



Why Liquidity Fails to Become Enterprise: Monetary Policy Transmission, Remittances, and Entrepreneurial Finance in Nepal: A Conceptual and Policy Perspective

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Abstract – This paper examines why excess liquidity, remittance inflows, and financial deepening in Nepal have failed to translate into productive entrepreneurship, with implications for central bank governance, financial inclusion, and innovation-led development. The paper adopts a conceptual and policy-analytical approach rather than an empirical estimation.

Keywords-Monetary Policy, Remittances, Entrepreneurial Finance, Fintech

I. INTRODUCTION

There is a startling paradox in the economy of Nepal. The entrepreneurial activity and productive private investment are poor even though the banking system is liquid, there is high remittance inflows, and the financial sector continues to grow. The expansion of credit has been painfully low, starting entrepreneurs have a very difficult access to fund, and a big proportion of the financial resources remain in circulation without building up in enterprise creation. This disconnect begs an important policy question to Nepal and other economy on remittance populations; why will no abundance of finance become productive enterprise? At macroeconomic level, Nepal Rastra Bank (NRB) has concentrated more on the monetary stability by controlling inflation, managing foreign reserves and prudential regulation. These are macroeconomic resilience objectives. Nevertheless, stabilization does not necessarily mean that the liquidity and remittance inflows are transferred into firms, entrepreneurs and the productive sectors of the economy. Practically, institutional blockage, conservatism in lending, unequal enforcement of policies, and a deteriorated financial intermediation still limits the transfer of financial resources into entrepreneurial activity, especially in the non-urban centers.

The current literature has studied the monetary policy transmission, remittances, financial inclusiveness and entrepreneurship in isolation. Monetary transmission studies are interested in interest rates and aggregate credit state, whereas remittance literature has tended to pay attention to household welfare, consumption smoothing, and poverty alleviation. Independently, the entrepreneurial literature points out to the availability of finance, institutional quality and human capital as key determinants of firm creation. What has not been fully investigated is the interaction of these areas within one institutional and governance system particularly in economies where liquidity and remittance is high, but enterprise performance is low. The paper fills that gap by providing a

conceptual and policy-based discussion of why excess liquidity, remittance inflows and financial deepening in Nepal have not been translated into productive entrepreneurship. The paper does not introduce any new empirical estimates but sums up the institutional observations, secondary evidence, and the already available academic and policy literature to discuss the failures in monetary and financial transmission. The discussion will target three dimensions, interconnected to each other, which are structural limits on entrepreneurial finance, institutional voids in the transmission of monetary policies, and the possibility of digital finance and remittance intermediation in enhancing resource allocation.

The paper has three contributions to the literature. First, it incorporates monetary policy transmission, remittance utilization and entrepreneurial finance under one analytical framework with how governance and implementation lapses undermine financial intermediation. Second, it revises remittances as a source of family benefits as well as macroeconomic stability, but as a pool of potential entrepreneurial financing the productive utilization of which requires institutional structure. Third, the paper draws the debate on the nature of entrepreneurship to central bank governance and the structure of the financial system, bringing the debate further to the macro-financial institution to determine the influence it has on enterprise performance.

The paper follows an analytical and conceptual policy-oriented approach in exploring the reasons why the excess liquidity and remittance inflows in Nepal have not led to creation of productive enterprises. This analysis is based on the secondary macroeconomic indicators, literature available in the academic to promote inclusive, startup-oriented financial instruments, alternative lending models, and risk-sharing mechanisms that better align liquidity with entrepreneurial finance. and entrepreneurs into policy design and execution.



II. STRUCTURAL CONSTRAINT 1: LIMITED ACCESS TO ENTREPRENEURIAL FINANCE

This section examines how structural features of Nepal's financial system limit entrepreneurs' access to formal finance despite the presence of aggregate liquidity in the banking sector. For many aspiring entrepreneurs, access to capital remains a significant constraint. Commercial banks tend to adopt conservative lending practices, interest rates remain relatively high for new and small firms, and venture financing options are extremely limited. These conditions disproportionately affect first-time entrepreneurs and small enterprises, even during periods of overall liquidity in the financial system.

The persistence of these financing constraints reflects institutional risk aversion, limited credit assessment mechanisms for early-stage ventures, and a financial architecture that prioritizes collateralized lending over entrepreneurial potential. Addressing these challenges requires greater coordination between Nepal Rastra Bank and financial institutions to promote inclusive, startup-oriented financial instruments, alternative lending models, and risk-sharing mechanisms that better align liquidity with entrepreneurial finance. and entrepreneurs into policy design and execution.

III. STRUCTURAL CONSTRAINT 2: INSTITUTIONAL GAPS IN MONETARY POLICY TRANSMISSION

This section examines institutional and implementation failures that undermine the flow of monetary policy instruments by the central bank to entrepreneurs and small firms. Even though Nepal Rastra Bank has a variety of policy tools, including refinancing facilities, interest rate changes, and digital banking solutions, their impact at the firm level is unequal. Coherent policy actions that seem to work at the design phase do not always translate into successful access by the entrepreneurs, especially in the non-metropolitan areas. The causes of these transmission gaps include the lack of consistency in implementation, less communication between the regulators and the financial institutions, and poor feedback between policy intent and on-the-ground performance.

Consequently, accommodative monetary policies fail to institution and policy as well as the institutional observations associated with Nepal Rastra Bank, financial markets and entrepreneurial finance. Instead of trying to estimate causal relations or provide some new empirical evidence, the paper is aimed at trying to find institutional mechanisms, constraints of governance, and failures of transmission to provide ways of how financial resources are distributed in the economy.

The persistence of these financing constraints reflects institutional risk aversion, limited credit assessment mechanisms for early-stage ventures, and a financial architecture that prioritizes collateralized lending over entrepreneurial potential. Addressing these challenges requires greater coordination between Nepal Rastra Bank

and financial institutions to provide credible alleviation of access to financing of small businesses and first-time entrepreneurs. Enhancing policy transmission would thus need a set of regulatory directives as well as better coordination with financial institutions, better communication lines, and institutional arrangements that would include feedback of firms and entrepreneurs in policy design and implementation.

IV. MACROECONOMIC AND FINANCIAL SYSTEM CONSTRAINTS

Nepal's economy is characterized by persistent inflationary pressures, weakened foreign exchange reserves, sluggish credit growth, and heightened uncertainty in the private sector. These macroeconomic conditions extend beyond aggregate indicators and materially affect entrepreneurs, students, and small and medium-sized enterprises seeking to initiate or expand productive activities. As the central bank, expectations, liquidity conditions, and the broader financial environment. The effectiveness of these tools, however, depends on whether policy choices reinforce existing institutional patterns or actively support structural transformation through innovation and entrepreneurial finance.

V. DIGITAL FINANCIAL TRANSFORMATION AND FINTECH DEVELOPMENT

This part criticizes using digital finance and FinTech as a possible transmission of linking liquidity to entrepreneurial activity based on conceptual frameworks and the existing scholarly and policy evidence instead of new empirical studies.

With the development of a financial technology (FinTech) and supported by regulatory bodies like the Nepal Rastra Bank (NRB), Nepal is on the verge of an enormous digital financial revolution. The change presents substantial possibilities to boost financial inclusion and create novelty among underserved populations. The possibilities of mobile wallets, using QR-based payments, and lending digitally to bridge these communities are enormous. Over 80 countries have introduced mobile financial services, which suggests a worldwide move to digital finance of underserved and financially excluded populations. The implementation of services like the Nepal Rastra Bank-managed Connect IPS in 2018 was a key breakthrough in the digital payment environment in Nepal, which was originally intended to support the collection of government income and remittance services but eventually grew to cover an extensive list of financial operations. On the same note, online payment methods are critical in supporting the remittance transfer to Nepal, as they provide greater access to this payment method and are economical. The swift transformation of the mode of conducting financial transactions even in the rural regions can be seen through the services like the Connect IPS and mobile wallets. The digital transformation of the financial



industry does not just stop at payment systems but can affect the efficiency of operations, customer experience, and financial inclusion at larger levels. This change requires a dynamic IT infrastructure and recognizes the increased value of data as an effective resource. As a newcomer, FinTech uses technology to transform financial services such as mobile payments, loans, Nepal Rastra Bank plays a critical role in shaping money transfer as well as the management of assets. It can ease the banking-firm financial friction, streamline resource utilization and trigger innovation in digital technology. The NRB has a central role to play in negotiating this transition to the digital world. To create a secure, scalable digital finance ecosystem, it is necessary to effectively regulate, support and protect innovation. The financial innovation that has advanced rapidly needs close control to reduce risks to stabilize the financial system. This is a combination of a balance between innovation, risk and customer experience especially when digital finance creates new vulnerabilities. The regulatory system makes a significant contribution to the correlation between digital lending use and financial stability. The contemporary financial regulation systems play a crucial role in filling the digital-real economy gap and offer businesses a chance to reach digital transformation of innovation.

The FinTech innovations present new challenges to the regulators who are required to keep up with new technology. Regulatory sandboxes, such as an example, play a key role in the promotion of the innovation as they enable the enterprises within the FinTech industry to pilot test new products and services, supporting the collaborative model that will include the government, FinTech enterprises, and the population.

Figure 1 presented below also differs in representing the tripartite evolution game of governmental departments, FinTech enterprises and the people in the context of collaborative financial innovation regulatory systems. Government departments have the role of initiating and setting up regulatory structures, leading economic development and designing growth.

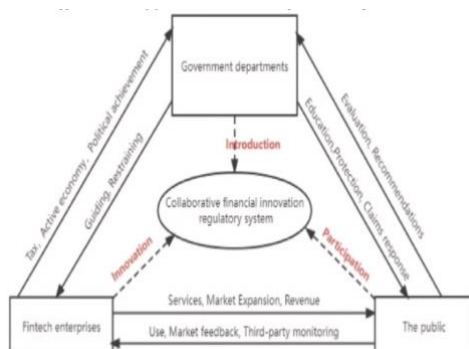


Figure 1. Financial Innovation Regulatory System

Source: (Zheng & Wu, 2024)

Digital finance has a significant effect on the financial inclusion. Digital financial services such as mobile phone-based services are essential in reaching populations that are not reached by financial services. In Nepal, digital finance services are already identified as a tool of financial

inclusion to capitalize on the emerging information and communication technology infrastructure and technology-focused policies in the country. During its operation, digital banking serves as an intermediary between underserved communities by bypassing traditional financial access barriers via mobile banking, FinTech application, and agent-based bank models. Digital financial inclusion has proved to have good effects even speeding up through the COVID-19 pandemic to reduce the adverse economic effects.

Although these opportunities exist, there are still challenges (poor digital literacy and lack of trust, particularly in the rural communities). There are also several obstacles to the digital transformation process of small and medium-sized financial institutions (SMEFs), such as insufficient technological resources, financial requirements, and data security and privacy. Thus, although there is a promising outlook of digital financial revolution in Nepal, effective implementation of the same must consider the whole lot of these issues and this is implemented by strong regulation frameworks, long term encouragement of innovations and efficient consumer protection.

VI. REMITTANCES, FINANCIAL DEVELOPMENT AND ENTREPRENEURIAL INVESTMENT

The economy of Nepal depicts that it deeply relies on remittances, which form a high proportion of its Gross Domestic Product (GDP) and a source of foreign earnings. Giving the example of Nepal, remittances comprised 100 per cent of the foreign reserves and 311 per cent of foreign exports in 2018, hence the importance of remittances to support foreign exchange and sustain the foreign exchange of the country. Strong inflow of remittances has been portrayed to expansion of services in the market and have a notable effect on the nominal GDP and Gross National Product (GNP) where 61% and 72% effects were observed respectively. This fiscal inflow has direct benefits of poverty reduction, improvement of living standards, and increased household level education attainment. It has been found that integration of remittances and financial inclusion and human capital development have been some of the major boost in economic growth in the remittance-receiving developing countries. Remittances may be used at the national level to increase the foreign-exchange reserves of the country and foster macro-economic stability.

Although their contribution has been huge, the major challenge has been the dominance of remittances in household consumption other than productive investments. As evidenced in the empirical literature, much of Nepal remittances is used on daily needs, food, and wedding costs, and a small part of the remittances is channeled to healthcare, education, and home construction. Although this kind of disbursement enhances the short-term well-being, it often does not lead to economic growth or sustainability in the long run. The trend has been like other developing economies that have been using remittances mostly to finance household spending to keep the



household expenditure alive, to boost savings and investment, procure foreign inclusion is a crucial factor. Studies have shown that financial development is very critical in the process of channeling international remittances to formal entrepreneurship development. It has been found that remittances intensify low- and lower-middle- and middle-income countries financial intermediation and stabilize financial institutions. In Nepal, there is a strong positive relationship between domestic credit and received remittances, which indicates that a flow of remittances can be used in the growth of the domestic financial market and an increase in credit facilities.

Remittances can be used as a powerful source of economic growth through entrepreneurship. Remittances are an important source of venture capital especially to so called underdog entrepreneurs and thus they are enabled to make a smooth transition between informal and formal entrepreneurial practices. This finding suggests that remittances may provide an important channel of encouragement of entrepreneurial mobility. In addition, remittances can encourage the formation of new companies particularly in the economies that are of lower economic complexity where start-up companies might need comparatively small capital. Nonetheless, remittance can have a direct effect on the establishment of new formal business, but this effect could be minimal in the presence of asset-in-nature financial infrastructure. This leads to the need to undertake policy interventions to create an environment within which the remittances can be effective in stimulating entrepreneurial activity. Financial institutions and central banks have a central position in this process. In collaboration, they can create formalized channels and products that are clearly formulated to appeal and re-purpose remittances into productive investments. This could involve:

Developing tailored financial products

Their possible higher returns and community impact are further highlighted by the fact that investment accounts, small-business loans or community bonds provided specifically to remittance recipients are explicitly aimed at them. This is more so considering that remittances can support foreign-exchange reserves, hence national economic stability.

Financial literacy and advisory services

Giving education to remittance recipients remittances are a far more significant source of foreign exchange than exports for the country.

Reducing transaction costs

By curtailing the cost and complexity of the remittance flows, more resources to potential investment uses can be freed.

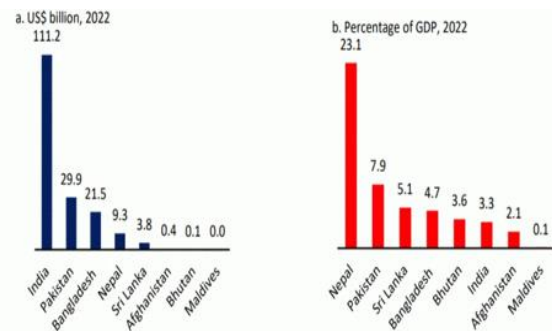
Community Development Funds: Community-led economic growth can be established by instating systems of collective investment in domestic infrastructure programs, small and medium-sized enterprises (SMEs) or agricultural development. Empirical sources have

associated remittances with better health conditions and adoption of conservation measures in the agricultural activity.

Policy incentives

The governments can give tax credits or equivalent amounts of money to the remittances channeled to certain productive industries or business activities. The Nepali diaspora, in this case, has been motivated to engage in the national development in several policies, such as being enticed to invest in the country.

“Remittances remained a very essential financial inflow and a significant source of foreign exchange of several countries in South Asia. In 2022, remittances were nearly 326% of FDI inflows (247% in 2019); and 1,036 % of ODA (935%in 2019). Remittances constituted as little as 4 percent of the GDP of South Asia in 2022, but the difference between countries was significant. Remittances in Nepal (also on the list of top 10 countries with the largest shares) were 23.1% of GDP in 2022, compared to 7.9% in Pakistan, 5.1% in Sri Lanka, and 4.7% in Bangladesh. Remittances constituted 3.3% of GDP in India, the highest recipient of the world in 2022 (Figure 2).” (Chandra, 2023)



Sources: World Bank-KNOMAD staff estimates; World Development Indicators; IMF Balance of Payments Statistics. Note: GDP = gross domestic product

Figure 2: Top Remittance Recipients in South Asia, 2022

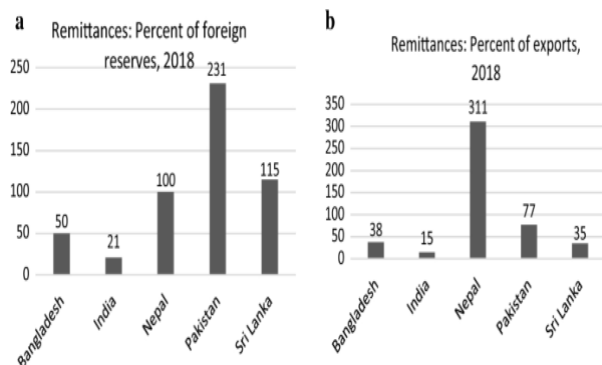


Figure 3. Remittances: Reserves Vs Exports

The figures 3 so tried to explain why remittances make a significant contribution to the South Asian economy and highlight why they are related to domestic credit, especially in Nepal. This chart (a) illustrates that remittances made up 100% of Nepal's foreign reserves in

2018, signifying a high dependence on these inflows to maintain foreign exchange stability. Similarly, chart (b) shows that remittances accounted for 311% of Nepal's exports in the same year, indicating that the substantial potential of remittances to drive economic development if strategically channeled. In Nepal, there is an extremely high positive correlation between domestic credit and remittances received .

As shown in the chart (Figure 4), both domestic credit and remittances as a percentage of GDP have shown a dramatic upward trend from 1980 to 2015. This suggests that increasing remittances can significantly contribute to the expansion of the domestic financial sector and credit availability, forming a crucial pathway for productive investments.

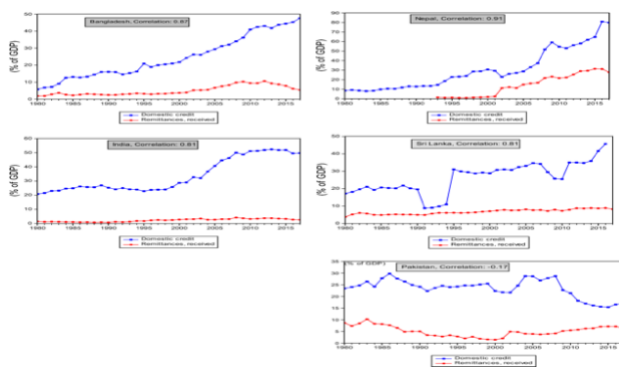


Figure 4: Domestic Credit and Remittance Received

Overall, harnessing remittances for productive use in Nepal requires a comprehensive approach that integrates financial sector development, targeted policy interventions, and educational initiatives to shift remittance utilization from consumption towards sustainable economic activities and entrepreneurship. Such a shift can transform remittances from a means of survival into a powerful tool for lasting economic technologies (GPTs) with industrial policy is crucial for inclusive growth, especially in a post-COVID-19 context, linking research and development (R&D) to long-term economic growth and sustainable development goals (SDGs).

While remittances can positively impact economic growth and poverty alleviation, careful consideration of institutional quality and financial mechanisms is crucial to maximize their developmental potential (Paudel, 2025). However, challenges remain, such as the potential inflationary impact of remittances, which needs to be carefully managed by the central bank. Moreover, some studies, particularly in emerging African economies, have shown a negative relationship between remittances and GDP growth rates, indicating that the impact can be context dependent. In Bangladesh, the relationship between financial progress, inward remittances, and economic growth has been found to be asymmetric, meaning their effects might differ depending on the magnitude and direction of changes in these variables. These findings underscore the need for nuanced policy approaches tailored to Nepal's specific economic and institutional context.

VII. POLICY IMPLICATIONS AND THE ROLE OF CENTRAL BANKING IN STRUCTURAL TRANSFORMATION

The vision for the next Governor of Nepal Rastra Bank (NRB) extends beyond conventional monetary policy, embracing a transformative approach that fosters an innovation ecosystem and youth entrepreneurship for sustainable economic growth. While managing inflation, reserves, and policy control remains crucial for macroeconomic stability, as highlighted by studies on the impact of money supply on economic growth and remittances on inflation environments with institutional voids (Paudel, Yedgarian, et al., 2025; (Paudel et al., 2025).

Central to this vision is the establishment of a robust innovation ecosystem. Technological change plays a critical role in industrial and entrepreneurship orientation are vital for socio-economic progress, although their adoption by Nepalese corporate sectors has been limited. The Dolma Impact Fund exemplifies how private equity can contribute to Nepal's transformation, proving that financial investments can have a positive social impact. The figure 5 illustrates a "Transformative Innovation System" where R&D leads to innovation, driving short-term economic growth, and the application and diffusion of general-purpose technologies (GPTs) across the economy contribute to long-term economic growth, ultimately linking to sustainable development Goals (SDGs) and addressing social and environmental challenges.

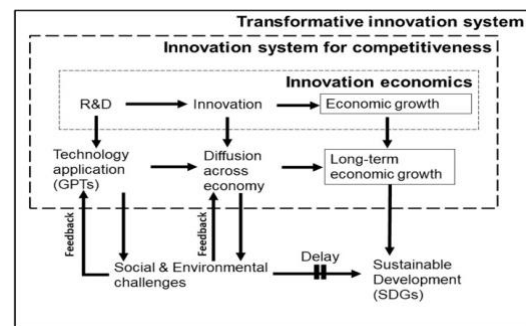


Figure 5. Transformative Innovation System
Source: (Aminullah, 2024)

Youth entrepreneurship is a key driver for sustainable business growth, particularly in economies facing global challenges and the demands of Industry. Factors influencing sustainability-oriented entrepreneurial intention include perceived access to finance and entrepreneurship education, which positively impact attitudes toward sustainable entrepreneurship. Psychological resiliency and entrepreneurial alertness also play a significant role, enabling entrepreneurs to identify opportunities for product differentiation and international diversification, even in. Promoting ethical leadership within organizations can enhance environmental



performance by fostering green IT capital and green technology innovation.

Nepal's unique context, including its political stability and ongoing efforts toward policy stability, presents an opportune moment for organizations to institute favorable traditions, customs, policies, rules, and regulations that promote increased accountability and support national development. However, there remains a significant disparity between the well-resourced capital and other basic living standard areas of the country. Corporate social responsibility (CSR) and social entrepreneurship orientation are vital for socio-economic progress, although their adoption by Nepalese corporate sectors has been limited.

To achieve sustainability, a holistic approach is required that balances responsibility, technical feasibility, market desirability, and financial viability. Organizations must enhance their design processes and products, fostering a cultural change that supports sustainability and guides customers toward informed choices (Paudel & Yedgarian, 2024). Collaboration with business partners, transformation of internal working processes, and the development of tools that support understanding of sustainability concepts, and economic barriers.

Furthermore, public procurement can play a key role in fostering business innovation by supporting the formation of markets for new products, technologies, and services, acting as a dynamic complex system for knowledge creation and coordination (Paudel et al., 2025). Innovative energy business models, such as peer-to-peer trading, can appeal to specific consumer groups, though careful policy consideration is needed to avoid exacerbating inequalities for disengaged consumers.

In the context of Nepal, the NRB Governor's role involves leveraging monetary policy to support distressed enterprises. and increase capital inflow for entrepreneurs. This includes strategic decision-making in a complex global economy, where economic resilience is enhanced through financial inclusion and data analysis. The image illustrates how "Inclusive Finance" (covering aspects like coverage, use depth, and digital support) feeds into a model and database to predict economic resilience, with these predictions then informing policies and measures by financing institutions and the government.

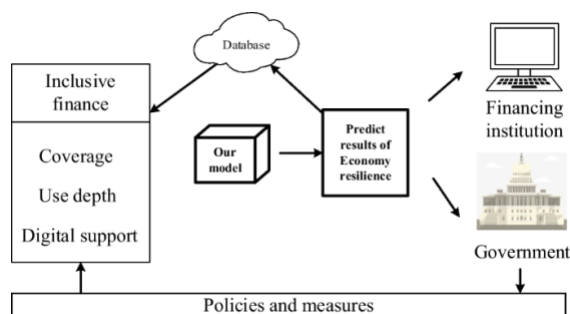


Figure 6. Inclusive Finance, Economic Resilience
Source: (Hu & Tsai, 2024)

Overall, the incoming NRB Governor must champion a leadership approach that not only ensures monetary stability but also actively nurtures an entrepreneurial spirit among the youth, integrates technological advancements, and prioritizes sustainable development through adaptive policies and robust ecosystem building. This involves an understanding of the interconnectedness of commercial ventures, talent, infrastructure, and government strategy to drive a nation's sustainability progress.

VIII. LIMITATIONS AND FUTURE RESEARCH.

This paper is based on a conceptual and policy-based approach and lacks original empirical estimation and cause and effect. The based analytical premise is based on secondary evidence, institutional observations and integrative synthesis of available academic and policy literature. In turn, the propositions made in the current research can be interpreted as analytical hypotheses but not empirically tested causal relations. The future research ought to build upon this question by conducting an empirical study of the mechanisms described in this paper based on firm, household, or financial institution data. Quantitative research may evaluate the effect of monetary policy transmission, use of remittances, and use of digital financial services to determine the outcome of entrepreneurship in various regions and of firms of varying sizes. In addition, comparative studies of the remittance-dependent economies might assess the greater generalizability of the identified institutional and governance issues in the Nepalese context.

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