Impact of Remittance on Small Business in Nepal

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Abstract

This study analyzes the impact of remittance on growth of small business in Nepal. The dependent variable is growth of small business. Similarly, the selected independent variables are skill acquisition, volume of remittance, use of technology, educational expenditure and entrepreneurship experience. The primary source of data is used to assess the opinions of the respondents regarding the impact of remittance on growth of small business in Nepal. The study is based on primary data of 146 respondents. To achieve the purpose of the study, structured questionnaire is prepared. The correlation coefficients and regression models are estimated to test the different impact of remittance on small business in Nepal.

The study shows that skill acquisition has a positive impact on growth of small business. It means that increase in skill acquisition leads to increase in growth of small business. Similarly, volume of remittance has a positive impact on growth of small business. It implies that increase in volume of remittance leads to increase in level of growth of small business. Likewise, use of technology has a positive impact on growth of small business. It indicates that increase in use of technology leads to increase in growth of small business. Furthermore, educational expenditure has a positive impact on growth of small business. It implies that higher educational expenditure leads to increase in growth of small business. Moreover, entrepreneurship experience has a positive impact on growth of small business. It indicates that higher entrepreneurship experience leads to increase in level of growth of small business.

Keywords: skill acquisition, volume of remittance, use of technology, educational expenditure, entrepreneurship experience, growth of small business.

1. Introduction

Remittance refers to the transfer of money by individuals working abroad to individuals in their home country. These financial exchanges, typically sent through formal channels such as banks or electronic transfer services, play a crucial role in supporting families and economies worldwide. The significance of remittances has been growing due to globalization, migration, and advancements in financial technology. Remittances are used to finance the start-up costs of microenterprises that bolster households' income during economic downturns (Shapiro and Mandelman, 2016). Similarly, Yavuz and Bahadir (2022) study the moderating influence of home-country ethnic diversity in the relationship between migrant remittances and new business creation in developing countries. Likewise, Benhamou and Cassin *(*2021) noted that remittances can provide funding for economic development in the form of increased investment in human capital or relaxed credit constraints for further physical capital accumulation. According to Manic (2017), remittance flows with a model that estimates regional (urban and rural) budget shares of consumption and investment expenditure categories for rural and urban households. Further, Dash *et al.* (2020) identified how remittances, an outcome of labor mobility, affect labor market activities in Ghana using detailed household and individual-level data. This is important, considering the extensive literature that has documented the remittance–poverty reduction nexus. Moreover, Chatterjee and Turnovsky (2018) defined many developing countries are characterized by a large informal sector, and are also often heavily dependent on remittance inflows from abroad.

Ratha (2007) studied that the leveraging remittances for development. The study stated that remittances are personal flows from migrants to their friends and families and should not

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be taxed or directed to specific development uses. Similarly, Feeny *et al.* (2014) investigated that the impact of remittances on economic growth, with a particular focus on Small Island Developing States (SIDS). The study found that there is no significant association between remittances and economic growth in developing countries as a whole. Likewise, Martinez *et al.* (2015) examined that how economic informality in developing countries affects the use of migrant remittances for venture funding. The study revealed that economic informality has a negative direct effect on venture funding availability. Further, Chirwa and Kader (2018) analyzed that the economic impact of remittances on both recipient and remitting countries, using Zimbabwe and South Africa as case studies. The study argued that remittances significantly impact the recipient economy, with a notable negative correlation observed with Zimbabwe's GDP. Moreover, Vaaler *et al.* (2011) assessed that the relationship between immigrant remittances and the venture investment environment in developing countries. The study showed that remittances positively contribute to both general and venture-specific capital availability. Furthermore, Benhamou and Cassin (2021) examined that the effects of remittances on savings, capital, and economic growth in small emerging countries, particularly in the Caribbean region. The study found that there is a negative correlation between domestic savings and remittances. Additionally, Williams *et al.* (2012) analyzed that the existing research on the impact of international remittances on small business development in Ukraine, with a focus on the variables, methodology, and findings of previous studies. The study revealed positive impact of remittances on small business development in Ukraine, including an increase in the number of small businesses, employment, sales, and profit.

Javid *et al.* (2012 studied that the impact of remittances on economic growth and poverty. The study found that income inequality exacerbates poverty, while real GDP growth contributes to poverty reduction. Similarly, Bucevska *et al*. (2022) assessed that the impact of remittances on economic growth: Empirical evidence from South-East European countries. The study demonstrated that remittances have a significant and positive impact on the economic growth of SEE6 countries. Likewise, Chowdhury et al. (2023) investigated that the impact of remittance on economic progress: Evidence from low-income Asian Frontier countries. The study revealed that remittance have both positive and negative effects on business constraints, but ICT can significantly alter these impacts. Further, Khan (2024) analyzed that the impact of positive and negative remittance inflow shocks on economic growth of India. The study found that USA; Economic growth has little impact, but corruption control and employment opportunities significantly affect remittance outflows to India. Moreover, Sulemana *et al.* (2019) examined that how remittances influence household food security in Sub-Saharan Africa, while Ivlevs explored the relationship between remittances and informal work in transition economies. The study found that remittances have a significant positive impact on household food security in Sub-Saharan Africa. Furthermore, Asongu *et al.* (2019) investigated that the interaction between remittances, information and communication technology (ICT), and the ease of doing business in Sub-Saharan Africa (SSA), specifically focusing on how ICT penetration moderates the effect of remittances on business operations. The study found that remittances have both positive and negative effects on business constraints, but ICT can significantly alter these impacts. Additionally, Okeke *et al.* (2021) assessed that the impact of international remittances on unemployment in Nigeria. The study revealed that international remittances negatively impact the unemployment rate, suggesting that remittances help reduce unemployment by funding private investments and creating job opportunities.

Yavuz and Bahadir (2022) examined that how home-country ethnic diversity moderates the relationship between migrant remittances and new business creation in developing countries. The study found that ethnic diversity negatively impacts new business creation. The study also found that the ethnic diversity strengthens the positive relationship between migrant remittances and new business creation, suggesting that remittances are crucial for business formation in more ethnically diverse countries. Similarly, Piras *et al*. (2023) analyzed that whether the economic complexity of a country affects the impact of remittances on the creation of new firms. The study revealed that in less developed economies, remittances are more likely to facilitate new business creation. The study also showed that high economic complexity in advanced economies reduces the positive effect of remittances on entrepreneurship. Likewise, Irdam (2012) investigated that the impact of remittances on human development: A quantitative analysis and policy implications. The study indicated that remittances have a positive correlation with the human development level and are indeed an effective way to enhance human development in countries with medium income, especially in the medium run. Furthermore, Ahmed (2000) evaluated that the remittances and their economic impact in post-war Somaliland. The study stated that the remittance flows have been associated with a number of negative side-effects such as the loss of the country's most educated and skilled labor, increased income inequality and booming sector effects, and their positive impact is limited by the present lack of credit schemes and facilities for saving. Moreover, Buch and Kuckulenz (2004) analyzed that the worker remittances and capital flows to developing countries. The study reported that worker remittances constitute an increasingly important mechanism for the transfer of resources from developed to developing countries. The study also showed that the economic impact of remittances has been considered beneficial at both the micro and macro levels at least in the short term and there is increasing evidence that remittances from abroad are crucial to the survival of communities in many developing countries. Remittance flows are an important source of funds for many developing countries.

In the context of Nepal, Adhikari (2017) examined that that linkage between labor migration, remittance and self-employed business activities in Nepal. The study found that households with at least one migrant worker are 7% more likely to own a business. Similarly, Devkota (2016) analyzed that how return migrants from Nepal utilize remittances, focusing on whether these funds are used for entrepreneurial activities or primarily for consumption. The study revealed that the significant portion of remittances is spent on consumption, including land purchases, daily living expenses, loan repayment, and housing. Likewise, Adhikari (2023) assessed that the impact of Remittance on Gross Domestic Savings in Nepal. The study suggested that remittances are more likely used for consumption rather than savings. The study also showed that the long-run results indicate that GDP has a positive impact on GDS, but remittances do not significantly affect domestic savings in the long term. Further, Lamsal (2024) investigated that the effects of workers' remittances on household consumption expenditure in Nepal. The study suggested that remittances are a stable and predictable source of income, contributing significantly to household consumption. Moreover, Uprety (2017) evaluated that the impact of remittances on economic growth in Nepal. The study showed that the main channel through which remittances influence economic growth is through consumption and investment. Furthermore, Sharma (2019) analyzed that the remittances and capacity building issues in Nepal. The study indicated that remittance has contributed toward increasing consumption and savings and lifting up people from extreme

poverty group in Nepal. Additionally, Karki *et al.* (2024) studied that the role of remittances in building economic resilience in Nepal. The study identified that the need for policymakers to recognize that while remittances provide short-term benefits, they should not be relied upon as a long-term solution for the country's economic challenges.

The above discussion shows that empirical evidences vary greatly across the studies concerning the impact of remittance on small businesses in Nepal. Though there are above mentioned empirical evidences in the context of other countries and in Nepal, no such findings using more recent data exist in the context of Nepal. Therefore, in order to support one view or the other, this study has been conducted.

The major objective of the study is to determine the impact of remittance on small businesses in Nepal. More specifically, it examines the effects of skill acquisition, volume of remittance, use of technology, educational expenditure and entrepreneurship experience on growth of small business in Nepal.

The remainder of this study is organized as follows. Section two describes the sample, data and methodology. Section three presents the empirical results and the final sections draws the conclusion.

2. Methodological aspects

The study is based on primary sources of data which were gathered from 7 different province of Nepal. For primary data a structured questionnaire was used. This study contains a sample of 7 province of Nepal whose respective data are collected from a total of 146 respondents. The respondents' views were collected on skill acquisition, volume of remittance, use of technology, educational expenditure, entrepreneurship experience and growth of small business. This study is based on descriptive as well as causal comparative research designs. Convenience sampling has been used for data collection.

The Model

The model used in this study assumes that growth of small business depends upon impact of remittance. The dependent variable selected for the study is growth of small business. Similarly, the independent variables are skill acquisition, volume of remittance, use of technology, educational expenditure and entrepreneurship experience. Therefore, the model to be estimated in this study is stated as follows:

$$GSB = \beta_0 + \beta_1 SA + \beta_2 VR + \beta_3 UT + \beta_4 EE + \beta_5 EEp + e$$

Where,

GSB = Growth of small business (dependent variable)

VR = Volume of remittance

SA = Skill acquisition

UT = Use of technology

EE = Educational expenditure

EEp = Entrepreneurship experience

Skill acquisition was measured using a 5-point Likert scale where respondents were asked to indicate the responses using 1 for strongly disagree and 5 for strongly agree. There are 5 items and sample items include "Returnees with new skills boost small business

growth", "Skill development through remittances enhances business competitiveness" and so on. The reliability of the items was measured by computing the Cronbach's alpha (α =0.74).

Volume of remittance was measured using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly disagree and 5 for strongly agree. There are 5 items and sample items include "Higher remittance volumes increase the capital available for small businesses in Nepal", "Increased remittances lead to expansion opportunities for small businesses" and so on. The reliability of the items was measured by computing the Cronbach's alpha (α =0.879).

Use of technology were measured using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly disagree and 5 for strongly agree. There are 5 items and sample items include "Technology adoption through remittance support boosts small business efficiency", "Remittance-funded technology improves small business productivity" and so on. The reliability of the items was measured by computing the Cronbach's alpha (α = 0.871).

Educational expenditure was measured using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly disagree and 5 for strongly agree. There are 5 items and sample items include "Remittance-funded education improves business skills", "Educational spending from remittances boosts financial literacy" and so on. The reliability of the items was measured by computing the Cronbach's alpha (α =0.841).

Entrepreneurship experience was measured using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly disagree and 5 for strongly agree. There are 5 items and sample items include "Entrepreneurship experience gained abroad helps improve small business operations", "Experience in entrepreneurship boosts confidence in managing small businesses" and so on. The reliability of the items was measured by computing the Cronbach's alpha (α = 0.820).

Growth of small business was measured using a 5-point Likert scale where the respondents were asked to indicate the responses using 1 for strongly disagree and 5 for strongly Agree. There are 5 items and sample items include "I am satisfied with the financial stability provided to my business by remittance funds", "I am satisfied with the ability of remittance funds to expand my business" and so on. The reliability of the items was measured by computing the Cronbach's alpha (α =0.837).

The following section describes the independent variables used in this study along with hypothesis formulation.

Skill Acquisition

Skill acquisition refers to the process of learning or developing new abilities through practice, experience, or education. It involves a series of stages and methods that help individuals acquire, refine, and improve their skills over time. Skills brought back by returning migrants, which could be used in local business development. Maria and Wassink (2016) found that return migrants who successfully acquire and transfer new skills across the migrant's circuit often leverage their new knowledge to launch business. Similarly, Connell and Conway (2000) indicated that migration often results in skill acquisition as individuals work or train in more technologically advanced environments. The study also showed that these skills may be transferable back to their home countries, contributing to

local development. Likewise, Cabuay (2017) estimated the impact of remittances on the human resource development, employment, and entrepreneurial outcomes. Further, Faini (2007) argued that skilled migrants raise economic welfare at home by sending a relatively larger flow of remittances. Based on it, this study develops following hypothesis:

H_1: There is the positive relationship between skill acquisition and growth of small business.

Volume of remittance

The volume of remittance refers to the total amount of money sent or transferred by individuals (often migrants or workers abroad) from one country to another, typically to support family members or dependents in the home country. Higher remittance inflows increase disposable income, enabling families to invest more in business ventures and expansions. Adams *et al.* (2011) found that increased remittance volumes generally correlate with higher household income and greater investments in local businesses, often leading to small-scale entrepreneurial activities and better access to capital. Similarly, Adams and Cuecuecha (2013 found that household receiving remittances spend more at the margin on three important investment goods: education, housing, and health. Likewise, Giuliano *et al.* (2009) found that there is direct relationship between volume of remittance and growth of small business using a newly-constructed dataset for remittances covering about 100 developing countries. Based on it, this study develops following hypothesis:

H_2: There is the positive relationship between the volume of remittance and growth of small business.

Use of technology

The use of technology involves the integration of digital platforms, mobile apps, blockchain, and other innovations to facilitate the faster, more efficient, and secure transfer of money across borders. The adoption of technology, facilitated by remittance funds, helps businesses optimize their operations and reach broader markets. Kapur and McHale (2009) pointed out that technological advances such as mobile banking and digital finance tools have improved financial inclusion in developing countries. These tools help small business owners use remittance funds efficiently, often through savings, loans, and direct investments in business operations. Similarly, Naderi (2021) found that financial technology platform, has been pivotal in connecting financial institutions using distributed ledger technology. This innovation significantly reduces remittance costs and speeds up cross-border payments. Likewise, Christodoulou *et al.* (2024) provided that the compelling evidence that blockchain technology is indeed revolutionizing the remittance sector. Based on it, this study develops following hypothesis:

H_3: There is the positive relationship between Use of technology and growth of small business.

Educational expenditure

Educational expenditure, in the context of remittance, refers to the allocation of funds received through remittances towards educational purposes, such as tuition fees, school supplies, and other learning-related expenses. This expenditure is often considered an investment in human capital, which can have a transformative impact on individuals and communities. According to Yang (2008), remittances play a crucial role in increasing household investments in education, particularly in developing countries, thereby improving academic outcomes. Adams and Cuecuecha (2010) concluded that families receiving

remittances are more likely to allocate resources to education, enhancing long-term economic prospects. Likewise, Sulemana *et al.* (2019) found that educational expenditure has positive impact on small business growth. Based on it, this study develops following hypothesis:

H_4: There is the positive relationship between educational expenditure and growth of small business.

Entrepreneurship experience

Entrepreneurship experience, in the context of remittance, refers to the skills, knowledge, and practical exposure gained through initiating, managing, or participating in business ventures, often supported by remittance inflows. These experiences shape individuals' ability to identify opportunities, manage risks, and sustain business growth. According to Woodruff and Zenteno (2007), remittances serve as a critical source of capital for entrepreneurial activities, enabling recipients to gain hands-on experience in managing small businesses. Similarly, Kilic et al. (2009) found that households receiving remittances are more likely to engage in self-employment, fostering entrepreneurship experience and reducing dependency on external employment opportunities. Likewise, Amuedo-Dorantes and Pozo (2006) highlighted that remittance inflows not only provide the financial resources necessary for starting a business but also encourage recipients to develop entrepreneurial competencies through real-world application. Based on it, this study develops following hypothesis:

H_5: There is the positive relationship between entrepreneurship experience and growth of small business.

3. Results and discussion

Correlation analysis

On analysis of data, correlation analysis has been undertaken first and for this purpose, Kendall's Tau correlation coefficients along with means and standard deviations have been computed, and the results are presented in Table 1.

Table 1

Kendall's Tau correlation coefficients matrix

This table presents Kendall's Tau coefficients between dependent variable and independent variables. The dependent variables is GSB (Growth of small business). The independent variable are SA (Skill acquisition), VR (Volume of remittance), UT (Use of technology), EE (Educational expenditure) and EEp (entrepreneurship experience).

Variable	Mean	S.D.	SA	VR	UT	EE	EEp	GSB
SA	3.814	0.615	1					
VR	3.6837	0.527	0.399**	1				
UT	4.096	0.727	0.383**	0.301**	1			
EE	4.13	0.733	0.427**	0.307**	0.716**	1		
EE1	3.501	0.641	0.298**	0.382**	-0.006	0.123	1	
GBS	4.053	0.648	0.415**	0.258**	0.564**	0.541**	0.084	1

Note: The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent levels respectively.

Table 1 shows the Kendall's Tau correlation coefficients of dependent and independent variables. The study shows that skill acquisition is positively correlated to growth

of small business. It means that increase in skill acquisition leads to increase in growth of small business. Likewise, volume of remittance is positively correlated to growth of small business. It implies that increase in volume of remittance leads to increase in level of growth of small business. Similarly, use of technology has a positive relationship with growth of small business. It shows that increase in use of technology leads to increase in growth of small business. Furthermore, educational expenditure has a positive relationship with growth of small business. It implies that increase in educational expenditure leads to increase in growth of small business. Moreover, entrepreneurship experience is positively correlated to the growth of small business. It indicates that increase in entrepreneurship experience leads to increase in level of growth of small business.

Regression analysis

Having analyzed the Kendall's Tau correlation coefficients matrix, the regression analysis has been carried out and the results are presented in Table 2. More specifically, it presents the regression results of skill acquisition, volume of remittance, use of technology, educational expenditure and entrepreneurship experience on growth of small business in Nepal.

Table 2

Estimated regression results of skill acquisition, volume of remittance, use of technology, educational expenditure and entrepreneurship experience on growth of small business

The results are based on 146 observations using linear regression model. The model is GSB= $\beta_0 + \beta_1 + \beta_2 + \beta_3 + \beta_4 + \beta_5 + e$, where the dependent variable is GSB (Growth of small business). The independent variable are SA (Skill acquisition), VR (Volume of remittance), UT (Use of technology), EE (Educational expenditure) and EEp (entrepreneurship experience).

Models	Intercepts	Regression coefficients of					Adj. R_bar^2	SEE	F-value
		SA	VR	UT	EE	EEp			
1	0.769 (3.007) **	0.826 (12.034) **					0.498	0.436	144.827
2	1.443 (6.795) **		0.579 (11.334) **				468	0.449	128.464
3	1.355 (6.56) **			0.595 (12.093) **			0.5	0.437	146.23
4	1.562 (7.408) **				0.643 (10.859) **		0.446	0.458	117.926
5	0.965 (4.431) **					0.703 (13.239) **	0.546	0.415	175.277
6	0.656 (2.718) **	0.516 (5.465) **	0.306 (4.481) **				0.557	0.409	92.046
7	0.621 (2.626) **	0.446 (4.663) **	0.105 (1.063)	0.271 (2.787) **			0.577	0.400	66.858
8	0.59 (2.604) **	0.181 (1.562)	0.239 (2.371) *	0.123 (1.217)	0.305 (3.72) **		0.612	0.383	58.137
9	0.458 (2.048) *	0.110 (0.959)	0.140 (1.356)	0.018 (0.171)	0.294 (3.689) **	0.315 (3.123) **	0.635	0.372	51.346

Notes:

i. Figures in parenthesis are t-values.
ii. The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent level respectively.
iii. Growth of small business is the dependent variable.

Table 2 shows that the beta coefficient for skill acquisition are positive with the

growth of small businesses. It indicates that skill acquisition has a positive impact on growth of small business in Nepal. This finding is similar to the findings of Connell and Conway (2000). Similarly, the beta coefficient for volume of remittance are positive with small business growth. It indicates that remittance volumes has a positive impact on growth of small business. This finding is consistent with findings of Giuliano *et al.* (2009). Likewise, the beta coefficient for use of technology are positive with small business growth. It indicates that use of technology has a positive impact on growth of small business in Nepal. This finding is consistent with the findings of Kapur and McHale (2009). Furthermore, the beta coefficient for educational expenditure are positive with small business growth. It indicates that educational expenditure has a positive impact on growth of small business in Nepal. This finding is consistent with the findings of Adams and Cuecuecha (2010). Moreover, the beta coefficient for entrepreneurship experience are positive with small business growth. It indicates that entrepreneurship experience has a positive impact on growth of small business in Nepal. This finding is consistent with the findings of Amuedo-Dorantes and Pozo (2006).

4. Summary and conclusion

Remittances are typically sent by migrant workers to their families, and they can be used for daily expenses, education, healthcare, housing, or even investments in businesses or properties. Remittances have a significant impact on small businesses in Nepal, shaping the economy, providing financial resources, and influencing local entrepreneurship. Given that Nepal has a large migrant worker population, remittances play a crucial role in the country's economy. Overall, remittances have a positive impact on small businesses in Nepal, acting as a crucial source of capital, boosting local demand, and fostering entrepreneurship. They contribute to economic stability and provide an opportunity for small businesses to grow and diversify. However, the long-term success of small businesses in Nepal will depend on balancing remittance inflows with innovation, sustainable business practices, and reducing dependence on external financial sources. This study provides insightful information regarding the impact of remittance on small business in Nepal. The study analyzes various significant variables that could impact on the growth of small business in Nepal. These variables include how skill acquisition, volume of remittance, use of technology, educational expenditure and entrepreneurship experience effects the growth of small business in Nepal.

This study attempts to examine the impact of remittance on small business in Nepal. The study is based on primary data with 146 respondents.

The major conclusion of the study is that skill acquisition, volume of remittance, use of technology, educational expenditure and entrepreneurship experience have positive impact on growth of small business. The study also concludes that entrepreneurship experience is the most significant variable followed by skill acquisition and use of technology that influence the impact of remittance on small business in Nepal.

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