

¹Remittance and Nepalese Economy: Some issues

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Abstract

This paper discusses the various aspects of remittance related to capital accumulation, spending pattern, contribution to the economy as well as the possibility of economic failure due to burgeoning dependency on it. The paper approaches remittance as a mechanism for achieving the multiplier effect in the economy. It also analyses the co-relation between remittance in terms of the statistics on GDP, poverty level, unemployment, industrial growth, net migration, labor force, internal loans, external debt, investment rate and saving pattern.

Remittance has grown to be a favored poverty alleviation strategy in Nepal. This paper attempts to explain positive and negative impacts of increasing remittance on the economy. Under the heading ‘Positive Impact’ is a discussion of the contribution of remittance to the GDP, foreign currency account and national saving. Under the heading ‘Negative Impact’ falls: dependency on foreign income and its ramifications on available labor force in the domestic market; total productivity and balance of payment; and agriculture and industrial growth. The recommendations and conclusion have included various aspects of foreign employment in the national planning agenda.

Key words: remittance, migration, poverty level, unemployment, industrial growth, labor force, internal loan, external debt, national saving, investment

Background

Remittance holds great significance in Nepal where one-fourth of the population lives below the poverty line. According to World Bank, Nepal is among the top five countries in the world with remitted income amounting to 23 per cent of the national GDP. Statistics show that remittances bring in one hundred billion rupees each year to Nepal. In 2010, Nepal received \$3,507 million (The World Bank, p. 15). According to World Bank, remittance has definitely reduced headcount poverty rate in the country. It has been stimulating much needed economic development.

According to Central Bureau of Statistics 2012, total population of Nepal is about

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27 million and the per capita income is less than US \$650. Around 83 per cent of the total population live in rural areas, meaning not only that Nepal is a pre-dominantly an agrarian economy, but that also the population pressure on land is rather heavy (Basyal, p. 2). This is no doubt a factor that explains why at least one individual from each household is engaged in employment abroad. Hence, remittance has become an important source of household income for a large segment of the country's population. For low income people, remittance is the most important means of survival. However, the rural population has been receiving remitted income more through informal channels than formal ones due to the absence of proper financial services. Studies show that countries with weak financial sector receive more remittance through informal channels and Nepal is no exception.

Remittances from migrant workers are primarily personal and private transfers. They are not commercial or public transfers as many migrant workers limit their spending in order to send money home. Financial transparency would have been easy if this money was remitted through formal channels.

There is a significant demand for remittance system in the domestic market. With increase in outflow of people, the money transfer business has picked up in the country. More importantly, it has led to increase in foreign currency reserves and also helped improve the balance of payment situation to some extent.

The tendency to receive more remittance increases at the time of economic downturn or natural disaster. Remittance in one or the other way tends to exert upward pressure on the value of the local currency in cases of high inflow. Apart from providing financial liquidity to the system, remittance has provided the much needed impetus to development activities. Therefore remittance has the potential to create a multiplier effect that could benefit the nation in a huge way.

Along with this, investment in the foreign employment business has also increased to a significant extent with many overseas agencies mushrooming. Nepal Demographic and Health survey 2011 shows more than 400,000 youth have left Nepal in 10 months of the last fiscal year in search of employment abroad. The same survey depicts that net migration rate stands at 0.61 migrant(s)/1,000 populations. At present, Nepal sends one per cent skilled and 29 per cent semi skilled workers to about 108 destinations. The remaining 70 per cent workers are unskilled. This shows there is a high demand for unskilled labor abroad (Bhattarai, pp. 49-52).

In our case, migrants' income holds a great significance for the households. Remittance accounts for almost one-fourth of the gross domestic product (GDP). Therefore, the Nepalese economy is in many ways dependent on remittance and this

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dependence is increasing.

Objectives

The main objective of this paper is to relate the Nepali migrant labor force abroad and their income with the economic development of the nation. In general, the objective of the study is to explore the impact of increasing remittance on the Nepalese economy and the specific objectives are:

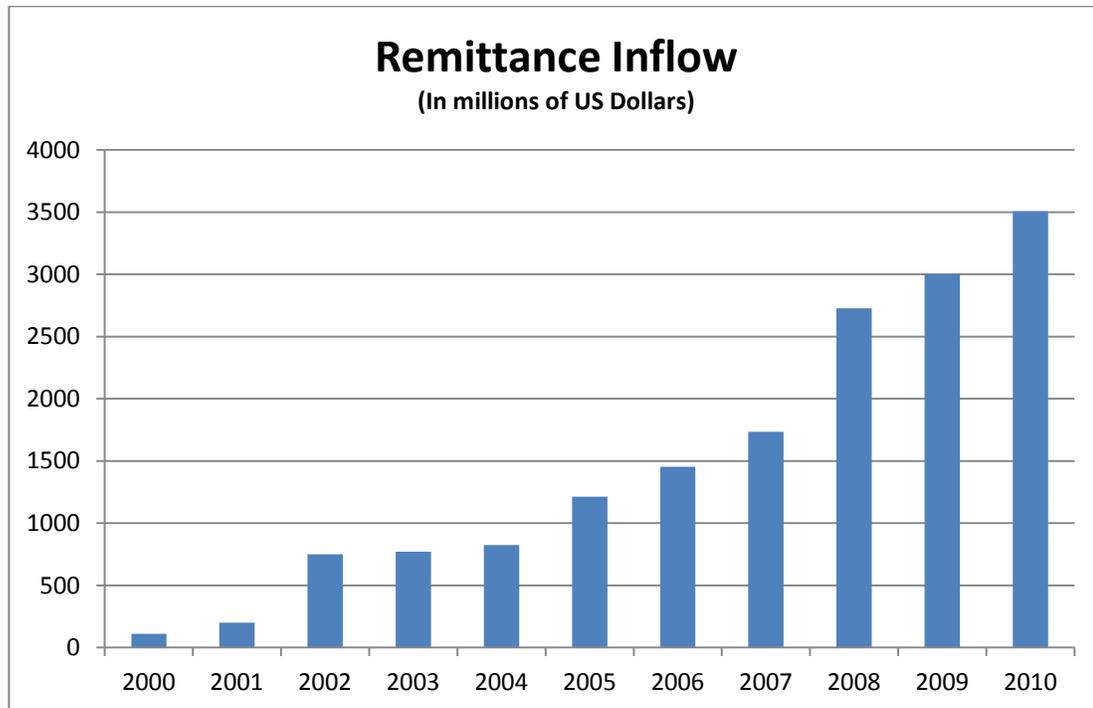
- To identify the long term impact of dependence on remittance
- To observe the trend of migration and preference for foreign job opportunities
- To relate available labor force with economic development
- To examine GDP growth, industrial growth, internal loans and external debt in relation to remittance
- To figure out national saving and investment growth in relation to remittance
- To find out the reasons for high level of unemployment regardless of huge remittance inflow
- To explore the policies and strategies that could put the revenue accruing from remittance to productive use and
- To have in place a mechanism or system that would ensure proper governance of migration.

Methodology

This report is mostly based on data available with Ministry of Labour and Transport Management (MoLTM), Ministry of Finance (Mof), Department of Foreign Employment (DoFE), International Organization for Migration (IOM), Central Bureau of Statistics (CBS), Nepal Demographic and Health Survey (NDHS) and Nepal Rastra Bank (NRB). It is also based on previously published literatures and secondary information. A lot of data have been used to explain and justify the concepts. Qualitative as well as quantitative data have supported the argument. There are various sources of data and information that vary in nature. Different forces and factors have been used to link the main concept explained in the paper. However, only information from government sources is used for explanation.

Remittance Inflow

The amount of remittance Nepal receives every year has been increasing. The figure below shows the amount of remittance received each year.



According to MPI Data Hub “Migration facts, stats and maps,” remittance received increased to \$3507 million in 2010 from \$111 million in 2000. Nepal received remittances worth \$200, \$750, \$771, \$823, \$1212, \$1453, \$1734, \$2727 and \$3000 million in 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008 and 2009 respectively (The World Bank, p. 15).

This shows the number of Nepali labor hired by foreign countries has gone up significantly. Population growth rate of Nepal stands at 1.6 per cent in 2011 whereas remittance growth rate exceeded 17 per cent during the same period (IFAD, p. 10). Around 55 per cent of the country’s total population falls under the economically active (working population) group aged between 15 to 59 years (A. Ghimire, A. Rajbanshi, B. R. Upreti, G. Gurung, J. Adhikari, S. Thieme, p. 30). According to Nepal Demographic and Health Survey, twenty-seven per cent of the working population has left the country.

Therefore the number of Nepali labor working abroad has been increasing through the years. The following figure shows the number of Nepali migrant abroad according to Department of Foreign Employment.

Year	Number of Nepali Migrants
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1994	3,605
1995	2,159
1996	2,134
1997	3,259
1998	7,745
1999	27,796
2000	35,543
2001	55,025
2002	104,739
2003	105,055
2004	106,375
2007	204,433
2008	249,051
2009	219,965
2010	294,094
2011	354,543
2012	530,250

The number of Nepali labor migrant increased to 530,250 in 2012 from 3,605 in 1994. In the years 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004 the number of Nepali migrant labors was 2,159, 2,134, 3,259, 7,745, 27,796, 35,543, 55,025, 104,739, 105,055 and 106,375 respectively. Similarly in the year 2007, 2008, 2009, 2010 and 2011 the number of Nepali migrant labors increased to 204,433, 249,051, 219,965, 294,094 and 354,543 respectively (A. Ghimire, A. Rajbanshi, B. R. Upreti, G. Gurung, J. Adhikari, S. Thieme, p. 10). On an average, at least 1,009 Nepali migrant workers fly out of the country every day. Foreign employment continues to be a strong demand among young Nepalis looking for better income and job opportunities.

Although Nepal has officially opened 108 countries in terms of labor employment, Malaysia and the Gulf countries alone account for 90 per cent of Nepali migrant workers. The table below shows Nepali male and female migrant workers by destination as of 2010.

Country	No. of Male migrants	No. of Female migrants	Total
Afghanistan	472	0	472
Algeria	35	0	35
Bahrain	16,554	119	16673
Hong-Kong	86	32	118
Israel	65	0	65
Japan	16	6	22
Jordan	249	0	249
Kuwait	3,916	8	3,924
Lebanon	756	867	1,623

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Libya	1,185	0	1,185
Macau	39	0	39
Malaysia	145,942	996	146,938
Maldives	45	0	45
Mauritius	33	0	33
Oman	1,276	2	1,278
Pakistan	145	0	145
Poland	27	31	58
Qatar	26,964	29	26,993
Russia	8	0	8
Saudi Arabia	46,040	7	46,047
Seychelles	28	0	28
UAE	20,936	410	21,346
USA	22	0	22
South Korea	2,118	0	2,118

During the period 2006 to 2011, 361,464 Nepalis had gone to Malaysia, 351,544 to Qatar, 246,448 to Saudi Arabia, 178,535 to United Arab Emirates and 20,303 to Bahrain. Malaysia and Gulf countries of Saudi Arabia, Qatar, United Arab Emirates and Bahrain are major destinations for Nepali migrant workers. As shown in the table above, Malaysia is believed to be a popular destination with a total of 361,464 documented Nepali migrant workers. A total of 146,938 Nepali migrant workers left for Malaysia in 2010 (Bhattarai, pp. 49-52).

We see a huge number of Nepali labor entering foreign markets every year. No wonder, the remittance we receive comprises 23 per cent of the total GDP. Despite the growth in remittance, productivity has not increased as is evidenced by the fact that the living standard of the people in Nepal has not markedly improved. Though urban areas do seem to show some improvement, the same cannot be said of rural areas where even the basic amenities of life are far beyond the reach of the populace.

Another important aspect that has to be considered is the undocumented labor migration. Security is another concern. Reports about irregularities in foreign labor migration and problems faced by migrant workers before and after their departure for foreign employment are not addressed at the policy level. The Department of Foreign Employment has already recorded 1,898 outsourcing frauds worth Rs. 1.04 billion in the first eleven months of the last fiscal year. About 152 cases amounting to Rs. 403.31 million reached the court. In the last one year, outsourcing fraud cases have increased by 46.68 per cent (Bhattarai, p. 49).

However, no matter how much remittance increases every year, the threat to the

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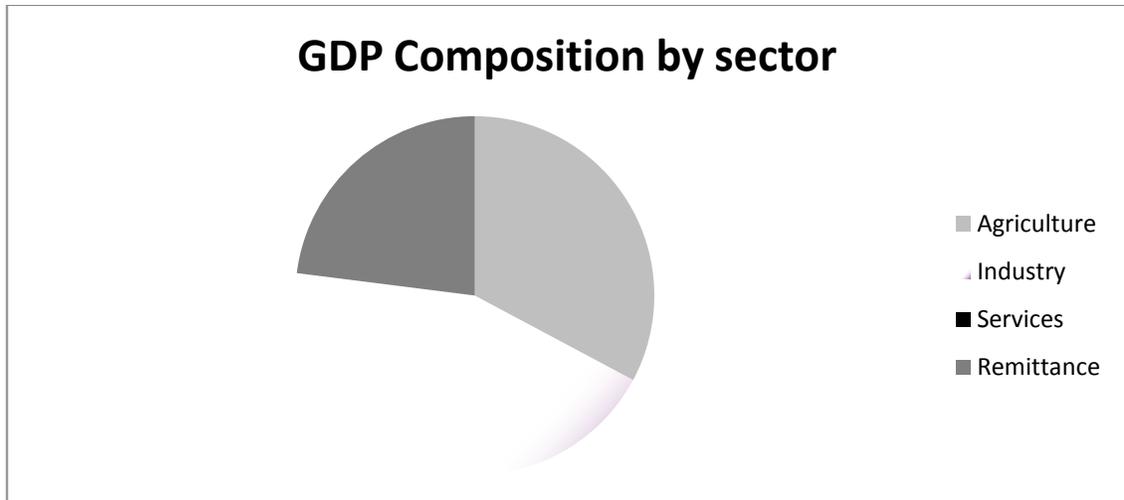
Nepalese economy because overt dependence on remittance from migrant labor may not be sustainable in the long term. The main thrust of policy in Nepal should be to retain its productive population otherwise productivity will not increase and the country could itself face a human resource crunch in the not too distant future. So policies need to be geared towards implementing proper foreign employment plan.

Contribution to GDP

The share of remittance in the GDP cannot be ignored. Currently Nepal is among the top five countries in the world with remittance amounting to 23 per cent of the national GDP. Tajikistan, Tonga, Lesotho and Moldova rank above Nepal. It is estimated that the percentage share of remittance in the GDP will rise to 25 per cent in the years to come. The share of remittance in the GDP in percentage (Nepal Rastra bank) is given below:

Year	Share of remittance to GDP (%)
2001-2002	10.3
2002-2003	11
2003-2004	10.9
2004-2005	11.1
2005-2006	14.9
2006-2007	13.8
2007-2008	17.4
2009-2010	19.6

National GDP stood at Rs.1219 billion in 2010. Although around one-fifth of the national GDP is contributed by remittance, one-fourth of the population lives below the poverty line (A. Ghimire, A. Rajbanshi, B. R. Upreti, G. Gurung, J. Adhikari, S. Thieme, pp. 28-32). This shows that rise in remittance did nothing or very little to uplift the impoverished population. The pie chart below shows GDP contribution by sector.



According to 2010 data, agriculture sector contributed 32.8 per cent to the GDP; industrial sector 14.4 per cent, service sector 29.8 per cent and remittance 23 per cent (The World Bank, p. 2). (Remittance falls under service sector)

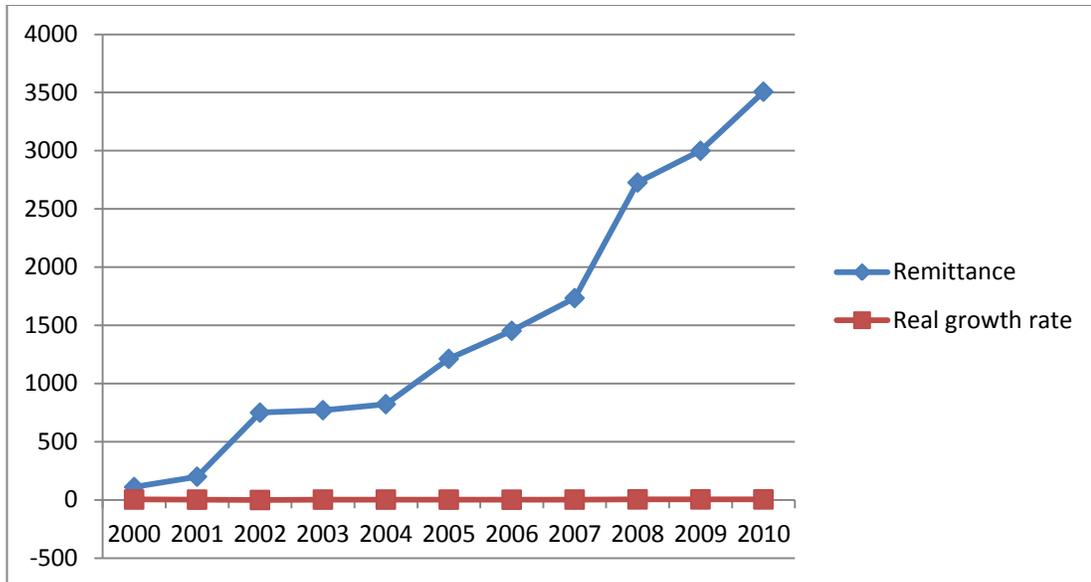
Rising remittance and slow real economic growth rate

Nepal's economic growth rate has been increasing gradually. The table below shows the economic growth rate in percentage for the past few years.

Year	Real Growth Rate (%)
1999	3.4
2000	3.7
2001	2.6
2002	-0.6
2003	3
2004	3
2005	2.7
2006	1.9
2007	3.2
2008	4.7
2009	4.7
2010	4.6

Nepal's economy has never seen a double-digit growth rate in the past few decades. GDP growth rate was highest at 9.6 per cent in 1984. Since then, Nepal's economic growth rate never exceeded 4.7 per cent (The World Bank, pp. 19-20). Though Nepal has been receiving a huge amount of remittance each year, the growth rate has remained insensitive to it. The following diagram shows the real growth rate and the amount of remittance Nepal received over the past few years.

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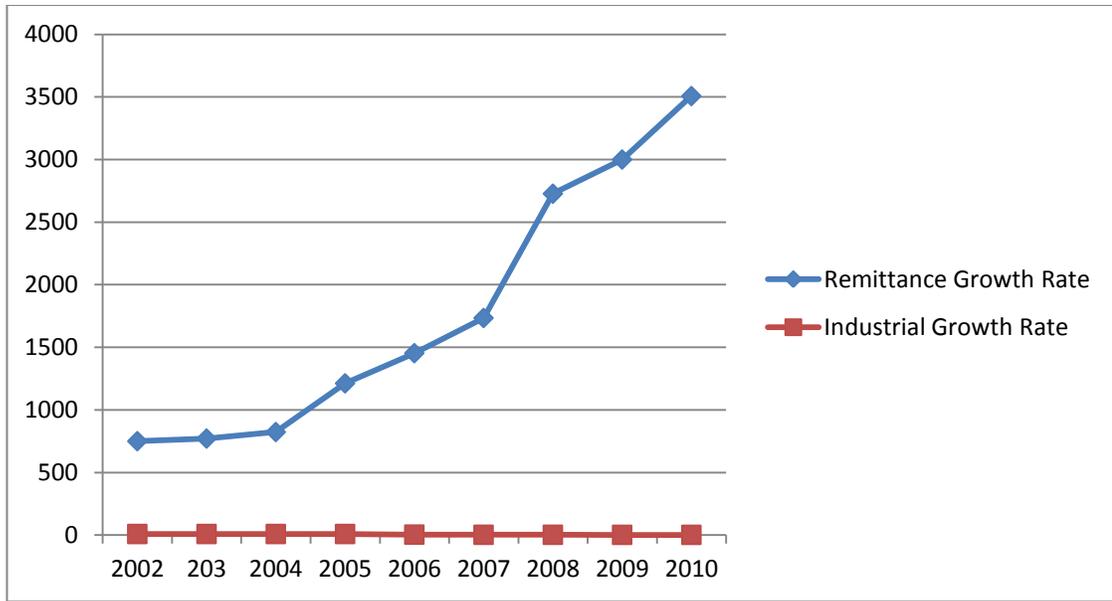


Though remittance growth rate accelerated since 2000, Nepal's real GDP growth rate registered only a gradual increment.

Remittance and industrial growth rate

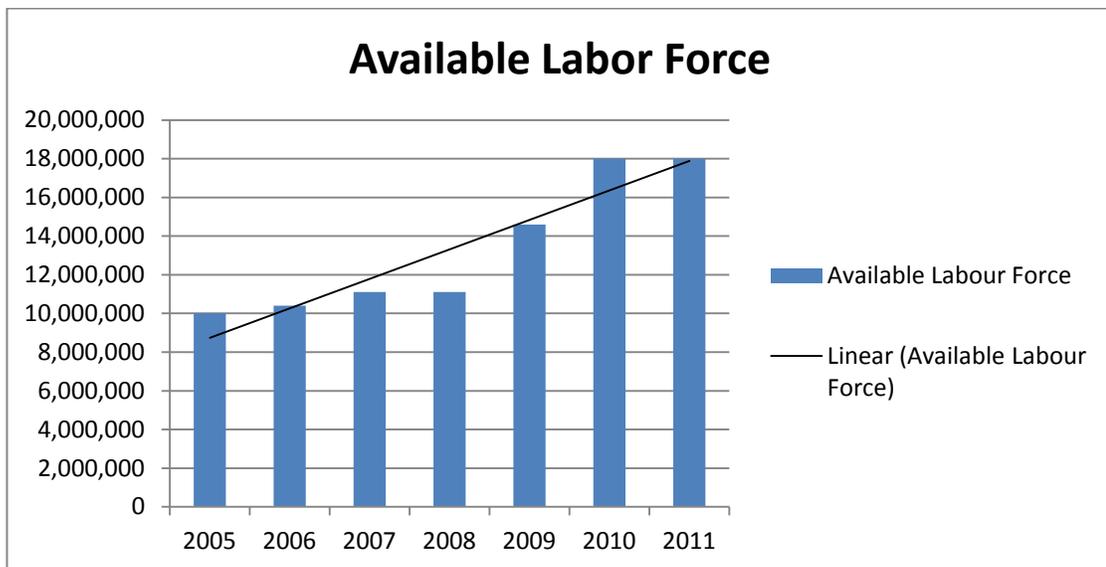
Between the years 2002 to 2005, industrial sector grew at the rate of 8.7 per cent. It declined to 3.8 per cent in the year 2006. It further declined to 2.2 per cent in the year 2007 and 2008. The growth of industrial sector remained constant at 1.8 per cent in 2011, the same as in the years 2009 and 2010. The industrial sector's contribution to GDP declined to 14 per cent in 2011 from 17 per cent in 2010. This poor performance is mostly due to sluggish manufacturing sub-sector which grew by 0.3 per cent in 2011 (The World Bank, pp. 2-5). The main reasons for sluggish industrial growth are low investment, political instability and labor problems.

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Remittance, available labor force and unemployment rate

The figure below shows the total available labor force in the country and the unemployment rate.



The number of total labor force increased to 18 million in 2011 from 10 million in 2005. The table below shows unemployment rate and remittance received in different years.

Year	Unemployment rate	Remittance Inflow
2001	47%	\$200 million

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2004	42%	\$823 million
2008	46%	\$2727 million
2009	58%	\$3000 million

Unemployment rate decreased to 42 per cent in 2004 from 47 per cent in 2001. But it increased to 46 per cent in 2008 indicating lack of performance by the Nepalese labor force in the economy. The most obvious reasons behind this fact are lack of investment in economic activities leading to non-creation of employment opportunities. It should be noted that unemployment rate reached 58 per cent in 2009 indicating poor economic performance even though remittance inflow rose to \$3000 million (UNCTAD, p. 38). It clearly indicates that surge in remittance has hardly had the impact of mitigating unemployment.

Even though more people enter the labor force every year, unemployed or idle labor continues to go up. This is because of lack of investment. Hence, it is clear that increasing remittance inflow is not being invested in fruitful economic activity. This means that remitted income was spent mostly on consumer goods and very less was invested in productive projects. Had these incomes been channelized in a proper way, it would definitely have created employment opportunities and contributed to the economy.

Remittance, Net national saving and Investment

The following table shows the nature of net national saving in Nepal (Gaire, pp. 26-30).

Year	Net National Saving (US\$)
2000	100,390,500
2001	894,295,600
2002	1,019,291,000
2003	1,064,590,000
2004	1,392,415,000
2005	1,730,944,000
2006	1,812,283,000
2007	2,220,488,000
2008	3,383,253,000
2009	3,542,412,000

Though national saving has been increasing gradually, it has not been able to keep pace with the rapid growth of remittance. It's also true that the major portion of the remittance was not invested in developmental projects as data shows that consumption increased to 102.4 per cent of the GDP in 2010/2011 from 88.3 per

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cent in 2000/2001. This signals consumption exceeded GDP resulting in trade deficit. Investment on the other hand increased to 24 per cent of the GDP in 2010/2011 from 22.3 per cent in 2000/2001 (Basyal, pp. 2-3). Less investment in industrial enterprises has led to surge in import-based consumption. This not only has led to less private saving but also poses a threat to macroeconomic performance and stability.

Increasing internal loan, external debt despite increase in remittance

The following table shows the growth of internal loans and external debts in the past decade.

Year	Internal Loans (NRs. Millions)	External Debts (NRs. Millions)
2001	54,357.0	201,550.6
2002	60,043.7	220,125.6
2003	84,645.3	223,433.2
2004	86,133.7	232,779.3
2005	87,564.2	219,641.9
2006	94,710.8	233,968.6
2007	103,776.0	216,628.9
2008	116,039.5	249,965.4
2009	125,674.1	277,040.4
2010	124,451.2	275,305.2

Internal loans provided by Nepal Rastra Bank, commercial banks and other institutions remained insensitive to growing remittance. Internal loans increased to Rs.124451.2 million in 2010 from Rs.54357 million in 2001. Remittance did very little or nothing to the increasing internal loans though we see that remittance inflow reached \$3,507 million in 2010 from \$111 million in 2000. Similarly external debt which increased from Rs. 220125.6 million in 2001 to Rs. 275305.2 million in 2011 also remained quite insensitive to remittance growth (Mundi Index).

Findings and analysis

The data above show that remittance has been contributing significantly to the national GDP over the years. Thus, the economy has become heavily dependent on remittance inflow. The major findings of this paper are as follows:

- Nepali migrant labor abroad increased to a great extent which indicates high preference for foreign job opportunities. The increasing trend of migration and problems faced by migrants abroad also means there is serious problem

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with governance of migration and lack of government responsiveness towards creating job opportunities in Nepal.

- Another important finding is the number of elder citizens in the country who do not contribute significantly to economic development has gone up as a result of the huge number of Nepali youth going abroad.
- Though migrant labor has led to high inflow of remitted income, it has not impacted the economy in a positive way. Slow economic growth coupled with high import-based consumption is still a problem in the country.
- Investment climate has not improved significantly with the income of migrant labor. This has caused the available labor force to remain idle in the Nepalese market. Thus, low investment in industries and factories and lack of employment opportunities have created high unemployment rate in the country along with low industrial growth.
- High internal loans, external debts and less national saving have further caused the economy to deteriorate.
- The flow of remittance through informal channels has also been a hindrance to economic development. This has encouraged money laundering.

Conclusion

Since decades, Nepal has been benefitting significantly from remittance. It comprises a significant share of the national GDP. Economic development has been achieved with the help of migrants' income, but if we study the trend of economic and industrial growth, the level of investment and unemployment, the amount of internal loans and external debts and the saving patterns of the people, we see very negligible improvement, not what should be expected from a case of high inflow of remittance.

Instead the economy is seen to be heavily dependent of this source of income. This has encouraged the vicious policy cycle explained below:

Vicious policy cycle: More remittance, Little pressure to improve policy weaknesses, Inadequate investment climate, Low private investment, Low growth, Limited job opportunities, More migration

The main question is for how long can remittance sustain the country's economy? The country is sure to plunge into the vicious policy cycle where high remittance will create little pressure on improving policy weaknesses. This will eventually lead to inadequate investment climate and low private investment. Thus, low growth and limited employment opportunity will lead to more migration welcoming more remittance and this process will continue.

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Remittance can no doubt help reduce poverty and economic vulnerability with policies tailored to encourage recipients to invest. The government too seems to prefer improving family welfare and stimulating economic development through migrants' earnings. This calls for policy measures to ensure security for migrant workers and to utilize the revenue accruing through remittance. This can only be possible through promotion of new micro enterprise development models, which will in turn help build entrepreneurial capability (Zürcher, Martin, pp. 3-8).

Therefore serious efforts must be made to take the advantage of high remittance inflow.

Recommendations

The main challenge is to realize the fact that over dependence on remittance can seriously harm the Nepalese economy in the long run. Therefore we need to devise policies and strategies focused on managing migrant labor and channelizing remittance into productive use.

Managing migrant labor

It is estimated that around 400,000 Nepalis enter the labor market abroad every year. Fifty-five per cent of Nepal's population fall under the category of working-age population and statistics say that 23 per cent of this portion of the population has already left the country in search of employment abroad. Currently, 530,250 Nepali migrant workers are in the foreign job market. This is the result of indifference on the part of policy makers towards developing employment programs. The burden of management lies on organizations like Department of Labor and Foreign Employment in case of foreign employment and internal and external labor issues.

The three-step framework model can be adopted to manage migrant labor i.e. educate, partner and build capacity. The first step involves building awareness of the legal landscape by engaging the government, organizations and other stakeholders. The second step requires partnership with credible, trusted third parties to assess issues independently. The last step involves building capacity and knowledge of good practices, training workers and integrating practices into the management system (BSR, pp. 4-8).

A clear contract and complaint mechanism along with provision for compensation in relation to foreign employment has to be developed. Factors like employment documentation, legal framework, recruitment, medical examinations, living conditions, wage deductions and workplace safety play a crucial role in foreign employment. Understanding the needs of migrant workers abroad is necessary.

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Clear communication enables good employer-employee relationship. Quality of pre and post orientation should be ensured, only then we can manage migrant labor.

Channelizing remittance into productive use

The governments' first initiative should be to take appropriate measures to receive remittance through formal channels in order to channelize it productively. This requires development of banks and financial institutions in rural areas as 83 per cent of Nepal's population live in rural areas. Remitted income through formal channels will ensure transparency and accountability and prevent money laundering.

Statistics show that the total number of working class Nepalis currently unemployed in the country is around 2.5 million. In this case, the governments' main focus should be to increase employment opportunities within the country and protect the rights of workers. So remittance can help the government invest in entrepreneurial activities to generate employment. Youth, women, indigenous groups, physically challenged and conflict affected people and disadvantaged people should be given proper education so as to engage them in productive employment. Vocational and skill development trainings should be provided. These will to some extent control migration as well (Lundius, Villarreal, Lanly, Osorio, p. 47).

The government should encourage and attract remittance receivers to hold money in productive assets by offering good rate of return. This will allow the government to invest in development activities with the money received by the public. This investment will contribute positively to the economy rather than just stimulating consumption by expending income in non-productive assets. Channelizing remittance into productive use can help the economy grow and sustain in the long run.

Abbreviations

MoLTM: Ministry of Labor and Transport Management

MoF: Ministry of Finance

IOM: International Organization for Migration

CBS: Central Bureau of Statistics

NDHS: Nepal Demographic and Health Survey

NRB: Nepal Rastra Bank

GDP: Gross Domestic Product

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DoFE: Department of Foreign Employment

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