527814
2014/15	499102
2015/16	403174
2016/17	383493
2017/18	354082
2018/19	236211
2019/20	190453
2020/21	72081
2021/22	348868
2022/23	494224

Source: Various Annual Reports of DoFE

According to Table 1 above, 3605 people had approval in 1993/94. After this, the number of people taking labor approval seem to have been increasing. The figure has reached

519638 in 2013/14. Similarly, 236208 people had taken labor approval in 2018/19. A total of 2.15 billion rupees remittance was received in Nepal in 1994/95 which increased to 6.17 billion rupees in the year 2014/15 (Nepal Rastra Bank, 2073 B.S.). In the year 2023/24, Nepal received 1,445.32 billion rupees (Nepal Rastra Bank, 2081 B.S.).

Table 2: Contribution of Remittance in GDP

S.N.	Year	Percentage Contribution of Remittance in GDP
1	1993	1.5
2	1994	1.2
3	1995	1.3
4	1996	1.0
5	1997	1.4
6	1998	1.7
7	1999	2.0
8	2000	2.4
9	2001	11.2
10	2002	12.2
11	2003	11.3
12	2004	14.9
13	2005	16.1
14	2006	16.8
15	2007	23.2
16	2008	23.2
17	2009	21.7
18	2010	21.6
19	2011	22.1
20	2012	19.5
21	2013	21.6
22	2014	22.1
23	2015	25.9
24	2016	27.0
25	2017	25.9
26	2018	23.9
27	2019	23.9
28	2020	24.1
29	2021	22.61

30	2022	23.1
31	2023	26.6

Source: Various Report of World Bank

Perez-Saiz et al. (2019) studied the importance of remittances in economic growth in developing countries and found that the remittances shall give positive impacts in economic growth and development if used in the productive areas. There are various studies on the impact of remittance in the home countries. Panthi & Devkota (2024) found that remittances can significantly improve economic growth. Remittance can be an important source of economic growth and development in poorly developed countries. But while majority of the remittance is used in unproductive areas, it has negative impacts on economic growth and development. Dhungel (2022) provided the evidence of the negative impact of remittance in poor countries like Nepal.

About 79 percent of the total remittances received by the households are used for daily consumption while 7 percent is used for loans repayment. Other uses are to acquire household property of 5 percent and for education 4 percent. Only 2 percent of the remittances are used for capital formation and the remaining 3 percent is used for other purposes (CBS, 2011; 79).

The substantial increase in remittance inflows, coupled with the growing trend of Nepalese citizens seeking employment opportunities abroad, underscores the significant role of remittances in the national economy. However, the concentration of remittance expenditure on daily consumption highlights the immediate impact on household welfare but raises concerns about the limited allocation towards productive investment. This disparity suggests a potential mismatch between short-term needs and long-term development objectives, emphasizing the importance of policy interventions to incentivize remittance utilization in sectors that can catalyze sustainable economic growth. Addressing this challenge requires a nuanced understanding of the factors influencing remittance spending behavior and targeted interventions to promote investments in education, entrepreneurship, and infrastructure, thereby harnessing the full potential of remittances as a driver of economic development in Nepal.

Lost opportunity

Around 1914/15, about 200 thousand Nepali youth went to London to fight war for England in the First World War. They had brought about 130 million rupees in 1920 while returning to Nepal. If that huge amount received in Nepal at once was used in some productive things, it would change the façade of the country. However, it increased the import of cheap goods in Nepal. While the government did not have farsightedness, the remittance received returned to abroad. Before 1920, however, remittances received from India did not return easily.

During that time, around 10 million rupees was collected as revenue in Nepal. Thus, the remittance received after the First World War was a huge amount for Nepal. With the import of remittance modern habits and lifestyle also got imported. The habit of taking cigarettes, tea, coffee, and alcohol spread in the villages. The remittance was spent in this way. Money was distributed to relatives as a gift. The number of Rodi Ghar and labor wages increased. The number of alcohol shops also increased. While there was more money and less goods, slowly the goods became expensive and money less expensive. The demand for foreign goods increased. If there were small and medium industries, money would be invested in those. However, it was not the case.

If money is utilized in the productive sector, more and more money is earned helping for the stable price of the goods. With the speed of this trend, the state takes the speed to prosperity. The money was once received in a huge amount, but this did not continue. From this incident we learnt that the development of the country is not possible only by receiving a huge amount at once (Pande, 2076 B.S.; pp.116-134).

Didiya (2021) argued that suggest that if migrants and remittance recipients are encouraged for investment in the productive sectors in the home country with clear regulation and limiting corruption, economic growth and development is possible with the remittance.

No clear policy and regulations exist for investment of the remittance received in Nepal. The remittance received during the Rana regime did not contribute to development. A clear and concrete policy of the state could not be made on how to invest the money received as remittances in the productive sector. As the amount received in this way was spent only on daily consumption, it could not contribute to the growth of production rather it increases the import of luxury goods from abroad. The situation is similar in the democratic and republican regime too.

If the received remittance could be utilized properly, this would contribute to the overall economic growth and development of a country. But only two percent of the remittance received in Nepal is utilized in productive sectors. Nepal has been developing as a consumption place for foreign goods and products. The façade of the country has not changed until the republican regime since the Rana regime. Almost a century passed since the Rana regime, but the independency could not be introduced in Nepal. It has been developing as the consumption land.

Influence of Remittances on Local Economies and Market Dynamics

Remittances play a crucial role in shaping local economies and market dynamics within communities in Nepal. As evident in various studies, the influx of remittance funds

significantly contributes to economic growth, consumption patterns, and investment opportunities (Sharma, 2024). The injection of remittance capital into local economies often stimulates small-scale entrepreneurship, facilitates access to credit, and fuels demand for goods and services. Consequently, this influx can lead to the expansion and diversification of local markets, fostering a more dynamic economic landscape (Pant, 2008).

However, despite the economic benefits, the distribution of remittances within communities often exacerbates social stratification and inequality. Studies have shown that remittance-receiving households tend to experience an improvement in socio-economic status compared to non-recipients, leading to a widening wealth gap (Gurung & Bhandari, 2023). Moreover, within recipient households, remittance allocation may favor certain members, such as male relatives or those with higher education levels, thereby perpetuating intra-household inequalities. Consequently, remittance-driven disparities can contribute to social tensions and reinforce existing hierarchies within communities (Acharya & Leon, 2013).

Furthermore, migration and remittance inflows have profound effects on social networks and community cohesion in Nepal. The outmigration of individuals, particularly young working-age adults, often leads to the fragmentation of social ties and the erosion of traditional community structures (Sharma, 2024). Families left behind by migrants may experience social isolation and emotional strain, disrupting the fabric of community support networks. Conversely, remittances can act as a form of social capital, strengthening familial bonds and facilitating reciprocal exchanges within transnational networks (Silver, 2014).

Understanding the interplay between remittance inflows, local economies, social stratification, and community cohesion is essential for formulating policies that promote inclusive development and social cohesion within Nepalese society. Remittance inflows have had a profound impact on local economies and market dynamics. For instance, in many rural areas of Nepal, remittances constitute over 25% of household incomes, leading to increased purchasing power and demand for goods and services. This has stimulated the growth of local businesses, such as retail shops, construction, and transportation services, creating new opportunities for entrepreneurship and employment (Pant, 2008). However, the dependency on remittance income has also introduced challenges. The inflow of cash often drives inflation in local markets, particularly in housing and consumer goods, making essential items less affordable for non-remittance-receiving households (Gurung & Bhandari, 2023).

Additionally, there is a growing trend toward importing luxury goods, which undermines the development of local industries and contributes to a trade deficit. These dynamics

exacerbate social stratification, as remittance-receiving households often gain a significant economic advantage over those without access to such income. Policymakers must address these disparities by fostering local production, supporting sustainable business models, and ensuring equitable access to market opportunities to achieve inclusive development and strengthen community cohesion (Phaju, 2021).

Transformation of Cultural Practices and Traditions Influenced by Increased Remittance Income

In Nepal, the infusion of remittance income has profoundly impacted cultural practices and traditions within migrant-sending communities. With greater financial resources at their disposal, families often allocate funds towards hosting elaborate ceremonies and festivals, marking a departure from more modest celebrations constrained by economic limitations (Sharma, 2024). This shift is particularly evident in rural areas, where remittance income enables families to afford lavish weddings, religious rituals, and community gatherings, thereby reshaping the cultural landscape (Sharma, 2024).

Moreover, remittance-enabled investments in education and exposure to diverse cultural influences abroad contribute to the adoption of modern lifestyles and values among migrant households (Bam et al., 2016). For instance, returning migrants may introduce new customs, languages, or forms of entertainment acquired during their time overseas, influencing local norms and practices. This cultural exchange enriches the fabric of Nepali society but also raises questions about the preservation of indigenous traditions in the face of globalization (Panta, 2023).

The aspirations and values of migrant households undergo significant transformation due to their experiences abroad and the financial stability afforded by remittances. Migrant families often prioritize investment in education, healthcare, and consumer goods as symbols of social status and upward mobility (Gurung & Bhandari, 2023). This shift reflects a departure from traditional agrarian livelihoods and communal values, with younger generations aspiring towards urban, consumer-oriented lifestyles.

However, the rise of consumerism driven by remittance income also presents challenges to traditional social norms and identities in Nepal. The pursuit of material wealth and individualistic goals may undermine communal values of solidarity, reciprocity, and collective well-being, particularly in rural communities (Gurung & Bhandari, 2023). Additionally, disparities between remittance-receiving and non-receiving households may exacerbate social divisions and tensions, threatening social cohesion and collective identities (Byanjankar & Sakha, 2021).

The influence of remittance income on cultural practices and identity in Nepal underscores the need for nuanced approaches to development that reconcile economic progress with cultural preservation and social cohesion. The inflow of remittances has significantly contributed to shaping consumer culture in Nepal, where increased disposable incomes have fueled a shift towards materialistic lifestyles and consumption patterns. This consumer culture often influences traditional cultural values, impacting social norms and collective identity, particularly in rural areas where remittance dependency is high. By acknowledging and addressing the complex interplay between remittances, consumer culture, cultural dynamics, and social norms, policymakers can foster inclusive growth that respects and celebrates Nepal's diverse cultural heritage while mitigating the potentially adverse effects of consumerism on societal cohesion.

Challenges and Opportunities of Remittances in Nepal

One of the significant challenges associated with consumption-based remittances in Nepal is the risk of over-reliance on external income sources. While remittance inflows contribute significantly to household income and consumption, they can also foster dependence on foreign earnings, weakening local economies and inhibiting entrepreneurial initiatives. Moreover, the volatility of remittance flows, influenced by global economic conditions and migration trends, exposes recipient households to financial instability and vulnerability (Bam et al., 2016).

Another concern is the potential for remittance income to exacerbate income inequality and social disparities within Nepali society. Studies have shown that remittance-receiving households tend to experience a widening wealth gap compared to non-recipient households, leading to social tensions and inequalities. Furthermore, the unequal distribution of remittances within households based on gender or education levels can perpetuate intra-household inequalities and hinder women's empowerment (Acharya, & Leon, 2013).

Despite these challenges, remittances also present opportunities for sustainable development and social empowerment in Nepal. Effective utilization of remittance funds can contribute to poverty alleviation, human capital development, and infrastructure improvements. For instance, investment in education and healthcare facilitated by remittance of income can enhance human capabilities and productivity, laying the foundation for long-term economic growth and social progress (Rimal, 2024).

Moreover, remittances can empower marginalized groups, including women and rural communities, by providing access to financial resources and opportunities for entrepreneurship. Initiatives such as community-based savings and credit groups,

supported by remittance contributions, promote financial inclusion and self-reliance, fostering resilience against economic shocks.

Policy Implications for Harnessing the Social Benefits of Remittances

To harness the social benefits of remittances while mitigating associated risks, policymakers in Nepal must adopt a multifaceted approach. Strengthening financial literacy and entrepreneurship skills among remittance-receiving households can enhance their capacity to invest remittance funds productively and diversify income sources. Additionally, promoting initiatives that facilitate the integration of remittances into local development plans, such as community-led projects and infrastructure investments, can maximize their impact on poverty reduction and sustainable development (Pant, 2011).

Furthermore, policies aimed at addressing gender disparities in remittance allocation and promoting women's economic empowerment are crucial for ensuring equitable distribution of benefits within households and communities. This may involve targeted interventions such as financial literacy programs for women and policies that promote women's access to productive resources and decision-making power (UN Women, 2020).

While remittances present both challenges and opportunities for Nepal, strategic policy interventions are essential for harnessing their potential to drive sustainable development and social empowerment. By addressing issues of over-reliance, inequality, and effective utilization, Nepal can leverage remittance inflows as a catalyst for inclusive growth and poverty reduction.

Conclusion

Remittances serve as a vital economic lifeline for Nepal, profoundly influencing both its economy and societal structures. Historically rooted and significantly amplified by global economic trends since the 1980s, the inflows of remittances have escalated dramatically, reflecting their growing importance. Despite their substantial contribution to Nepal's GDP, the predominant utilization of remittances for daily consumption poses a challenge to long-term economic development. This consumption-focused pattern has historical precedents and continues to limit the potential for remittances to foster sustainable growth through productive investments.

The study reveals a complex interplay between remittances and economic development. While remittances boost household incomes and consumption, their limited use in productive sectors curtails their impact on economic growth. Historical data and

contemporary analysis underscore the need for policy interventions that encourage the channeling of remittance funds into areas like education, entrepreneurship, and infrastructure. This strategic redirection could catalyze sustainable development, reducing reliance on foreign goods and fostering local economic resilience.

Moreover, remittances shape local economies and market dynamics, often stimulating entrepreneurship and expanding local markets. However, they also exacerbate social stratification, with disparities between remittance-receiving and non-receiving households widening the wealth gap and creating social tensions. The outmigration of individuals and the inflow of remittances impact social networks and community cohesion, sometimes eroding traditional structures while simultaneously strengthening familial bonds through transnational exchanges.

Culturally, remittances have transformed practices and traditions, enabled more lavish celebrations and introducing modern lifestyles and values. This duality reflects both the enrichment of cultural practices and the erosion of indigenous traditions. The pursuit of material wealth, driven by remittance income, challenges communal values and risks commodifying cultural heritage, necessitating a balanced approach to development that preserves cultural identity while promoting economic progress.

Addressing the challenges and opportunities presented by consumption-based remittances requires comprehensive policy measures. Enhancing financial literacy, promoting entrepreneurship, and ensuring equitable distribution of remittance benefits can mitigate dependency and inequality. Empowering marginalized groups, particularly women, through targeted interventions can further amplify the positive impacts of remittances.

Ultimately, a nuanced understanding of the multifaceted impacts of remittances is essential for formulating effective strategies. Policymakers must foster inclusive growth, leveraging remittance inflows to drive sustainable development while preserving Nepal's cultural heritage. Interdisciplinary research will be crucial in exploring these dynamics comprehensively, guiding informed policy decisions that harness the full potential of remittances for Nepal's holistic development.

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