
Remittance and Economic Development of Nepal

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Abstract

Nepal is one of the least developed but high remittances recipient countries in the world. Nepal received remittance from US\$ 8.1 billion in 2016 and it is ranked 23rd among the remittance receiving countries in the world. Remittance income is one of the major sources of capital formation in the context of Nepal. It is directly related with the labour migration in a country which in return enhances foreign employment. Remittances have become a major contributing factor to increasing household income as well as country's GDP. About 30 percent of Nepal's GDP comes in the form of remittance money which is sent home by Nepalese working abroad and it helps to reduce country's poverty rate. Poverty reduction took place in Nepal from 42 percent (1995/96) to 25.2 percent (2010/11). Nepal's remittance recipients reached 31.5 percent GDP in 2015. The total amount of remittance in the country is 259 billion and among which 20 percent is internal sources, 11 percent from India and 69 percent from Gulf countries. Remittance received by the households is mainly used for daily consumption (79 percent) and remaining other purposes. Moreover, Nepal's economical status mostly depends on remittance received which is therefore migration driven economy.

Keywords: Remittance, Migration, Labour, Development, Income and Employment

Introduction

Remittance is an important factor of economic development in Nepal. Remittance has emerged as a backbone of Nepal's economy in the last two decades. Nepal is one of the poor and least developed countries in the world. Agriculture is the main occupation of the economy, providing a livelihood for almost two thirds of the population of the country and its contribution for only one third of GDP (Economic Survey, 2073/74). Nepal is heavily dependent on remittances which values to 30 percent of GDP (Economic Survey, 2073/74). Also, Nepal is ranked number one remittance recipient country in terms of GDP in 2009 which shows Nepalese economy is highly dependent on remittance. As per the size of US\$ (billions), India is the top remittance recipient country where as Nepal is in the fifth position in 2010 (Table 1).

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Table 1 : Top five remittance recipient countries in South Asia

Country	2009 (% of GDP)	Country	2010 Amount (\$ billions)
Nepal	22.9	India	55.0
Bangladesh	11.8	Bangladesh	11.1
Sri Lanka	7.9	Pakistan	9.4
Pakistan	6.0	Sri Lanka	3.6
India	3.9	Nepal	3.5

Source: World Bank: Migration and Remittance Fact Book 2011.

Industrial activity mainly involves the processing of agricultural products like pulses, jute, sugarcane, tobacco and grain. Poverty in Nepal is reduced from 42 percent (1995/96) to 25.2 percent (2010/11). Therefore, Nepal's one quarter, 25.2 percent of the population is living below poverty line (NLSS 2011). The remittance is the major source of income for the 56 percent households in the nation. The household income increased by 22.4 percent in 1995/96, while remittance caused 70 percent increase during 2008. Basically remittance has been mostly used on domestic expenses such as food expenses, managing land and building, children health care, entertainment and so on.

Nepal received remittance of US\$ 8.1 billion in 2016 and it is ranked 23rd among all remittance receiving countries in the world. In terms of contribution of remittances to GDP, it's ranked third after Tajakistan and Kyrgyz Republic. Almost half of all Nepalese households have atleast one migrant family member currently living in abroad. Nepal remittance recipients reached 31.5 percent to GDP in 2015. The remittances income spent by 39 percent on consumption, 28 percent on saving and loan payment, 26 percent to purchase property and 7 percent to business (Glocal khabar, Aug. 2017). In this way, remittance plays a vital role in the economy and contributes significantly to local, regional, national and economical development in migrant sending countries and also play industrial role in reducing poverty as they flow mainly to poor and marginalized families.

Problems of Migrants

Remittance has significantly contributed to the economic development of the country and raised the living standard of the people. But there is over shadowing tragedies associated with it. Nepalese migrant labourers are facing high risk and have become victims to forced labour, trafficking, sexual abuse and physical harassment, debt bondage, non payment of wage and discriminating laws and policies in destination countries. Besides, labour migrant problems are in high profile. Majority of labour migrates to Qatar and other Gulf countries

and they are basically unskilled labour category and vulnerable to exploitations which is financial as well as physical. There is no provision of technical vocational education and training, and steps are not taken to ensure decent living of migrant labourers. The main problems of remittance are pointed out as follows:

- ❖ Migration process in the home country and doesn't end in destination countries.
- ❖ Labourers have complained of getting cheated by agents.
- ❖ Reluctant to work without work permit.
- ❖ No recreational facilities.
- ❖ Exploitation and deprivation from basic facilities like medical services and insurances.
- ❖ Exploitations begin even before their departure by recruitment agencies and their sub agents called "dalals".
- ❖ Losing educated young people into workers everyday.
- ❖ Family relations, remittances have effect on the spouse and other family members of the migrant.
- ❖ In few cases, women workers are more vulnerable to exploitation by employers.
- ❖ Abuse and sexual harassment of many women migrants working as domestic helpers.

Review of Literature

Dahal and Maharjan (2018) investigated on the productive use of remittances in Nepal. The study mainly focused on a detailed desk review of rural investment policy, schemes and products and successful approaches for productive remittances in South Asia. The study stressed to finalize on approach that was workable and bankable for tapping remittances in case of rural investments. It is also found out that the labour permits issued to Nepalese seeking employment abroad increased by 137 percent over the period of 2008-09 to 2014-15. Besides this, in 2014-15 around 1,500 people left Nepal daily to various destinations. The country received remittances of NPR 450 billion in the first eight months of the FY 2016-17 and estimated to receive NPR 699 billion in FY 2017-18. The growth rate is 5.3 percent which is much lower in compared to a growth of 15.2 percent in last year. The average remittance of households also rose from US\$ 262 (26.6 percent of total household income) in 2010-11. So it is stated that remittances are also considered to be a major contributor to poverty reduction, from 42 percent to 30 percent between 1995-96 and 2003-04, and down to 25 percent in 2010-11. The result of the study suggested approaches for tapping remittances for rural investment at macro-, meso- and micro-levels. These interventions might be instrumental in attracting more remittances from migrant workers, and will help to boost rural investment in local development.

World Bank (2016) highlighted that more than 247 million people or 3.4 percent of the world population, live outside their countries of birth. Number of international migrants rose from 175 million in 2000 to more than 247 million in 2013 and it increased in 251 million in 2015. The top remittances recipient's countries are India, Philippines, Mexico and France in 2015. As a share of GDP, however, smaller countries such as Tajikistan (42 percent), Kyrgyz (30 percent), Nepal (29 percent), Tonga (28 percent) and Moldova (26 percent) are the largest remittance recipients. The study revealed that the high income countries are the main sources of remittances, USA is the largest with an estimated \$56.3 billion outflows in 2014. Saudi Arabia as 2nd largest followed by Russia, Switzerland, Germany, UAE, and Kuwait. The six Gulf countries accounted for \$98 billion in outward remittances flows in 2014. Thus, WB focused on overall volume of remittances in the world.

DOFE (2014) published national reports on labour migration for foreign employment from Nepal, with an outcome of collaboration effort between the Government and development partners to measure the recent trends and practices. This report intended to inform various levels in the country to take initiatives in Nepal and countries receiving Nepali workers to make strategic decisions, strengthen policies, improving the migration management mechanisms and focuses on national governance structures on promoting safe and empowered labour migration. The study highlighted that an increasing number of Nepalese people were migrating every year for work and the amount of remittance is substantial. In this concern, it was estimated that poverty would increase from 19.3 percent to 35.3 percent if remittance is stopped. Major achievements of the study report in 2014 was that the Government inaugurated its "Labour Village" in Kathmandu which is expected to contribute towards a smoother and more transparent migration process by consolidating the range of services under one roof. Also focused on the skills training and pre-departure orientation training of the "Foreign Employment Promotion Board" for raising awareness on labour migration and encouraging skilled migrants for migration, which is the aim of the increasing migrant's effectiveness.

Shafqat, Ashfaq and Bano (2014) stressed on the promotion of economic growth in remittance recipients countries which is widely effected by the workers remittances. He highlighted to provide productive ideas to policy makers for taking best decisions regarding management of these flows in the way that it would give productive output in terms of investment. In order to explore the relationship between worker remittances and economic growth, multiple regression analysis was used in the study. Several tests and multiple regression analysis conducted revealed that workers remittance positively and significantly contributed in economic growth. Thus, it was examined that remittance was the best source of income in terms of foreign exchange from developed countries to under developed countries.

Azam and Khan (2011) stated the impacts of workers remittance on economic growth of Azerbaijan and Armenia's economies. He stated a number of ways that lead to boost the process of economic growth and development, but the role of workers remittance should not be ignored, rather it needs to be considered equally. He argued that the workers remittance received from the other countries must be utilized more efficiently in order to improve society living conditions. The finding of the study indicated that workers remittance are significant and have positive impacts on economic growth and development for the study area. So the relevant authorities of the countries need to formulate appropriate conducive policies in order to encourage workers remittance.

World Bank (2011) examined that almost half of all the households had at least one migrant abroad or a returnee. Foreign remittances contributed a quarter of the income of all the households and almost two-thirds of the income for those receiving money from abroad. It was measured by Nepal Rastra Bank US\$ 2.7 billion, or 22 percent of GDP in FY 2009. The study indicated that foreign remittance makes up to 20 percent of GDP and the flow, excluding India would be 16 percent of GDP. The worker migrants abroad were 41 percent in India, 38 percent in Gulf countries, 12 percent in Malaysia. The study was also carried out during high farming season; most seasonal workers in India were back in the country. Thus, large scale migration and remittances can be expected to have significant macro economic impact and remittance had helped to sustain the external balance and enhance foreign reserves. It has also led to higher consumption and enhancing population welfare and reducing poverty incidence.

Qayyum, Javid and Arif (2008) focused on the importance of remittance for economic growth and poverty reduction in Pakistan. The inflows of remittances in Pakistan had increased from US\$ 1075 millions in 2000 to US\$ 6000 millions in 2007. This contributed in reducing current account deficit, increasing foreign exchange reserves, stabilizing exchange rate and reducing poverty. He suggested that international migration of labour had substantial potential benefits for poor people in developing countries. In the long run, remittances inflows can lead to sustainable growth and social welfare improvements and upgrade of poor households. He stated that remittances had a strong and statistically significant impact on poverty reduction. Thus, the importance of remittance inflows can not be denied in terms of growth enhancement and poverty reduction that consequently improves the social and economic condition of the recipient countries.

Methodology

The study is to provide effective data and information for the research on "Remittance and Economic Development of Nepal". The study is mainly based on secondary sources of

information and study approach is analytical and has descriptive methods. The data used in this study are published in news papers, books, journals, government publications like Economic Survey (various issues) of the Ministry of Finance, A Status Report: Labour Migration for Employment of the Ministry of Labour and Employment, Living Standard Survey (various issues) and Nepal Labour Force Survey, Statistical Pocket Book of the Central Bureau of Statistics, various plan period documents of the National Planning Commission, Nepal Rastra Bank Bulletin (various issues) as well as published reports of international organizations such as WB, UNDP, IMF, ADB etc.

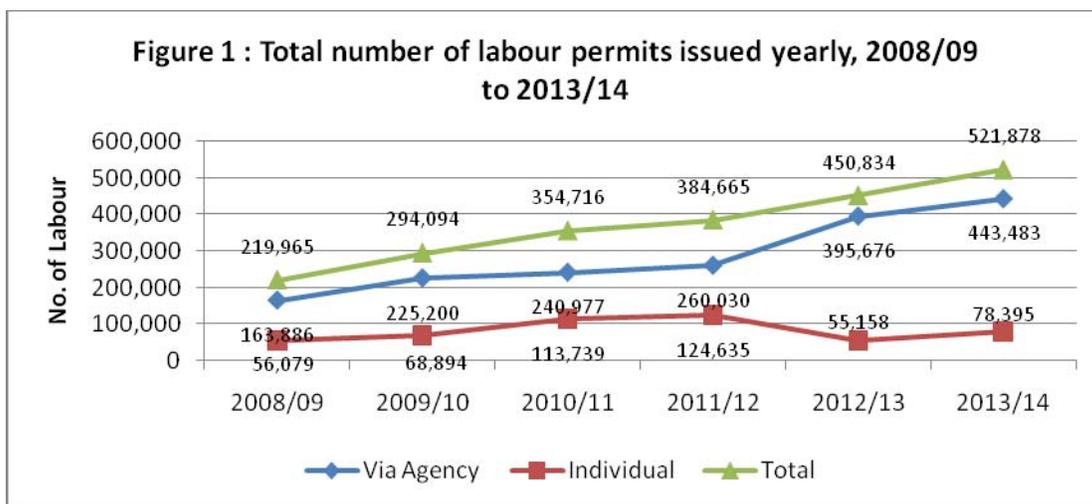
Status of Labour Migration

The labour migration information of Nepal from 2008/09 to 2013/14 is given in table below (Table 2).

Table 2 : Number of labour permits issued (2008/09 to 2010/11)

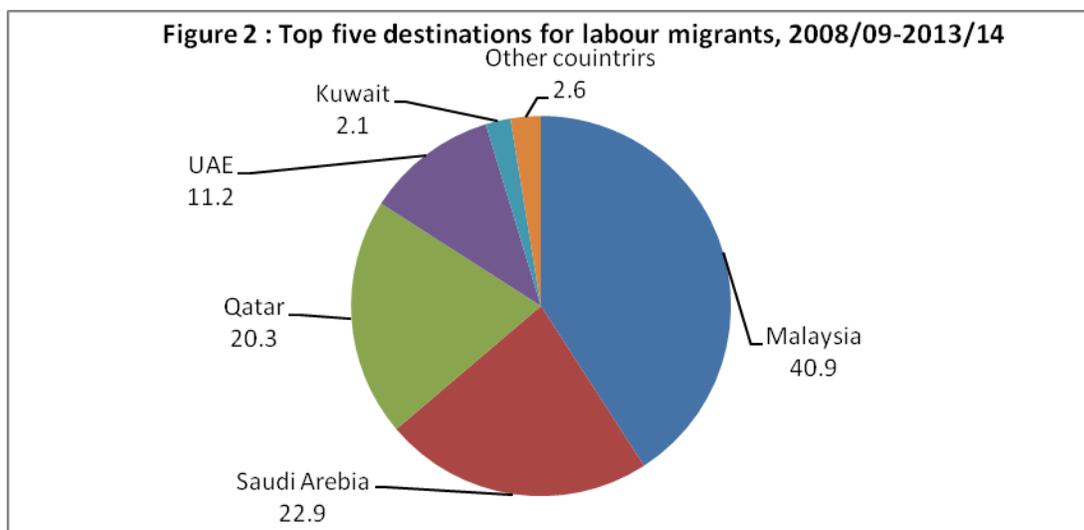
Year	Via Agency	Individual	Total
2008/09	163,886	56,079	219,965
2009/10	225,200	68,894	294,094
2010/11	240,977	113,739	354,716
2011/12	260,030	124,635	384,665
2012/13	395,676	55,158	450,834
2013/14	443,483	78,395	521,878

Source: Labour Migration for Employment, A Status Report 2013/14, DOFE, MOLE, Nepal.



In Nepal, total number of labour migration permits has increased in foreign employment. A total of 2,226,152 labour permits is issued over the last six years, which represents increase between 2008/09 to 2013/14 about 8 percent of the Nepal’s total population. It is 219,965 in 2008/09 and 521,878 in 2013/14, which shows that labour migration in Nepal is in increasing rate every year (Figure 1).

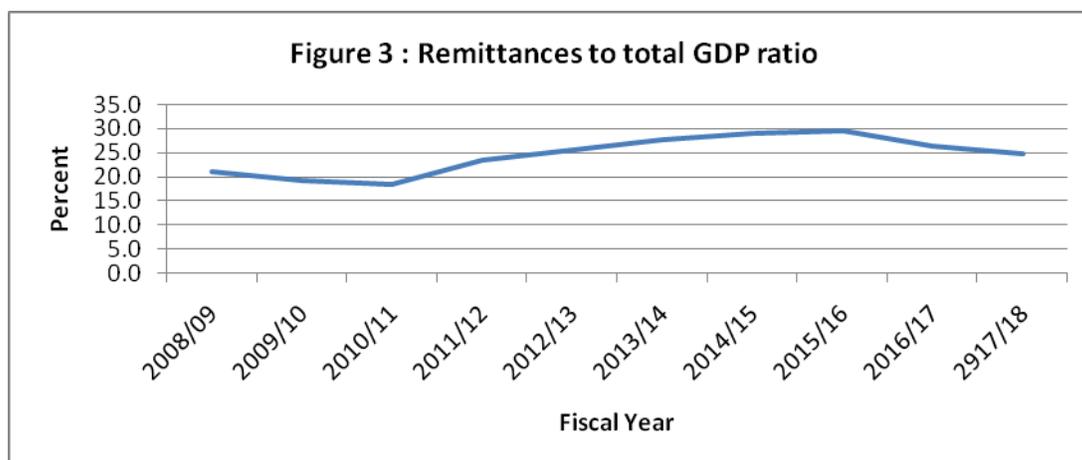
Labour migration among the destination countries in which migrants sent by recruitment agencies shows that Malaysia received high labour migrants at 40.9 percent, Saudi Arabia at 22.9 percent, Qatar at 20.3 percent, UAE at 11.2 percent and Kuwait at 2.1 percent (Figure 2).



Source: Labour Migration for Employment, A Status Report for Nepal, 2013/14.

Remittance and GDP

The proportion of the remittance received about 30 percent of all the households. The average amount received from overall households is Rs. 19,721. Remittance income received from within Nepal is 17 percent and from outside of the country such as India, Malaysia, Saudi Arabia and Qatar is altogether 83 percent of all remittance income. Out of this, 13.4 percent from India and 19.2 percent, 14.9 percent, 21.3 percent, 2.2 percent and 29 percent from Malaysia, Saudi Arabia, Qatar, United Kingdom and other countries respectively (NLFS 2008). Remittances to total GDP ratio is shown by Figure 3.



Source: Economic Survey 2013/14 and 2018/19, MOF, Kathmandu, Nepal.

Remittance and Household Income

The contribution of remittance on household income in Nepal is very significantly shown by table below.

Table 3 : Statistics of remittance and household recipients

Description	1995/96	2003/04	2010/11
Percentage of all households receiving remittance	23.4	31.9	55.8
Average amount of remittance per recipient households (NRs)	15,160	34,698	80,436
Share of total amount of remittance by household			
From within Nepal	44.7	23.5	19.6
From India	32.9	23.2	11.3
From other countries	22.4	53.3	69.1
Share of remittance in total household income among recipients	26.6	35.4	30.9
Nominal total amount of remittance received (million Rs.)	12,957.8	46,365.5	259,088.5

Source: Nepal Living Standard Survey 2010/11, CBS, Kathmandu, Nepal.

Total amount of remittances in the country is 259 billion among which 20 percent are internal sources, 11 percent from India and 69 percent from Gulf countries (Saudi Arabia and Qatar 26 percent, Malaysia 8 percent and 35 percent other countries). The average amount of remittance per recipient household is Rs. 15,160, Rs. 34,698 and Rs. 80,436 in 1995/96, 2003/04 and 2010/11 respectively. Similarly all households receiving remittance is 23.4, percent 31.9 percent and 55.8 percent in same period (Table 3).

The share of total amount of remittance by households in Nepal, from India and from other countries is shown in the bar diagram (Figure 4).

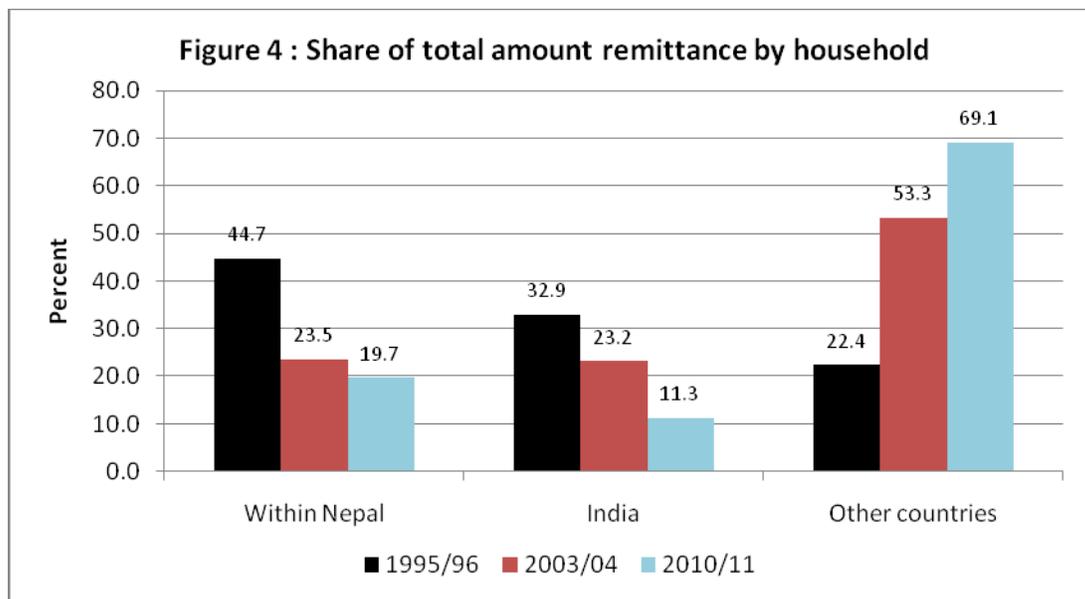


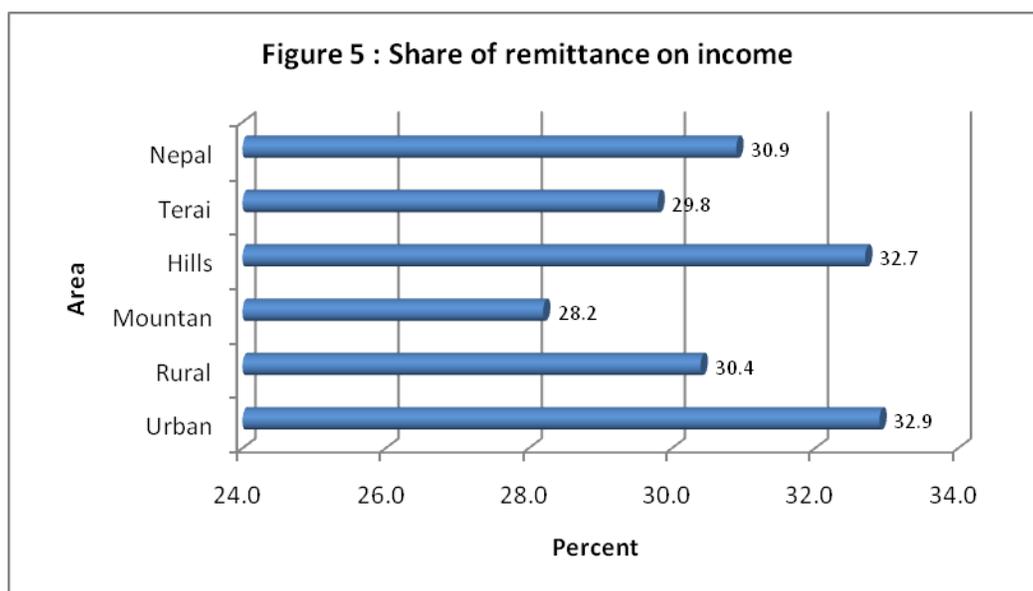
Table 4 : Percentage share of remittance in income

Sector	Percent of households receiving remittance	Share of remittance on income
Urban	29.3	32.9
Rural	70.7	30.4
Ecological-belt		
Mountain	7.2	28.2
Hills	46.7	32.7
Terai	46.1	29.8
Nepal	100.0	30.9

Source: Nepal Living Standard Survey 2010/11, CBS, Kathmandu, Nepal.

The share of remittance income in urban Nepalis 32.9 percent and in rural areas is 30.4 percent. Similarly, share of remittances on income in Mountain, Hills, and Terai as 28.2

percent, 32.7 percent and 29.8 percent respectively. Therefore, Nepal’s share of remittance on income is 30.9 percent. Besides, 71 percent of households receiving remittances in rural areas and only 29 percent of households receiving remittances in urban Nepal. In Mountain ecological-belt of Nepal households are receiving remittance only 7 percent (Table 4). The share of remittances on income is shown by Figure 5.



Remittance and Consumption

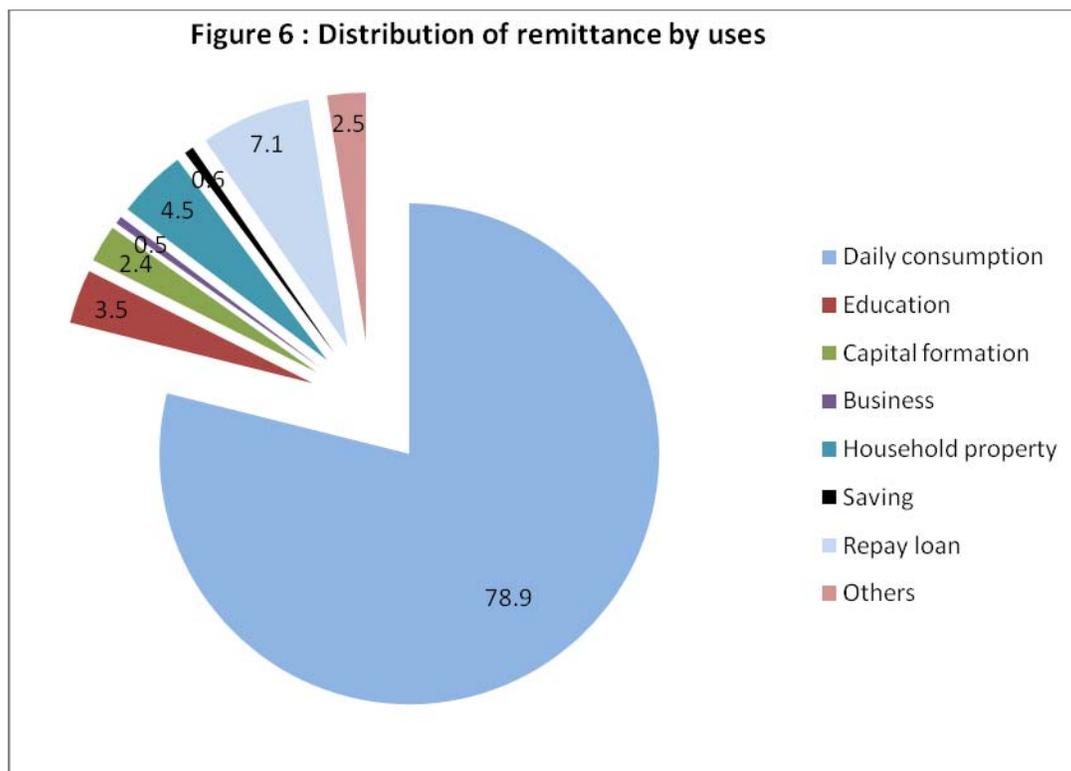
Mainly about 79 percent of the total remittances received by the households are used for daily consumption and 7 percent used for repay loan. Similarly it is used in property for 5 percent, education for 4 percent, capital formation for 2 percent and 3 percent used for other purposes (Table 5 and Figure 6).

Table 5 : Distribution of remittance by primary uses and origin of remittance

Sources	Daily consumption	Education	Capital formation	Business	Household property	Saving	Repay loan	Others	Total
Internal source									
Urban	84.5	3.5	2.1	0.4	3.8	0.5	1.4	3.9	100.0
Rural	86.6	3.6	1.2	0.3	5.6	0.4	0.5	1.9	100.0
External source									
India	86.6	2.2	2.0	0.3	4.2	0.4	4.5	1.9	100.0
Malaysia	52.1	4.3	4.3	1.2	5.0	0.9	30.0	2.2	100.0
Sadi Arabia	57.6	1.2	4.3	0.5	2.8	0.6	31.0	2.1	100.0

Qatar	55.4	5.0	6.2	0.3	4.3	0.5	25.8	2.5	100.0
United Kingdom	74.2	0.0	3.6	2.0	2.0	3.2	10.2	4.8	100.0
Other countries	59.1	6.3	4.6	1.6	1.9	3.1	19.1	4.3	100.0
Donar agency	41.9	10.1	0.0	0.0	0.0	0.1	0.0	41.9	100.0
Nepal	78.9	3.5	2.4	0.5	0.6	0.6	7.1	2.5	100.0

Source: Nepal Living Standard Survey 2010/11, CBS, Kathmandu, Nepal.



Conclusion

Labour migration of Nepal has been rapid in the past two decades and currently it accommodates many Nepalese citizens. Recently, about half of the Nepalese households have at least one member abroad or having returnee for foreign employment. Present situation of labour migration from Nepal is major problem for the lack of employment in the country. It is in terms of globalization, people below poverty line, economic instability, food insecurity, lack of employment, unequal distribution of income and so on. Moreover, increasing trends of labour migration placed Nepal as the high remittance recipient country among the least developed countries. Therefore, depending on foreign employment

remittance plays a significant role in the growing nations GDP. But foreign employment is not a long term permanent solution of the country's unemployment problems.

The analysis of poverty reduction in Nepal is depended upon the income generation aspect with respect to the indicators of human development and overall social economic activities. According to Nepal Living Standard Survey (NLSS), poverty has been reduced from 42 percent to 31 percent in 1996 and 2004 respectively. Recently, it is 25 percent measured in 2010/11. So remittance has significantly contributed to the economic development of the country and raised the living of standard of the people with the help of foreign employment and remittance income.

In this context, government should ensure the required protection for labour exploitation by providing improved rules and regulations. Not only that, government should also formulate an appropriate foreign employment policy for Nepalese labourers so that they can be diversified to several countries having high employment potentialities with high remunerations. Therefore, developing new policies can play for the sustainable socio-economic development of Nepal.

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