

Contribution of Remittance to Rural Economy in Nepal

Narendra Katuwal

Reader, Department of Economics Education, Tribhuvan University, Mahendra Ratna Campus, Kathmandu, Nepal.

Abstract: The rural economy of Nepal is largely dependent on agriculture and remittances. Remittance has stood out as one of the key factors in reducing poverty, improving human capital and financing imports. This study aimed at presenting the research on the contribution of remittance to the rural economy as well as national economy in Nepal. For this, I reviewed the published and unpublished pieces of literature from various government institutions and other sources, including the World Wide Web. The information on the contribution of Remittance on the rural economy, concerning the current situation, destination, ratio of GDP, has been discussed, collected systematically reviewed for discussion and conclusion. It was found that the ratio of remittance to GDP has highly increased in the nation because the increasing rate of remittance inflow is more than the increasing rate GDP. Major destinations of unskilled and semi-skilled labour are countries like Malaysia, Qatar, UAE, and Korea. The poor working conditions, lower wage level and rising cost living in the destination countries, fraud recruitment and lack of social protection are the major problems of migrants. The potential benefits of utilizing migrants' human capital have not yet been sufficiently explored by governments. The government should perform a positive role to promote employment by inducting and adhering to economic diplomacy.

Keywords: migrant worker, remittance, rural economy, migrant, Nepal.

I. INTRODUCTION

The economy of Nepal is dominated by agriculture and remittances. Agriculture is its main economic activity. Smallholder marginal farmers constitute a majority of the population in rural areas of Nepal (Katuwal, 2020). Remittance is an important source of income to the rural economy, which has increased extremely over the past years. Remittance has also been used for domestic purposes, such as land management and development, child education, health care, entertainment. The economy is extremely depending on remittances sent home by the migrant workers. At a situation, when the country's main economic indicators are not showing a good picture, remittances have played a vital role in keeping the economy afloat. The international remittances have been crucial in poverty reduction as well as for improving the living standards of the people (Seddon et al., 1999; Shrestha, 2004).

The history of remittances dates back to the 19th century. Remittance is one of the main sources of income flow to rural areas in Nepal. Citizens of Nepal began foreign employment by travelling to Lahor at the beginning of the 19th century to join Sikh ruler Ranajit Singh. Foreign migration began with the Sugauly Treaty of 1814 A.D. Remittances have shown their presence in the economy since they began formally receiving remittances by exporting soldiers known as the 'Gurkhas' to Britain. Today, globalization is a liberal economic system in which money, technology, labour, raw materials, and knowledge transport flow freely. Distribution and marketing are internationally interconnected. At present, foreign labour migration has been really increasing.

Remittance is an important source of foreign earnings for developing countries, such as Nepal that has risen considerably over the past years. It is a private income that is regularly transferred from international migrants to family members in their home country. Nepal received remittances worth Rs 699 billion in the Fiscal year 2017/18 ranking fourth in the list of countries with a large contribution of remittances to GDP, according to a report prepared by the ministry of labour, employment and social security, entitled "Labour Migration for Employment a status report for Nepal 2015/16- 2017" also states that during past three years Nepali labour migrations have registered nearly 7,500 complaints, citing numerous instances of fraud malpractice during their recruitment employment. Sound information accurate analysis is essential to formulate evidence-based policies implement them effecting in Nepal (NBR, 2017).

According to the foreign employment department of Nepal, till Fiscal Year 2010/2011 on an aggregate, nineteen lakh sixty-four thousand three hundred eighty-three labours are recorded as migrated for foreign employment. Nepal labour Force Assessment (NLFA) survey 2008 shows that the labour force participation rate is 83.4 percent; employment rate is 97.9 percent. The trend of foreign employment is increasing. The migration remittance has become tools to poverty as well as for improving the living standard of the people. The contribution of remittance to the income of the household

is increasing year by year. According to the Nepal Rastra Bank (NRB), due to the increasing trend in foreign employment, the decreasing trend of export, the contribution of remittance is increasing. Remittance growth slows to 7.7 percent in 2016. No doubt, remittance is one of the main sources of many Nepalese households.

Shortage of employment opportunities in labour marketplace, low wage, the culture of not respecting to the job, education, training, development in communication technology increased desires of youths has been the influencing factors for increased outbound trend among Nepalese youngsters. The devastating earthquake and lack of commercialization and industrialization of the industrial sector have been the reasons as to why foreign employment became an alternate choice for them (Economic survey, 2016/17).

In its conclusion, Economic Survey (2019/20) estimated that around 500 thousand people are entering into Nepalese labour market annually. But, the matter of employing those who enter into the labour market is still challenging. Economic development has to be accelerated through the creation of productive employment and utilizing the existing youth labour force in the country. Therefore, unproductive surplus labour force from agriculture sector has to be transferred into service sectors including industry, trade, tourism, education health. According to Labor Force Survey (2017), the present unemployment rate in Nepal is 11.4 percent (Economic Survey, 2019/20).

In the absence of alternate from non-farm jobs, the majority of, ironically, are opting to go for employment deserting the villages in the hope of decent living in future. If the rural economy had more jobs, together with economic social infrastructures better prospect for business, the youth would have stayed in the village of their own. Shortage of Agro-based industries in the villages is another reason for the dismal job scenario in the rural sector. The employment situation has therefore to be improved in rural areas to prevent the youth human assets of the country from going to build nations other than their own. Balanced economic growth, inclusive sustainable development the reduction of poverty specifically in rural parts are obvious challenges. The challenge of eliminating rural poverty un/underemployment will be further heightened by the rapid growth of the workforce in the country (Koirala, 2020-).

The role of remittance in the rural economy of Nepal is increasing rapidly. It has been found that remittance is for the economy. But most of its part is used an unproductive sector such as house building, land purchasing, etc. Most of the research works on macro-level have shown that more than 80-90 per cent of the remittance is used on consumption (Nepal Rastra Bank, 2008). Keeping the above scenario in view, the researcher attempts to study the contribution of remittance towards rural Economy, National Economy also examines the prevalent status of foreign employment. Thus, the objective of this study is to present the research on the contribution of remittance to the rural economy in Nepal.

II. METHOD AND MATERIALS

This paper is based on the desk review of the published and unpublished works of literature from government institutions and different sources, including the World Wide Web. Most of the data employed in this study were obtained from issues of Economic Survey, Ministry of Finance, Quarterly Economic Bulletin of Nepal Rastra Bank (NRB), Banking and Financial Statistics of NRB, Economic Reports of NRB. The information on remittance in Nepal, with references to historical aspects, is collected and reviewed for discussion. Mostly quantitative and some qualitative information are collected to observe the situation of foreign employment and remittance in the Nepalese context. Relevant statistical tools have been applied for the analysis of data.

III. RESULT AND DISCUSSION

In this section, the remittance and its impact on rural economy of Nepal, concerning the current situation, destinations of workers and remittance inflow to GDP, the skills of migrant and issues and challenges have been reviewed and discussed.

3.1. Trend Remittance Inflow and GDP

Domestic consumption expenditure, domestic investment expenditure, government expenditure, net export, etc. are responsible factors that increase GDP and its growth in the country. Remittance is one of the earnings enter in the nation which can enhance GDP of the nation, since earning earned through remittances are spent by recipients either for consumption purpose or investment purpose.

TABLE 1 PROPORTION OF REMITTANCE TO GDP

Year	Ratio of Remittance to GDP	Remittance inflow(Rs. in Billion)
2008/09	21.15	209.7
2009/10	19.19	231.7
2010/11	18.5	253.6
2011/12	23.5	359.6
2012/13	25.6	434.6
2013/14	27.7	543.3
2014/15	29.0	617.3
2015/16	29.5	665.1
2016/17	26	695.5
2017/18	24.8	755.1
2018/19	25.4	879.3

Source: *Economic survey* from 2009/10 to 2020/16 MoF Kathmandu pp57

Table 1 shows that not only the volume of remittance but also its ratio to GDP has increased. The remittance inflow to GDP that had stood at 19.19 per cent in FY 2009/10 went up to 29.5 percent in FY 2015/16 and went down to 24.8 in FY 2017/18. The growth rate of remittance inflow averaged 21.8 percent during the last five years (MoF, 2015/16). In 2017/18, Nepal was the fifth-highest remittance recipient country after Tonga, the Kyrgyz Republic, Tajikistan, and Haiti, in terms equivalence to GDP (MoL.2020). Thus, remittance inflow has remained as a major source for foreign exchange. The ratio of remittance to GDP has highly increased in the nation because the increasing rate of remittance inflow is more than the increasing rate GDP.

3.2. Status of Remittance in Nepal

Overseas migration has become one of the leading sources for earning foreign currency and it has performed a crucial role in reducing the unemployment problem in Nepal. Earning migrant labours called ‘remittance’ came into Nepal long ago when Nepalese youngsters enrolled with British military known as ‘Gurkhas’. But the Labor Act 1985 came as an advantage for facilitating foreign employment and opening up ways for the private sector. Enactment concerning foreign Employment Act 1985, arrangement releasing passport from related district administration offices and high demand labour in the foreign labour market, particularly in Gulf countries added fuel to the growth of migration of Nepalese labour force. According to CBS (2008), out the twenty-three percent the families receive remittance and per capita remittance in Nepal is 4,042 Nepalese rupees. Following information reveals a short snapshot of the facts of remittance in Nepal.

TABLE 2 FACT OF REMITTANCE IN NEPAL

Description	Value
Percentage of household in remittance	23
Average remittance received by households (receiving remittance) (NRs)	80,462
Average remittance received by overall households in Nepal (NRs)	16,355
Per capita remittance amount for overall Nepal(Nominal NRs)	4,042
Share of remittance by households from outside Nepal (in %)	
From India	13.4
From Malaysia	19.2
From Saudi Arabia	14.9
From Qatar	21.3
From U. K.	2.2
Other countries	29.0
Total	100

Source: Report on Nepal Labor Force Survey, (2008) CBS.

It (Table 2) gives a picture of the number of Nepalese workers working abroad, main destination and remittances to GDP of Nepal till 2008.

3.3 Destinations of Migrant Worker

The figures Nepalese workers going for foreign employment is increasing every year. The outflow of the Nepalese labour force from the nation includes not only unskilled labour force but also includes skilled, efficient and trained manpower like doctors, engineers and other specialists who can contribute considerably to the overall development of the nation. According to reports, large numbers of Nepalese workers have gone for foreign employment without securing government permission as well. Based on the official and unofficial documents as now, more than 3 million people have gone for foreign employment.

Because of the open border, cultural as well as religious similarities, easy entrance and for other reasons, a large portion of Nepalese people are working in India, But the issue remains untouched in most the studies. Foreign migration has become one of the popular dreams of Nepalese youths. The main destination of migrated in the name of higher study (but who are reported to have involved in types labour works) are developed countries like USA, UK, Canada, Australia, etc., whereas destinations of unskilled and semi-skilled labour are countries like Malaysia, Qatar, UAE, Korea, etc. Destination of Nepalese migrant labour force until 2017/18 is shown in the following table (Table 3).

TABLE 3 DESTINATION OF NEPALESE MIGRANT WORKERS UNTIL 2016/17

S.N.	Country/ region	Of fiscal year 2017/18	2006/07 to Until 2017/18	2018/19
1.	Qatar	103176	1196168(27.4)	75024 (31.75)
2.	Malaysia	104204	1313658(30.09)	9999(4.23)
3.	Saudi Arabia	40960	880951(20.18)	46080(19.5)
4.	UAE	60241	572470(13.11)	62776(26.56)
5.	Kuwait	17554	141764(3.25)	15995(6.77)
6.	Bahrain	4862	51897(1.19)	4633(1.96)
7.	Oman	3059	35171(0.8)	2722(1.15)
8.	South Korea	7949	42901(0.98)	166(0.7)
9.	Lebanon	22	12763(0.29)	11(0.00)
10.	Israel	118	6759(0.15)	58(0.00)
11.	Afghanistan	1442	12024(0.27)	1830(0.77)
12.	Japan	761	18401(0.42)	959(0.4)
13.	Other Countries	17593	80488(0.01)	16040(6.78)
14.	Total	361941	4365415 (100)	236293(100)

Note: Parentheses indicate the percentage of the total.

Source: Economic Survey (2019/20) MOF.

From table 3, it can be deduced that the maximum migrants 1,313,658 (30.09 %) the total have gone to Malaysia followed by 1,196,168 (27.4% the total) to Qatar and 880951 (20.18 % of the total) to Saudi Arabia. A total of 4,365,415 individuals have gone for foreign employment until FY 2017/18. In the Fiscal Year, 2018/19 maximum migrants 75,024 (31.75 % of the total) have gone to Qatar followed by 62,776 (26.56of the total) to UAE and 46080(19.5 the total) to Saudi Arabia. A total 4,365,415 individuals have gone for foreign employment until FY 2017/18. Such a huge labour migration has taken place because the push factors like lack of employment opportunity, lack political stability in the country and lack feeling security and because pull factor-like easy availability high job opportunity in those nations where high construction work is in increasing trend. The foreign employment has supported in bringing economic prosperity in rural Nepal and reducing poverty

The reason under the foreign employment is due to lack of employment opportunity within the country, political uncertainty, the low salary structure, government liberal policy and greater demand for the labour in the industrialized Asian and middle-east countries. The large numbers Nepalese young people have migrated overseas to seek employment in Middle East countries, Malaysia, and South Korea and others.

While Malaysia and the GCC countries have dominated Nepal’s migration discourse, it is also important to focus on emerging corridors that are increasingly important for Nepali workers. Prominent countries where over 1,000 workers received labour approvals in total in 2017/18 and 2018/19 include Poland (4,728), Maldives (3,763), Jordan (3,402), Turkey (3,396), Cyprus (3,304), Malta (2,317), Japan (1,720), Romania (1,494) and Macau SAR, China (1,368)

3.4. SKILLS

Skills development is an important policy priority given its positive impact on labour productivity, poverty reduction, and economic growth. The occupational profile of labour migrants in 2018/19 shows that 59 percent of the new workers took up unskilled jobs whereas this share was 64 per cent in 2017/18. Similarly, the share of workers taking up low-skilled jobs was lower for migrant workers renewing their labour approvals at 54 per cent in both years (Table 2). While there is a broad consensus that a large share of Nepali workers is being employed for low-skilled work.

TABLE 4 SKILLS CATEGORIZATION NEPALI MIGRANT WORKERS (2017/18 AND 2018/19)

Date	Occupation	RA	New	Regularization	Renewal
2018/19	High Skilled	0.0%	0.2%	0.3%	0.0%
	Professional	0.2%	0.7%	0.5%	0.1%
	Semi-Skilled	8.9%	17.4%	13.0%	7.4%
	Skilled	28.9%	49.1%	49.2%	38.7%
	Low Skilled	62.0%	32.6%	37.0%	53.7%
	Grand Total	208349	9145	18708	272615
2017/18	High Skilled	0%0	0.2%	0.2%	0%
	Professional	0.0%	0.5%	0.7%	0.2%
	Semi-Skilled	8.3%	9.6%	9.1%	6.1%
	Skilled	25.6%	54.8%	50.9%	39.4%
	Low Skilled	66.1%	35.0%	39.2%	54.4%
	Grand Total	323741	8906	21299	258593

Source: Ministry of Labour and Employment (2020).

Skills development is an important policy priority of the Government of Nepal to ensure that Nepali workers make the most out of their migration experience in terms of their earnings and upward mobility potential. For example, the minimum referral wages set by Nepal for the UAE is 800 AED (low skilled category), 1000 AED (semi-skilled category), 1,200 AED (skilled category) and 5,000 AED (highly skilled category). Furthermore, proper skills training can also minimize the incidence of occupational injuries and other work-related risks.

3.5. Some Issues /Challenges

Nepal is receiving massive amounts of rupees sent by Nepalese workers from various parts in the world. It could be many times higher even with the existing Nepalese workers abroad if Nepal can strategically and regularly manage the foreign employment process and remittance transfer. The Nepalese migrant workers struggle with several obstacles at the home country and their destinations (NRB, 2001, 2007; Bhattarai, 2005; MoLT/UNIFEM, 2003, Ghimire, 1996, Gurung, 2002 and Pant, 2006). The major problems are poor working conditions, lower wage level and rising cost living in the destination countries, fraud recruitment and lack social protection are the major problems. The other major challenge is moving through illegal networks, thereby losing the legal status in the labour importing countries.

The international provisions are there to secure the rights of the migrant workers. But simultaneously the government and receiving countries do not seem to be sincere to the execution the spirit provisions. Confirmation of UN convention by Nepal will create moral pressure on the labour receiving countries. The bilateral agreement has not taken place even with some major labour importing countries pertaining to the safety and welfare the migrant workers. Next Problem is the lack of a working mechanism to address the issues related to migration like demand verification. Labour attaché in the potential labour receiving countries is still lacking.

IV. CONCLUSION

In Nepal, remittances have emerged as one of the premier sources of foreign exchange, and in recent years they have been an avenue of supporting family members remaining at home. It has been already shown that remittances sent by the migrant workers are a reliable tool for poverty reduction. Although overseas employment is an advantage to the

economy, the facilities are inadequate to back up the improving trend of migration. The ratio of remittance to GDP has highly increased in the nation because the increasing rate of remittance inflow is more than the increasing rate GDP.

Foreign migration has become one of the popular dreams of Nepalese youths. A total of 4,365,415 individuals have gone for foreign employment until FY 2017/18. Major destinations of unskilled and semi-skilled labour are countries like Malaysia, Qatar, UAE, and Korea. Inadequate information on jobs abroad, lack of skill training, pre-departure preparation, lack of assurance of safe working surroundings and right of the migrant workers are the other constraints for improving employment and remittances.

The occupational profile of labour migrants in 2018/19 shows that 59 per cent of the new workers took up unskilled jobs whereas this share was 64 per cent in 2017/18. Similarly, the share of workers taking up low-skilled jobs was lower for migrant workers renewing their labour approvals at 54 per cent in both years. While there is a broad consensus that a large share of Nepali workers is being employed for low-skilled work. The poor working conditions, lower wage level and rising cost living in the destination countries, fraud recruitment and lack of social protection are the major problems of migrants. The other major challenge is moving through illegal networks, thereby losing the legal status in the labour importing countries.

Lastly, it is significant to recognize that remittances are not the just kind of exchange between groups of individuals. As mentioned in this paper, remittances are the transfer of money from migrants to their relatives back home, but they constitute one of exchange. Migrants also send back culture, skills and knowledge. The skills and experiences gained by migrants in foreign countries could be a new pool of human capital for supporting rural development in the rural sector of Nepal. The potential benefits of utilizing migrants' human capital have not yet been sufficiently explored by governments. Migrants would be aware of their potential to assist their communities of origin with their experiences and skills attained abroad. The government should perform a positive role to promote employment by inducting and adhering to economic diplomacy. Replicating the best practice of the region has to be approved in the national perspective for promotion and regularization of employment, to encourage the official transfer of remittance and to streamline the asset and skill of the returnees for the economic development of the country

REFERENCES

- [1] Bansak, C. (2015). *The thesis of Remittance, school quality, and household education expenditure in Nepal. (include the level of the thesis and name of University)*
- [2] CBS (2008). *Labor force survey: Thapathali, Kathmandu Central Bureau of Statistics Nepal.*
- [3] David, S. Adhikari, J. & Gurung G. (2001). *The New Lahures: Foreign Employment and the Remittance Economy of Nepal.* The Nepal Institute of Development Studies, Kathmandu.
- [4] Ghimire, B. P. (2013). *The thesis of the Situation of foreign employment and Remittance in Nepal. (include the level of the thesis and name of University)*
- [5] ILO (2003). *Challenges to Labor Migration Policy and Management in Asia:* Geneva
- [6] Katuwal, N. (2020). Motivational Factors Influencing a Conversion for Organic Tea Farming In Nepal, *International Journal of current Research and Thought (IJCRT)*. DOI: <http://doi.one/10.1729/Journal.25079>
- [7] Katuwal, N., (2020). Factors Influencing Small Farmers' Participation in The Extension Of Tea Farming: A Case Of Ilam, Nepal, *EPRA International Journal of Agriculture and Rural Economic Research (ARER)*, DOI: <https://doi.org/10.36713/epra6009>.
- [8] Koirala, S. P. (2020). Boosting The Nepalese Rural Economy <https://www.spotlightnepal.com/author/shivaram-pd-koirala-phd/>
- [9] Ministry of Labour and Employment (2014/15), *Labour Migration for Employment, A Status Report for Nepal:* Singh Durbar, Kathmandu.
- [10] MOF (FY – 20017). *Economic Survey.* Ministry of Finance, Department: Singh Durbar.
- [11] MOF (FY – 2007). *Economic Survey.* Ministry of Finance, Department: Singh Durbar.
- [12] NBR (2017). *Remittance its Role in Nepalese economy:* The Himalayan Times
- [13] Nepal Rastra Bank (2008). *Report of Household Budget Survey Nepal:* NRB Kathmandu.
- [14] NRB (2010). *Remittances its Role in Nepalese Economy and Concept of Diaspora Bonds: Annual Publication NRB, Kathmandu.*
- [15] Pant, D. (2017). *The thesis of Analysis of the Determinants of Remittance and Effect on Expenditure Behavior and Child Welfare in The Household of Nepal. (include the level of the thesis and name of University)*
- [16] Pant, B (2008). *Foreign Labor Migration: Issue and impact.* 51st Annual Publication: NRB.
- [17] Seddon, D, Jagannath, & Gurung, G 1999. *The New Lahures: Foreign Employment and Remittance Economy of Nepal.* Katmandu: Nepal Institute for Development Studies (NIDS).
- [18] Seddon, initial name & David, initial name (2003). *Migration and Remittances: The Case of Nepal: The Economic Journal of Nepal. Central Department of Economics, Kathmandu (add volume number and pages)*
- [19] UNDP Report (2017). *Remittances Impact Report.*
- [20] WDR (2006). *Defines Remittance*
- [21] World Bank (2006). *Global Economic Prospects Economic Implication of Remittance and Migration.* Washington. D.C.: The World Bank.
- [22] World Bank (2010). *Global Economic Prospects. (http://cream-migration.org/files/Dustmann_and_Speciale.pdf)*