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The Role of Remittance on Socio-Economic Progress in Nepal

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Abstract

This research paper examines the contribution of remittance on socio-economic development of Nepal. The specific objectives are to study the trends, patterns and diversifications of foreign labor migration. This study uses entirely secondary data. The majority of Nepali families earn their income through foreign employment. Nepal has about 200 years' long history of receiving international remittance, as a sum of money transferred from foreign migrant workers to individual or their families in their homeland. The Gulf Cooperation Council and Malaysia are the major destination countries for Nepalese workers. The report of National Planning Commission 2020/21 shows Nepal received NPR 961.05 billions remittance from 128 different countries constituting 22.5 percent of the Gross Domestic Product (GDP). The report of economic survey 2020/21 shows annual per capita income of Nepal reached 1, 381 US dollars in 2021, with an increment of about 11 percent to the previous year. Migration and remittance have contributed to increase the per capita income of Nepal over the years along with significant change in the social development.

Keywords: Labor migration, remittance, GDP, impact, & social development.

Introduction

Labor migration is the movement of people from their home state to another state for the purpose of employment (IOM, 2008). Nepal has a long history of international labor migration. About 200 years ago, Nepalese began seeking employment abroad and sending remittance back home. Remittance is money transferred from foreign migrant workers to individual or their families in their native countries. Migrant workers contribute different types of remittance to the nations which send their human resources to the international job places. And, this has become a global phenomenon of generating income in today's world.

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Remittance can be classified into four types: family, community, migrant and social worker remittance. Family remittance is the remittance sent by a migrant to their family and relatives in their home country. The family remittance is the major form of remittance that supports the family livelihood of millions of workers across the world. Community remittance denotes the remittance sent by individual immigrants generally and by various foreign associations to organisations and communities in their home country. This money has been utilised for the developmental activities of communities such as building infrastructure, temples, parks, and roads. It is also used for providing health benefits, education and employment opportunities. Migrant worker remittance deals with the cash inflow made by migrant workers for the benefits to the families and friends back home. It contributes to a great deal of money inflow into home country by the immigrants to foreign places. Social remittance refers to transmission of ideas, knowledge, skills, cultures, identities and social capital from labour migrants to their native lands. Thus, it is a major player for cultural hybridity and interactions and mix-up between societies of different countries.

About 281 million international migrants sent about 702 billion dollars remittance to their home countries in 2020. Similarly, 540 billion dollars of external remittance flowed to Low- and middle-income countries in 2020. Likewise, the result also exhibits that India and China received the largest amounts of external remittance in Asia, together with more than 140 billion dollars in 2020. In the similar way, comparing G-7 countries, France is the largest receiving country of remittance with 24.48 billion dollars, while Germany ranks second with 17.90 billion dollars in 2020 (IOM, 2022). However, it should be noted that most of the remittance received appear to have been sent to the countries of Asia-pacific regions.

Justification of the Study

Over the past few years, migration and remittance have played significant role in socio-economic development of Nepal. In 2020/21, Nepal received NPR 961.05 billion remittance from different countries, constituting 22.5 percent of the Gross Domestic Product (NPC, 2020/21). Nepalese foreign migrants have been contributing international remittance for about 200 years, which has played important role in the development of various social sectors such as education, health, sanitation and drinking water. Based on the report of economic survey 2020/21, Nepal's annual per capita income reached 1,381 U.S. dollars in 2021, up about 11 percent from the previous year.

The expansion and accessibility of social infrastructure and services are essential for human development. The state of social development determines how human development proceeds. There has been an increase in Nepalese government investments in education, health, drinking water, and sanitation and in improving of the target group. The private

sector is also investing in the social sector. As a result, despite the effects of Covid-19, significant progress has been achieved on most indicators of social development, making it easier to achieve sustainable development goals. School enrollment rates have increased, while literacy rates have also improved. At the same time, gender parity has been achieved in education. Likewise, the availability of basic health services and scopes of health insurance have increased for the general public (MoF, 2021).

Objectives

The main objective of the study is to analyze role of remittance on socio-economic development of Nepal. It also aims at examining the trends, patterns and diversifications of foreign labor migration and remittance received by the households in the Nepalese communities.

Data and Methodology

Secondary data is entirely used in this study which are taken from different national and international institutions. Several sources of data have been collected, including Economic Surveys, Department of Foreign Employment, and Nepal Rastra Bank reports. The data published by the Ministry of Finance, and Ministry of Labor, Employment and Social Security, Government of Nepal have been widely used. The literature relating to migration, remittance, and social development is extensively used as well.

Interpretation and Analysis of Data

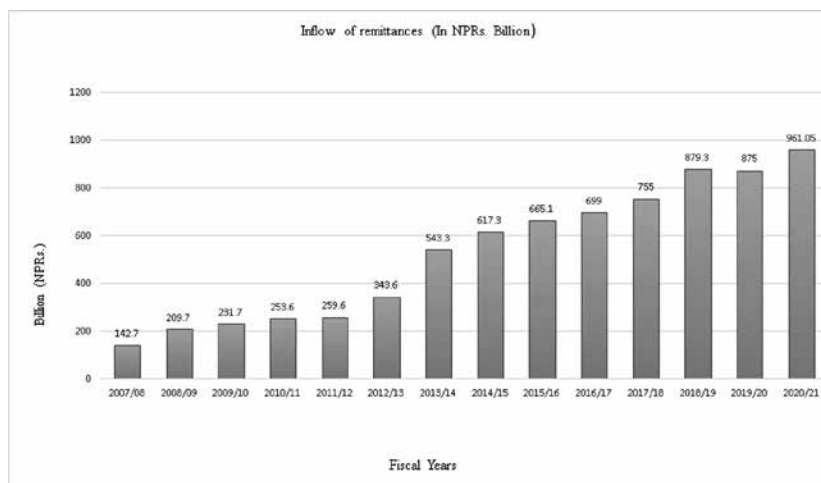
Trends of Remittance in Nepal

Inflow of remittance refers amount of money transferred to the native country of a migrant worker. It possesses a significant position in the international capital flow in the countries which export human resources. In the recent years, it has gained a special recognition for earning foreign currency in Nepal which is one of the major remittance-receiving developing countries in the world. During the past two decades, it has played crucial role in the Nepalese economy. Despite the negative effects that occurred due to COVID-19 Pandemic, Nepal did not experience harsh differences in receiving remittance.

It is about two centuries since Nepal started receiving international remittance. The trends show a tendency of receiving remittance slightly increasing from 1990 to 2001/02. Nepal received NPRs. 47.22 billion remittance in 2001/02. It went on increasing and when it came to the year 2007/08, it reached NPRs. 142.7 billion. In the same way, the trend went slightly increasing in the following five years. Then, the trends rapidly increased from 2013/14 to 2020/21 except

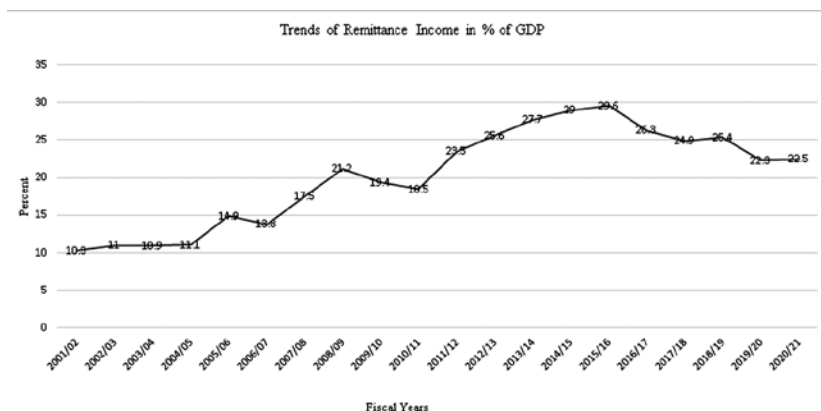
in the year 2019/20. There are numerous causes behind the rapidly increased in the inflow of remittance which include unemployment, poverty, Maoist insurgency, lack of security of the people, mass labor migration and so on. On the other hand, the major cause behind the slight decrease in the year 2019/20 was global COVID-19 Pandemic (Figure 1). Regarding the labour migration, about four million labor permits were issued to Nepali workers by the Department of Foreign Employment (DoFE) from 2009 to 2019 (MoLESS, 2020).

Figure-1: Trends of Inflow of Remittance to Nepal, 2007/08 to 2020/21



Source: Nepal Rastra Bank, 2007/08 to 2020/21; Ministry of Finance, Government of Nepal, 2007/08 to 2020/21.

Figure-2: Trends of Remittance Income in Percent of GDP in Nepal from 2001/02 to 2020/21



Source: Nepal Rastra Bank, 2001/02 to 2020/21; Ministry of Finance, Government of Nepal, 2001/02 to 2020/21.

The data shows that the trend of income through remittance in percent of the total GDP of Nepal increased slightly in the years from 2001/02 to 2004/05 (i.e.10.3% to 11.1%). Similarly, it shows a rapid increase in the following year reaching 14.9 percent. With slight decrease in the next year, it went continuously increasing till the year 2009/10 (21.2%). Though, the trend decreased in the next two years making it only 18.5 percent. Reaching to its peak in the year 2015/16 (29.6%), the trend went going down when it came to 2020/21 (22.5%). Although during the period of 2015/16 to 2020/21, the trend of remittance income in percent of the total GDP of Nepal seems slightly decreasing, the actual amount of inflow of remittance did not decrease due to increase in the revenue of government of Nepal in those years.

Current Trends in Foreign Labor Migration

As of the twenty-first century, abroad employment occupies the major concern among the Nepalese youth. Nepal's open border with India is one of its unique characteristics for foreign employment. Cross-border movements are frequent and extensive, which have positive and negative impacts despite the lack of data on this issue. Nepalese have traditionally sought work in India, but since the mid-1980s, they have also begun to migrate to the Gulf Cooperation Council (GCC) and Malaysia, contributing to an increase in the number of migrant workers, as well as a proliferation of labour recruitment agencies and brokers. Nepal's labor migration trends are divided into migration to India, and migration to the countries other than India. Normally, people can move in Nepal and India with no restrictions. However, migration to the countries except India is highly regulated and is generally based on the contemporary rules and the laws (IOM, 2019).

Nepalese households make a good earning from foreign employment. Foreign employment has been legally permitted in 128 countries by the Government of Nepal, but Nepalese have been found working across 172 countries. The Gulf Cooperation Council (GCC) and Malaysia are major destinations for the Nepalese workers comprising 88 percent of the total foreign labor migrants. Top five countries receiving Nepali workers in the year 2018/19 included Qatar, UAE, Saudi Arabia, Kuwait, and Malaysia (DoFE, 2018/19). In terms of foreign employment, Qatar is the top destination for Nepalese workers (31.8%). Likewise, the United Arab Emirates ranks second with 26.5 percent of Nepalese workers who have gone overseas for employment, followed by Saudi Arabia (19.5%), Kuwait (6.8%), Malaysia (4.2%), Bahrain (2.0%), Oman (1.2%), and others (8.0%) (Table 1).

Table-1: Major Destinations of Labor Migration for GCC and Malaysia, 2018/19

S.N.	Countries	Percent
1	Qatar	31.8
2	United Arab Emirates (UAE)	26.5
3	Saudi Arabia	19.5
4	Kuwait	6.8
5	Malaysia	4.2
6	Bahrain	2.0
7	Oman	1.2
8	Others	8.0
Total		100.0

Source: DOFE, 2017/18

Impacts of Remittance in the Society

According to a survey conducted by Nepal Rastra Bank in 2014/15 in 16 districts, among 320 households, 25.3 percent of the money received from migrant workers goes towards repayment of household loans, 23.9 percent goes toward purchasing foods, clothes, and other daily necessities in the societies, 9.7 percent goes on education and health bills, 3.5 percent on weddings and other social occasions, and 3 percent on buying land. The remaining 28 percent is used for saving and 1.1 percent for business investment. The study also reveals that most of the remittance has been spent on consumption, contributing to the health, education for the upliftment of the family with a direct impact on the economic condition (NRB, 2014/15).

The level of remittance affects both the micro and macro-economic conditions of a country. Remittance is directly infused into the household income stream and improve standards of living by removing budget constraints and increasing consumption. In Nepal, 78 percent of the total remittance received in 2010/11 was used for consumption, 7 percent was used for lending, 5 percent for property purchases, 3.5 percent for education, 2.4 percent for capital formation, and 3 percent for other purposes (DoFE, 2015).

A study reveals that foreign labor migration has positive and negative aspects. It depends on the migrants themselves, their level of education, and the financial status of their households. Foreign migration has adverse impacts on women because it increases their workload, exposes them to various health risks, and exposes them to social injustices. In addition to the positive impacts, labor migrants brought new skills and ideas such as

house construction, carpeting, electrical work, cooking, farming, and financial benefits (Kunwar, 2017).

Conclusion

This study investigated the role of remittance on socio-economic progress in the Nepalese societies. Nepal has been sending laborers, students, devotees, politicians, and militaries abroad over the past 200 years. Nepal has become one of the leading countries in terms of exporting labor, and its economy is basically dependent on remittance. During the past 20 years, remittance has become the backbone of the Nepalese economy. The Gulf Cooperation Council (GCC) and Malaysia are the main destinations for Nepalese workers. In the course of long history of migration and remittance, Nepalese society has achieved impacts in the aspects of socio-economic development like education, health, sanitation, household consumption, poverty reduction, trade, and commerce. It has played important role in transmitting culture, political behavior, skills and technology between societies. Thus, remittance has contributed for the overall socio-economic development of the nation, today.

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