

Socioeconomic Effect of Remittance on Household Economy in Nepal

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Abstract

Labor migration from Nepal to other countries, along with the money sent back home, has become a really big deal for the rural areas economy. It's a sort of the main way a lot of families get by, and it helps keep things steady for the whole country too. From the evidence from places like South Asia, especially Nepal itself as a developing spot, this synthesis that pulls together different parts. It covers stuff on how people spend that remittance money, ways it fights poverty, investments that actually build something productive, getting more folks into financial systems, and even how it changes things inside households. That last bit, the intra household dynamics, it seems a little tricky to pin down sometimes, but the findings tie into the others. Overall, it's clear these flows are key indicators, though the full impact varies by region. The reviewed evidence suggests that remittances have consistent effects on household wellbeing through consumption smoothing and on expenditure on food security, education, health care, housing, and debt repayment. In Nepal, these welfare effects are even stronger in rural areas with fewer locally available jobs and reduced access to formal credit. Nevertheless, the review also identifies that productive investment in agriculture, small businesses, and income-generating activities account for only a limited share of income repatriated through remittances. Where productive use occurs, productive use seems to be highly dependent upon household characteristics, financial services provision, market conditions as well as institutional support and services. At the macro level, the evidence suggests that remittances play a significant role in promoting economic stability and foreign exchange availability but their ability to impact on structural change (unless accompanied by complementary policy and financial instruments) is limited. A synthesis further reveals

considerable unmet needs in Nepal to be filled around the role of determinants of productive remittance use, intra-household decision-making processes, as well as the gendered effect and the effectiveness of remittance policy.

Keywords:

Migration, Remittances, Household economy, New economics of labor migration, Investment

Introduction

International labor migration and the remittance inflows have become central to the economic and social foundations of many developing countries, serving as a crucial household income source and a significant external financial flow (Ratha et al., 2023). Recognized for their relative stability compared to other external finance, remittances have surpassed official development aid and foreign direct investment in several contexts (Abou Ltaif et al., 2024; Chand & Singh, 2024). This is particularly true in Nepal, where labor migration has emerged as a key livelihood strategy, especially in rural areas constrained by scarce job opportunities, low production, and limited infrastructure for generating domestic income (Khatiwada, 2023). Consequently, remittances profoundly influence not only household consumption and investment, but also broader socioeconomic outcomes related to welfare, resilience, and rural development pathways. Therefore, this research frames remittances as a complex development phenomenon requiring systematic empirical interpretation beyond mere descriptive reporting.

Existing literature demonstrates that remittance inflows can enhance household welfare through smooth consumption, reduced vulnerability to income shocks, and increased investment in education and health, thereby fostering long-term human capital (Taylor, 1999; Byanjankar & Sakha, 2021). In Nepal, studies indicate these flows are primarily directed toward immediate consumption needs, such as food, healthcare, education, and housing, reflecting a strategy for livelihood security amidst uncertainty (Dhakal & Oli, 2020). Viewed through the lens of the New Economics of Labor Migration, this pattern underscores migration as a collective household strategy to diversify income and manage market imperfections, rather than merely an individual wage-seeking decision (Taylor, 1999; Dhakal & Maharjan, 2018). Analytically, this suggests remittances may serve a more consistent welfare function than a productive investment function, especially in rural settings with limited productive opportunities, a critical distinction for Nepal's

chronic rural development challenges. While remittances constitute a major portion of Nepal's macro economy, aiding savings, liquidity, and stability (Kshetri & Mainaly, 2025), their broader developmental contribution remains context dependent. International evidence suggests remittances can be more resilient than foreign direct investment during downturns, yet their transformative potential hinges on financial structures, credit access, and local market conditions (Amutabi, 2023; Keho, 2024). This highlights a pivotal contrast: while remittances may bolster household resilience, dependence on them often fails to catalyze structural transformation without conducive environments. Thus, Nepal's core challenge lies not in the volume of inflows but in their limited translation into productive local capacity.

Despite their established role in poverty alleviation and consumption smoothing (Shrestha, 2017), significant empirical uncertainty persists regarding the socioeconomic impacts of remittances at the household level in Nepal. Specifically, the extent to which they facilitate productive investment, entrepreneurship, and long-term asset accumulation in rural areas, where credit access is limited, market connectivity is poor, and local enterprise opportunities are constrained; is less evident (Bhusal & Pandey, 2019; Kharel & Pasa, 2024). Furthermore, the factors shaping remittance use, including pathways to financial inclusion, access to banking and digital services, and intra-household decision-making dynamics, lack systematic synthesis (Lamsal & Soneja, 2025). Macroeconomic analyses also remain insufficient regarding how remittances interact with other capital flows, like FDI, to influence broader growth trends in Nepal (Adigun et al., 2025; Keho, 2024).

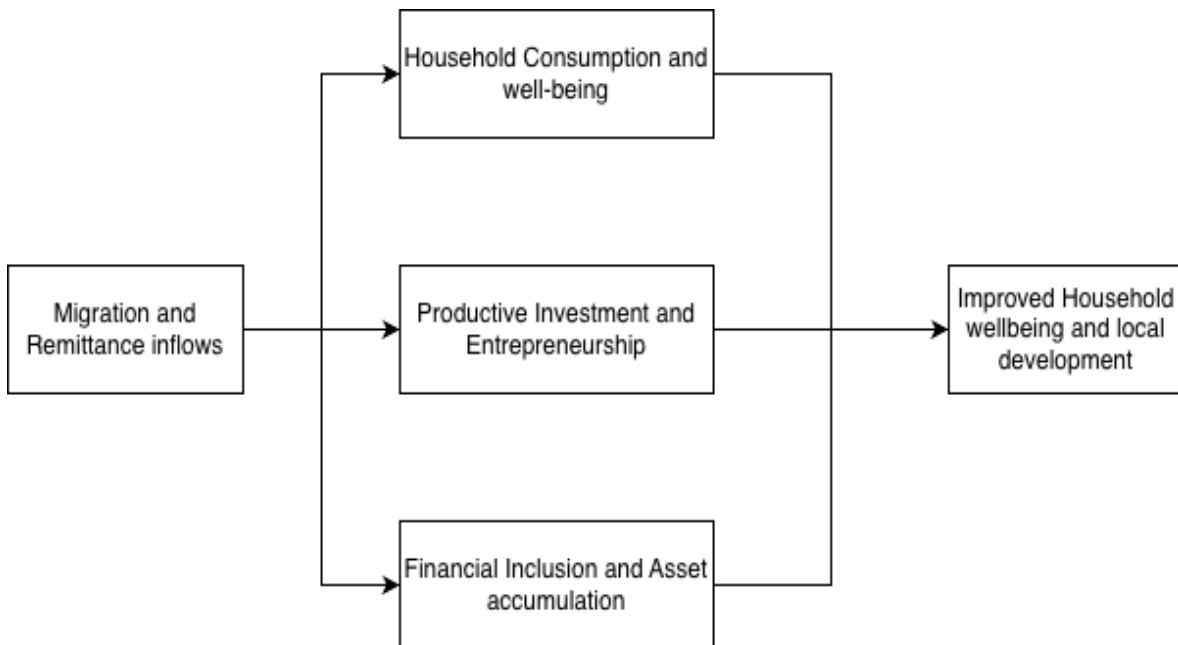
This study proceeds from the understanding that remittances are a complex economic process with implications extending beyond household consumption to wider rural development. It seeks to elucidate the nuanced ways in which remittances affect household wellbeing, productive investment, and financial inclusion in Nepal, situating these trends within comparative evidence and broader development debates (Taylor, 1999; Sunmoni, 2023). The analysis employs classical and neo-classical migration paradigms, particularly the New Economics of Labor Migration (Massey et al., 1993; Lee, 1966), as theoretical lenses to examine household decision-making. In policy terms, this synthesis aims to inform critical discussions on enhancing the linkages between remittances, productive investment, financial access, and rural development strategies in Nepal (Lamsal & Soneja, 2025; World Bank, 2025), thereby bridging the gap between macro-level

narratives and household-level evidence for more effective interventions in remittance dependent rural economies (Bhusal & Pandey, 2019; Gautam, 2024).

Theoretical Framework and Measurement Indicators

This study is anchored in migration theory to understand labor migration and remittance impacts. Classical and neoclassical perspectives (Ravenstein, 1885; Lee, 1966; Lewis, 1954) explain migration as an individual response to wage gaps and labor surpluses, providing a macro-level understanding of mobility drivers. However, these theories cannot fully explain household-level remittance allocation decisions or their developmental relevance within imperfect rural markets. To address this, the study employs the New Economics of Labor Migration (NELM) as its central framework (Stark & Bloom, 1985). NELM conceptualizes migration as a household strategy to manage risk, diversify income, and overcome structural constraints like credit and insurance market failures. Here, remittances act to reduce vulnerability, stabilize consumption, and relax liquidity constraints. As Taylor (1999) extends, remittances can influence productive investment by easing capital constraints for agriculture, enterprise, or human capital, highlighting their context-dependent developmental potential.

Figure 4. Measurement indicators



(Source: Study, 2025)

Applied to Nepal, this framework is crucial. Structural constraints, such as limited employment, market access, and financial services; mean remittances are often rationally deployed for livelihood stability and consumption smoothing rather than entrepreneurial risk-taking. Consequently, the NELM lens facilitates a critical analysis of the welfare-investment nexus: while remittances reliably enhance household wellbeing, their conversion into productive spending is mediated by institutional support and household capacity, explaining why significant welfare improvements may coincide with more limited evidence of transformative investment.

This study used measurement indicators (Figure 1), grounded in migration theory and the New Economics of Labor Migration, which identifies three primary pathways for remittance utilization. First, remittances support household consumption and welfare, smoothing consumption and meeting basic needs (Byanjankar et al., 2021). Second, they enable productive investment and entrepreneurship in activities like agriculture or small business, though this depends on household capacity and market access (Bhusal & Pandey, 2019). Third, remittances facilitate financial inclusion and asset accumulation through formal savings and digital finance (Karki et al., 2025). These pathways are interdependent, meaning remittances can address immediate welfare while fostering long-term development under enabling conditions (Taylor, 1999).

The Shreemadbhagavadgeeta, a seminal-influential philosophical scripture of the Sanatan Vedic tradition, presents a timeless dialogue on human ethics, duty, and liberation that resonates deeply with the contemporary global vision of sustainable development (Badal 2024). Gautama Buddha, the emblem of peace and love, pioneer of Buddhism, was born in Kapilabastu, Lumbini, Nepal. The peace and love. Compassion in Buddhism is the basic element of Sustainable development. Thus Buddha is the pioneer of sustainable development. Buddha's text Dhammapada in the present sustainable era is more relevant than past (Badal, 2021). Thus remittance and household activities must be guided by the Geeta and lord Buddha.

Objectives and Methodology

This paper looks at how remittances affect household wellbeing and what people do with the money they spend. It also tries to figure out how these remittances work with financial inclusion to help build some kind of resilience in tough times. And then the part about why people choose to put remittances into productive investments, like maybe starting small businesses or something.

To get into this, the research pulls together a bunch of existing studies in a literature-based way, kind of synthesizing empirical stuff from secondary sources. That means going through peer-reviewed articles, theses, policy reports, and reports from institutions, all published up to 2025. Focusing on Nepal and other similar developing areas makes sense for this. The literature got sorted into themes, and then analyzed in a conceptual way, looking at global, regional, and national levels. It feels a bit broad, but the point, to spot patterns in the data and get some contextual insights. Plus, finding gaps in the research that haven't been filled yet.

Overall, this approach aims to give a fuller picture is useful for policies and practices, especially in rural Nepal. Some parts might overlap or get messy when comparing across regions, but it highlights how remittances can really matter there.

Findings: Remittances and economic growth worldwide

International empirical studies on remittances and economic growth in developing countries present mixed and sometimes contradictory findings. While some cross-country evidence associates remittance inflows with positive long-run growth, particularly in low-income contexts where they stabilize household income (Chand & Singh, 2024), other research suggests their primary role is macroeconomic stability rather than accelerating growth. For instance, studies of countries like Morocco and Lebanon find remittances reduce growth volatility more than they foster sustained productivity growth (Bouoiyour et al., 2016). Overall, evidence indicates remittance impacts are conditional on institutional quality and financial development. In context of Nepal, even though remittances account for a significant share of GDP, weak productive sector performance suggests that their main function is to contribute to stability rather than structural change unless accompanied by broader policy and institutional reforms.

Remittances versus Foreign Direct Investment

This paper examines whether remittances are better positioned than FDI, or Foreign Direct Investment, as sources of external financing sources for development by focusing on a wide field of international literature. Numerous empirical analyses have consistently shown that although both inflows generate economic activity, they are different in their processes (Comes et al., 2018). Most importantly, FDI is directly connected to capital accumulation, technology transfer, and growth in productivity while remittances mostly concern household consumption and small-scale investment. Comparative studies show that remittances are relatively more resilient and counter-

cyclical than FDI, particularly in times of economic or political shocks (Bouoiyour et al., 2016). But this stability does not always mean more development. Studies from Lebanon, ECOWAS countries, and Central and Eastern Europe show that FDI is much more related to structural adjustment and formal employment creation (Adigun et al., 2025).

This differentiation is critical for analytically useful remittance-based economies. Remittances offer resilience and liquidity at household levels, only they are not on scale, or coordinated enough to have as strong impact as transformative investments. The comparative context of Nepal, where FDI inflows are modest and external finance is predominantly reliant on remittances, illustrates the risk of conflating financial stability with development advancement. Similar comparisons from other countries indicate that remittances improve economic resilience but do not replace investment-led structural transformation, a characteristic most relevant to Nepal's remittance-led economy.

Household Welfare and Consumption Patterns

Numerous international empirical studies have shown the benefits of remittances in household welfare, mainly related to consumption and poverty alleviation. Studies from Bangladesh, Kosovo, Ecuador, and the Philippines consistently demonstrate that remittance recipients benefit from higher levels of food security, improved education, and health status (Mannan & Farhana, 2014; Yang, 2011). These outcomes imply that remittances effectively act as a private safety net. But relative data, however, also shows significant differences in households' uses of remittances. Expenditure patterns are substantially influenced by gender, household structure and power structure of decisions (Gobel, 2013). Other research also signals enhanced investments in education and small business with the caveat that welfare may be balanced with a decline in the existing local workforce or greater reliance on international income (Möllers & Meyer, 2014).

The analytic implication is that welfare improvements are not always associated with productive capacity or long-term development. For Nepal, a nation where much of the remittance inflow is used for consumption smoothing, international evidence at least indicates that there may be some welfare gains indeed, but they may also be contingent or precariously achieved if remittance flows slow or if the external labor markets decrease later. While international research provides compelling evidence that remittances enhance social welfare, sustainability concerns remain. For Nepal, the key question is whether those welfare gains are sustained and whether they can enable long-term resilience and productive transformation.

Migration Policies and Development Outcomes

Global studies increasingly appreciate that development consequences of remittances are influenced by migration governance and policy contexts. Research highlights that safer migration systems, low recruitment costs and stronger labor protection improve the level at which remittances can facilitate or hinder developmental effects (Bossavie & Wang, 2022; Görlach & Kuske, 2022). In this light, weak regulatory frameworks and exploitative migration practices can reduce the impacts of remittances. Comparative evidence too emphasizes trade-offs associated with migration, including labor shortages in origin communities as well as risk of brain drain (Docquier, 2014). Although some research claims that remittances can fund adaptation and resilience programs, this impact is more informal and household-scale than institutionally driven (Musah-Surugu et al., 2018).

In Nepal, where migration governance challenges still prevail, this literature suggests that remittance outcomes cannot be disconnected with policies' effectiveness. Without coherent migration and financial policies, remittances are just going to maintain welfare but are not going to foster productive transformation. International evidence confirms that migration outcomes and remittances are policy-contingent, indicating that Nepal's developmental gains from remittances rest critically on governance and institutional effectiveness.

Migration and Remittances Trends in Nepal

International Migration of Labor has emerged as a key source of livelihood in Nepal, especially in rural areas having less employment opportunities and low agricultural productivity. There is extensive empirical evidence for an ongoing rise in labor outmigration since the early 2000s, with remittances accounting for substantial portions of national income and household income (Acharya & Paudel, 2021; Nepal Rastra Bank, 2023). Nepal is often referred to as a remittance-dependent economy in relation to GDP based on the degree of migration and weaknesses in domestic labor markets.

Remittances have been a source of macroeconomic stability, but Nepal-specific studies emphasize that high levels of remittance dependence may hide underlying productivity constraints and reinforce structural reliance on external labor markets (Acharya & Paudel, 2021; Khatiwada, 2023). Nepal's migration profile still is dominated by cheap, temporary labor, rather than better

diversified by skill and destination, compared with countries with a more diversified migration profile, which constrains knowledge transfer and return-driven investment. It seems that remittance inflows maintained in Nepal depend more on the export of labor rather than the transformation of the economic sectors in Nepal. Migration and remittance processes in Nepal are symptomatic of structural dependence rather than transitional development. Remittances stabilize livelihoods, but they do not replace the generation of domestic jobs.

Household Consumption and Poverty Reduction

One consistent finding of Nepal-directed empirical research is the positive effects of remittances on household consumption and poverty reduction. Most remittance-receiving households devote a significant percentage of income toward food security and education, health care, home upgrading and debt repayment, which has resulted in significant gains in living standards (Byanjankar & Sakha, 2021). This improvement in welfare is especially marked in the rural and hill areas where access to alternative income sources tends to be a problem. But Nepal-specific evidence also points to uneven distributional effects. Although remittances help reduce poverty in recipient households, non-migrant households may face relative deprivation at a macro level, where demand fueled by remittances contributes to domestic prices rising (Adhikari, 2021). Relative to cases where remittances are matched by flourishing local labor markets, Nepal's focus on remittances-led consumption generate sustainability issues when migration prospects shrink or external shocks strike. Remittances have succeeded in reducing poverty and increasing consumption in Nepal, but these benefits are mixed and could be tenuous in the absence of local economic diversification.

Investment and Entrepreneurship

Unlike the strong consumption evidence, most Nepal-based studies observe the little economic use of remittances for productive investment. Results from empirical studies indicate that, although remittances provide most of the remittance income, only a tiny share is committed to agricultural, small business activities or income generating programs and the vast majority is used towards consumption, housing or land utilization (Dhakal & Oli, 2020; Gautam, 2024). Such trends are commonly attributed to risk aversion, poor access to the market and poor institutional support in rural settings. In contrast, data from other developing countries indicates that remittances can strengthen entrepreneurship supported by financial accessibility, skills and market linkages. On the other hand, the low-skilled migration and insufficient exposure to entrepreneurial

environments in Nepal restrict such pathways (Bhusal & Pandey, 2019). Thus, it suggests that remittances may ease liquidity pressures without fundamentally changing productive capacity. Remittances alleviate financial constraints in Nepal, but they seldom result in productive investment and thus promote consumption-based development rather than transformative ones.

Financial Inclusion and Savings

Recent empirical data from Nepal shows that remittance inflows are correlated to improved financial inclusion, mainly via ownership of bank accounts, use of formal financial services and a transition to formal remittance channels (Nepal Rastra Bank, 2023). Remittances have encouraged the implementation of formal financial institutions enabling remittance households to engage with formal financial institutions, increasing the level of savings among recipients' households (Pasa & Bishwokarma, 2020; Lamsal & Soneja, 2025). However, the evidence from Nepal indicates that these savings are mostly held in low-return or precautionary forms and are rarely applied as productive investment (Gautam, 2024). Unlike in contexts where financial inclusion forms the basis for varied investment tools, Nepal's financial framework offers few opportunities to transfer remittance-linked savings into productive investments. Hence financial inclusion has improved access but not the investment outcome. Remittance-Linked Financial Inclusion in Nepal is a support for saving behavior, but it has not resulted in effective capital formation or entrepreneurship.

Distribution and Social Impacts

More than the economic, remittances contribute significantly to social issues in Nepal, especially where labor-power differentials and household patterns are concerned. Outmigration of males has led to more involvement of women in agriculture and domestic activities, and this is also sometimes referred to as feminization of agriculture (Sunmoni, 2023). Women are responsible for more aspects of the society; however, research from Nepal shows that these changes do not lead to a better decision-making or control of financial instruments or resources. Although supportive institutions improve women's productivity by giving them access to assets and opportunities available to them, the Nepali context seems less enabling. Women's economic participation is frequently conditioned by restricted land rights, weaker access to credit, and gendered divisions of unpaid care work. That redistribution of labor and care burden may thus limit the reform capacities of the remittance, despite visible welfare uplift. In Nepal, remittances can reshape household roles

and shift labor allocation, but persistent structural barriers often limit their ability to generate significant and transformative social and gender-related change.

Discussions of Findings

Remittances produce strong welfare benefits but exhibit limited and conditional impacts on productive investment and structural change. This discussion distills these findings into four key analytical points. First, international and national literature suggests remittance's function more as a macroeconomic stabilizer than a growth accelerator. While they can support long-run growth in low-income settings with supportive institutions (Chand & Singh, 2024; Matuzeviciute & Butkus, 2016), their most reproducible effect is the reduction of growth volatility, not the enhancement of productive output (Bouoiyour et al., 2016). In Nepal, remittances underpin macroeconomic stability and household income but generate weak productivity-led growth due to limited reinvestment, aligning them more with a "stabilizer" function than a transformative engine (Adhikari, 2021; Dhakal & Oli, 2020). Second, a clear empirical regularity is the predominant allocation of remittances to immediate consumption needs food, housing, education, and healthcare rather than to productive investment like business or agricultural modernization (Shrestha, 2017).

This reflects a rational risk-management strategy for households facing income insecurity and scarce local opportunities. Consequently, remittances act primarily as a short-term welfare and security resource, with their conversion to investment dependent on stronger financial access and market opportunities, which are often lacking in rural Nepal (Amutabi, 2023; Castelhana et al., 2016). Third, evidence for poverty reduction and consumption smoothing is robust. Remittances enhance household income, access to education and health, and provide a reliable private safety net, which is crucial in contexts with weak public services (Byanjankar & Sakha, 2021; Möllers & Meyer, 2014). However, these benefits are not uniformly distributed. Gains can be mediated by intra-household decision-making dynamics, such as gendered priorities (Göbel, 2013), and may exacerbate community-level inequalities through relative deprivation or local price effects (Adhikari, 2021; Shrestha, 2017). Finally, remittances can facilitate financial inclusion and precautionary savings, strengthening household financial resilience (Lamsal & Soneja, 2025). However, the translation of these savings into productive asset accumulation or business investment is highly conditional on factors like education, credit access, and financial literacy (Karki & Basyal, 2023). Comparative evidence suggests, financial inclusion alone is insufficient

to channel remittance-enabled savings into productive uses, especially where rural infrastructure and market barriers persist (Amuedo-Dorantes, 2014; Coon, 2014).

Conclusion and Policy Implications

This study concludes that while remittances in rural Nepal function as a critical safety net stabilizing income and financing essential consumption their role as a catalyst for long-term productive investment remains limited. This pattern indicates that remittances alone cannot drive sustainable development; their transformative potential depends on complementary structural and policy support. To shift from welfare reliance to development catalysis, policy must actively create an enabling environment. This requires facilitating productive investment through improved financial access and market linkages, adopting deliberately gender-responsive approaches that support women's resource control and reduce care burdens, and institutionalizing rigorous policy evaluation to ensure interventions are evidence-based and effective. Ultimately, a holistic and integrated policy framework is essential to transform remittance potential into a foundation for equitable and sustainable rural transformation.

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