

**ROLE OF REMITTANCE IN POVERTY ALLEVIATION OF  
NEPAL**

A Thesis

**Submitted to**

Department of International Relations and Diplomacy  
Faculty of Humanities and Social Sciences  
Tribhuvan University

In Partial Fulfillment for Master's Degree in Humanities and Social  
Sciences in  
International Relations and Diplomacy

**Submitted by**

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T. U. Reg. No.: 6-3-28-259-2018

October, 2022

## LETTER OF RECOMMENDATION

I certify that this dissertation entitled “**Role of Remittance in Poverty Alleviation**” has been prepared by Dipti Shah under my supervision. I hereby recommend this dissertation for final examination by the research committee at the Department of International Relations and Diplomacy, Faculty of Humanities and Social Sciences, Tribhuvan University in the fulfillment of the requirements for MIRD 526 Thesis for the Master’s Degree in International Relations and Diplomacy.

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(Signature)

Dr. Keshav Bashyal

2022. 10. 22

## **DECLARATION**

I hereby declare that the work has been done by myself and no portion of the work contained in this document has been published or submitted in support of any application for any other degree or qualification of this study or any other university or institution of learning. In the case of other authors' information, ideas, and arguments, the sources have been duly cited and acknowledged as per the requirements. The copyright of this research work belongs to the author.

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2022. 10. 22

## ACKNOWLEDGMENTS

The thesis entitled “Role of Remittance in Poverty Alleviation of Nepal” has been prepared for the fulfillment of the requirement for the MIRD 526 Thesis of Master’s degree in International Relations and Diplomacy.

I would like to express my profound gratitude to Dr. Keshav Bashyal, my supervisor, for guiding me through various stages of this thesis. I am highly indebted to him for sharing his expertise, valuable guidance, encouragement, beneficial suggestions, and constructive comments while preparing this paper. I would like to express my sincere gratitude to Asst. Prof. Prem Raj Khanal, Former Head of the DIRD, for his valuable suggestion and for giving appropriate direction toward completing this research.

I am extremely thankful to Prof. Dr. Krishna Raj Acharya, Head of the DIRD, for his kind cooperation in successfully carrying out this thesis work. I am also grateful to Prof. Dr. Khadga K.C., Former Head of the DIRD, for his inspiring suggestions and encouragement throughout my study. I also express my gratitude to all Academic and Administrative Members of the Department of International Relations and Diplomacy for their considerate guidance.

Lastly, I would like to express my deepest gratitude to my parents, my husband, and my sister for their patience and unconditional support throughout the study. I am also deeply grateful to all those authors, publishers, and researchers for their contributions and findings to this respective field of research topic.

## ABSTRACT

This research accesses the crucial role remittances play in Nepal's poverty reduction and promoting economic growth often impacting families and economies much more rapidly than government or foreign aid does. The research uses data from secondary sources to examine the role remittances have played as an integral part in poverty reduction and refining the living standard of Nepali people, especially in rural areas. Remittance is a helping hand for many struggling families and communities in Nepal. Remittance help people access food, health care services, and quality education. If compared to other foreign aids, the household-to-household nature of remittances makes it an important and direct means of achieving accelerated poverty reduction in Nepal. The thesis examines the remittance status of Nepal with a focus on poverty alleviation and economic growth. The research reviews various studies on the uses of remittances by Nepali households and their prospective poverty alleviation impacts. Further, the study explores and shows how remittance flows have remained decisive in Nepalese households through times of economic difficulties. The research examines the impact of existing policies, institutional features, and the legal framework adopted by the government on the productive uses of Remittance and stresses the government of Nepal needs to consider how to best manage remittance flows and how the body of research on remittances can be strengthened both to understand the impact of remittances in poverty alleviation and for formulating more effective policy for managing remittances. This study looks at these questions and explores ways to improve awareness of the impact of remittances on poverty alleviation.

**Keywords:** Remittance, poverty, economy, migrants, alleviation

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## LIST OF ABBREVIATION

ADB	Asian Development Bank
ASD	Alliance for Social Dialogue
COVID	Coronavirus Disease
CBS	Central Bureau of Statistics
DoFE	Department of Foreign Employment
FY	Fiscal Year
GDP	Gross Domestic Product
GNI	Gross National Income
GCC	Gulf Cooperation Council
ICIMOD	International Centre for Integrated Mountain Development
ILO	International Labor Organization
IMF	International Monetary Fund
MOF	Ministry of Finance
MOLESS	Ministry of Labor Employment and Social Security
MTOs	Money Transfer Operators
MFIs	Micro Finance Institutions
NPC	National Planning Commission
NEF	Nepal Economic Forum
NLSS	Nepal Living Standard Survey
NPR	Nepalese Currency
NRB	Nepal Rastra Bank
USD	United States Dollar
WB	World Bank

# CHAPTER I

## INTRODUCTION

### 1.1 Background

Nepal's vision for a poverty-free country has been the major prevailing challenge. Nepal was ranked 145 out of 188 countries as one of the poorest countries in the world (UNDP, 2014). Many setups affect Nepal's ability to stay out of poverty. Nepal is downrightlandlocked and mountainous with difficult topography therefore, limits development activities to external markets due to lack of physical access. The western part of Nepal, particularly province six and province seven are relatively more secluded from other provinces mainly due to the absence of proper transportation and communication access with the center. Most of the mountain districts and hill districts are at a disadvantaged stage due to a lack of access and limited economic opportunities. These districts are gravely affected by poverty.

Similarly, Nepal's several political changes in the past decades make it equally challenging for development. Likewise, Nepal is rich in natural resources but it has not been able to utilize its resources. Nepal lacks even basic industries and depends largely on products imported from India. Though, Nepal is blessed with plenty of fertile lands with the capability of generating a lot of agricultural products but imports half of the food products from its neighboring countries because of the outdated existing farming practices which make it difficult to earn good income from agriculture.

Poverty is a scorching issue for Nepal. NPC (2018) report on Nepal Multidimensional Poverty Index, presented that 28.6 percent of Nepali people were suffering from multidimensional poverty, where 7 percent of the urban and 33 percent of the rural population face multidimensional poverty in Nepal. The report further claimed that province 2 and province 6 have the highest poverty rate.

Numerous researchers, economists, experts, and scholars have conducted several studies on poverty in Nepal but very few have conducted studies in the context of Nepal about the role of remittances income play in reducing rural poverty. Nepal Multidimensional Poverty Index (MPI, 2021) shows a marked reduction in poverty from 30.1 percent in 2014 to 17.4 percent in the year 2019, mainly because of remittances. Though remittance in Nepal has made tremendous strides in moving rural people out of poverty but the same

success has not been achieved in improving the productive use of remittance satisfactorily enough to move those who have escaped poverty to a more secure middle class.

To escape poverty, Nepalese are leaving Nepal for overseas work opportunities which have resulted in significant growth of the remittances economy and thus, progress on poverty alleviation. While remittances by no means are fully responsible for poverty alleviation in Nepal but it is certainly an important factor that has supported Nepal's economy in recent decades. It is eminent that the growth of a country is generally connected to the level of economic development and growth of different sectors such as financial institutions, and industry. The greatest phenomenon among youths in Nepal has been to go abroad as a student and earn money to support their families back home. Financial institutions are also highly focused on entering foreign currencies in Nepal through the venture of remittance. Therefore, the remittance economy has been making a worthy impression on Nepal's development.

Regardless of the enormous contribution of remittances to Nepal's economic development, Nepal still suffers from miserable poverty, low income, and high unemployment. All these problems continue to act as a push factor for foreign employment. Owing to the lack of a correct government remittance policy, maximum use of remittance income has been used in the unproductive sectors in Nepal like household expenses, loan payments, and social spending like luxurious goods and gadgets, etc. Thus, the policy should be made to give more information to the respondents on using their remittance income in productive sectors like investment in shares, businesses, projects, etc.

There are always positive and negative sides to any subject in the realm. Similarly, remittance has also advantageous and opposite effects. As remittance is sent by the migrated workforce of Nepal, so not just workers are migrating but their skills and talents beneficial for the country are also migrating which has an indirect negative effect on the development of Nepal. However, if discounted at these facts, the importance of remittance is much greater for Nepal's economy. Remittances play a vital role in uplifting the GDP of the country, raising the living standard, and improving the poverty sufferings of Nepalese. Remittance income has become a lifeline for many Nepalese households. The study of poverty remains incomplete if the role of remittances is

disregarded. This embrace true for a country like Nepal where internal employment opportunities are not encouraging.

Remittance is the transfer of money by migrants located overseas to their place of origin. (World Bank, 2007). With migration comes the question of remittance. The word "remit" means to "send back. Remittances are the financial parallel component of migration and are the most solid contribution made by migrants to the development of their home country. Remittance can be the transfer of money from one place to another place within the same country. It is mostly a transfer of money from a person in the city to a recipient in the rural or village area. Remittance also means when a transfer of money takes place from a citizen who has crossed borders to work, live, study, or advance prosperity for himself and his family, to his origin country. The most commonly used term for remittance is money sent by a migrant working abroad to a family back home. The sender of remittance is the migrant worker and the recipient is family in the home country. For this study, all the remittances would be referring to global remittances. Remittance is divided into inward and outward categories.

Inward remittance is money that is coming in from a country outside Nepal. It is a transfer of money to Nepal by Nepali migrant workers from foreign countries. Outward remittance on the other hand is where money is going out from Nepal to a country abroad. The transfer of funds out of Nepal is termed an outward remittance.

Remittances are done formally which are official and recordable such as secure banking network, mobile wallets, and money transfer services, limiting the chances of fraud and financial harm to the sender and recipient. Wire transfer, digital and online transfer are the most familiar methods for sending remittances. There are at least four parties involved while remitting the fund. The four players of remittances are the sender/remitter, beneficiary/recipient, sending agent, and receiving agent. A usual remittance transaction takes place in three steps. What mode a migrant will choose depends on factors such as how quickly a migrant need to send money, where to send money and how the recipient can collect the funds. The migrant sender pays the remittance to the sending agent using cash, check, money order, credit card, or debit card, sent by e-mail, phone, or through the internet. The sending agency instructs its agents in the recipient's country to deliver the remittance. The paying agent makes the payment to the beneficiary.

Factors such as having a bank account, cost, speed, convenience, security and knowledge define whether a migrant worker will prefer to use formal remittance channels. As the informal remittance channels are still prevalent where transfer of money takes place privately through unrecorded channels such as hundi and hawala. One of the most critical factors that lead migrant workers to opt for informal remittance channels is the high cost of transferring money through formal channels. Despite the high cost involved in formal transaction, migrant workers need to be aware of the drawbacks that come with using informal remittance channels because of the risk of money being poached along the way and there is no guarantee that the money will be delivered on time.

Migration for work has been a trend in Nepal for many years. Until the early 1980s, India was the only destination for Nepalese workers however, in the late 1980s, Nepalese workers started migrating to GCC countries and South East Asian countries (Maimbo & Ratha, 2005). This tendency started to increase extensively during the 1990s. Migrating to India for work is much cheaper than migrating to other countries thus, the majority of Nepalese migrating to India for work are from the poorest section of society. Thus, Nepalese migrant workers are contributing substantial amounts as remittances which have positively impacted Nepal's GDP. The government of Nepal has permitted its migrant workers to travel for foreign employment in as many as 110 countries (DoFE, 2021) however, NRB in 2021 had published a report stating that it received remittances from 172 countries. This trend has been observed for the last couple of years leading to gradual growth in Nepal's remittances (DoFE, 2021).

Nepal's economy in recent years has become remittance based because of the continuous increase in the remittances in the country (World Bank Group, 2019). Over time, the share of remittance has continued to grow significantly in the Nepalese economy. The real value of remittance to Nepal increased 76 times during the 18 years 1991-2008, with remittances reaching over NPR 139 billion (equivalent to USD 2 billion). Remittance has contributed to poverty reduction as it is identified as one of the reasons for the decline in poverty from 41.7 percent in 1995/96 to about 30.9 percent in 2003/04 (World Bank, 2011).

According to NRB's Statistical data, in FY 2013/14, the total remittances received by Nepal was NPR 543 billion. Similarly, in FY 2014/15, Nepal received remittances of NPR 617 billion, in FY 2015/16, the total remittances received was NPR 665 billion, in

FY 2016/17, NPR 695 billion remittances were received, likewise, in FY 2017/18, Nepal received remittances of 776 billion, and in FY 2018/19, the total remittances received was NPR 783 billion. The total remittances received by Nepal increased significantly from NPR 543 billion in FY 2013/14 to NPR 783 billion in FY 2018/19, increased by NPR 200 billion (33.9 percent). The total remittances received by Nepal contributed to 29 percent of the country's GDP in FY 2018/19 (NRB, 2020).

## **1.2 Statement of the problem**

Remittance is important for Nepal's poverty reduction however; it is not known how much it enhances poverty reduction. Though the flow of remittance has been flourishing in Nepal but the ways money is transmitted by informal channels have made it unclear to measure its precise outcome on poverty reduction over the years. This system does not allow the monitoring of the total amount of remittance entering Nepal and there are no empirical data to account for the amount of informal remittance that takes place in Nepal. Therefore, how are the remittances spent by families and relatives receiving remains unknown. Some hindrances such as household consumption, meeting day-to-day expenses, and paying back the loan prevent utilizing the full potential of remittance investment in the productive sectors for economic development and address the root cause of poverty in Nepal. The question of how migrant workers can preserve their remittance money and undertake sound investments in Nepal has been an issue of discussion in this study. Migrants have to send remittances only after paying the high costs of remittance transactions while weak legal frameworks put remittance at risk of mistreatment. To utilize the full potential of remittances, labor-exporting countries like Nepal need to design and implement an effective remittance regulatory framework and as well as encourage migrant workers and their families to invest in productive sectors in order to successfully achieve long-term growth. Given the significance of remittance on poverty reduction, the study reviews the phenomenon of remittance flow in Nepal and its contribution to alleviating poverty by reviewing a suitable remittance development approach and the ways by which the remittance can be used to invest for long-term growth instead of being used for consumption purposes only. To be sure of the potentially positive role that remittances play in attaining the desired results of poverty alleviation, it is important to understand the magnitude and prevalence of remittances in Nepal before going into the details of that approach.

### **1.3 Objectives of the study**

The specific objectives of the study are:

- a) To find the relevance of remittance inflow for Nepal's poverty reduction.
- b) To evaluate the relevance of remittance contributions for Nepal's poor households.
- c) To undertake a review of effective methods that hold to the productive use of remittances in Nepal.

### **1.4 Research questions**

Given the prominence of the study, the following questions are, therefore, devoted to the exploration of the role of remittance in poverty alleviation in Nepal:

- a) To what extent is there a remittance influence on poverty alleviation in Nepal?
- b) Has remittance contributed to poverty reduction in Nepal?
- c) What are the successful approaches to the productive use of remittances in Nepal?

### **1.5 Significance of the study**

Remittances are a resilient and inclusive worldwide economic force. They are one of the primary contributors to the national economy of Nepal. They play a crucial role in the increasing economy often impacting families and the national economy much more rapidly than government and private direct investment or international aid can bring. The remittances sent by the migrants are put directly into the hands of their families back in their home country where the family uses the money to fund a broad range of economic activities.

Remittance has a direct effect on migrant households. Migrant households are directly benefitted from the remittances. Remittances increase the recipient's household resources and provide working capital. Remittances reduce poverty levels and result in higher education and health expenditures at the household level. Remittance touches long-term growth. If remittance money is concentrated on productive uses of investment then it may rouse the economic growth of the country however, most surveys show that a large percentage of the remittance is used for human capital development to cover education fees, healthcare, living expenses, food, and buy assets.

Remittance upsurges financial activity. Remittances help low-income households to be involved in financial activities. They help improve access to formal financial services and enhance small business investments. They contribute the human capital that helps the functioning of a dull economy. Remittance tends to be more stable than capital flows. Remittance is less volatile than most capital sources of foreign exchange earnings. It acts as an economic help for many struggling families and communities in poor countries. Remittances have value for banks. Remittances help banks increase deposits, increase financial transactions, and customer retention, benefit from margin fees and commissions, and increase banking business. Remittances advantage for a country. Remittances help in the positive GDP of a country and upsurge economic growth. It also narrows down the poverty level. Most of the studies conducted show that remittances have a positive side in reducing poverty as it is believed that the poor mostly migrate and send back remittances. Since remittances are person-to-person flows, therefore, they are well-targeted to the needs of the recipients who are often poor.

### **1.6 Limitations of the study**

The study has not claimed to have accomplished the complete totality of achieving the objectives of the thesis because of the restraint resources available. It must be noted at the beginning, that the complete elimination of poverty in Nepal by remittances is neither possible nor would be attempted here because of the complexity and multi-dimensional nature of the problem. Hence, the study confines itself within the limitation as said above. This work presents the impact of remittances in poverty alleviation in Nepal, with an emphasis on the years 1990 onwards. The researcher has tried to keep the finding accurate, authentic, and feasible even though there were many limitations associated with it such as this study is based on reliable published secondary sources of information owing to time and resource constraints. The efficacy of this study would have been improved greatly had this paper also included some primary sources from a survey of households receiving remittances and those not receiving remittances for a rational assessment. The non-availability of various resources, up-to-date information, and data acted as restrictions. Data for this study is focused on the role of remittances in poverty alleviation and overall remittance effects in poverty alleviation only. Therefore, basic issues are discussed within the framework of poverty.



## **1.7 Organization of the study**

The thesis is divided into five chapters. Chapter one includes the background of the study, statement of the problem, research questions, objectives of the study, significance of the study, limitations of the study, and organization of the study. Following the introduction, chapter two provides a review of the existing works of literature on the relevant topic. Chapter three deals with the conceptual framework and the methodology used for carrying out the research and includes research design and sources of data. In chapter four applicable data have been presented and interpreted concerning the role of remittances in poverty alleviation and economic growth of Nepal. Chapter five deals with policy measures, and recommendations and ends with the conclusion. References have been presented at the end of the thesis.

## CHAPTER II

### REVIEW OF LITERATURE

The chapter begins with a review of developments and trends in Nepal's remittances including a focus on economic growth and poverty reduction. Reviews from various studies on the pieces of evidence are presented on the uses of remittances by Nepali households and their potential poverty alleviation impacts. Further, it explores and shows how remittance flows have remained essential support in Nepali households through times of economic difficulties. Prior studies and researches provide an appealing discussion on the impact of remittances in alleviating poverty in Nepal. Remittances have the probability to influence a great number of variables in the recipient country. In this research, several studies and research have been undertaken in the context of Nepal highlighting a series of positive impacts of remittances in alleviating poverty in Nepal.

The degree of effect of remittances varies from each study and researches. A few of the main claims from those studies and research argue that remittances have a favorable impact on promoting economic growth where remittances are frequently used for small investments, savings, and household consumptions. Remittances have a deeper role in reducing the poverty level of rural households in Nepal. Remittances hold a greater relevance in rural household income structure.

Pokharel (2015) illustrated that Nepal stood in third place in the year 2012 for receiving remittances with Tajikistan and the Kyrgyz Republic in the first and second position respectively. In 2012, the remittances Nepal received accounted for 25 percent of the GDP. Around 56 percent of households in Nepal received remittances (CBS, 2011). This flow of remittances helped Nepalese households to utilize the money for daily consumption which has been an instrumental means to reducing the poverty level in Nepal. Remittances are dominant anti-poverty forces applicable to poor countries like Nepal.

Remittances sent by Nepali migrants have a favorable impact on domestic demands by increasing the capacity of households to spend on education, health, and food (Vargas et al., 2009). They further emphasized that remittances foster economic growth by spurring entrepreneurial activity. Remittances from migrant workers to their families in Nepal are an important source of income. The families often depend on remittances to cover day-to-day living expenses, funding for small investments, and emergency uses. Poudyal &

Bhaskar (2020), evaluated the role of remittances in contributing directly towards the economic growth of Nepal both at microeconomic and macroeconomic levels. The study mainly focused on the role of remittances at the micro and macro economies levels of Nepal. At the micro level, remittances have positively stimulated the education, and day-to-day living consumptions of Nepalese migrant families and increase their living standards. At the macro level, remittances have improved Nepal's GDP, GNP, and investment opportunities.

Sah (2019) studied that remittance has significantly contributed to the economic development of Nepal as well as its GDP and has raised the living standard of Nepalese. His study investigated that about 30 percent of Nepal's GDP (MOF, 2017) comes in the form of remittance money sent by Nepalese overseas workers which in turn has helped reduce Nepal's poverty rate. Poverty reduction took place in Nepal from 42 percent in FY1995/96 to 25.2 percent in FY2010/11 (NLSS, 2011). This means that remittances that flow from migration have been regarded as one of the main pillars of Nepal's economy. The writer in his study has shown pieces of evidence that Nepal received a remittance of USD 8.1 billion in FY2016 and was ranked 23<sup>rd</sup> among all remittance-receiving countries in the world. More than half of Nepalese households had at least one migrant family member living abroad. The remittance income of 39 percent was spent on consumption, 28 percent on savings and loan payments, 26 percent on property purchases, and 7 percent on investments (GlocalKhabar, 2017). The impact of the remittance flow in Nepal has been pretty remarkable and is apparent in the change in remittance trends and patterns of consumption. He concluded his article by asserting that remittances have emerged as a backbone of Nepal's economy in the last two decades as more than half of the Nepalese homes have at least one member of the family overseas.

Dhakal & Maharjan (2018) explained that remittances sent by migrant workers have diverse implications for socioeconomic development in Nepal. Their study identified appropriate approaches for enhancing remittance uses which have direct benefits for economic growth and development. Their work has shown that effective uses of remittances at macro, meso, and micro levels will promote economic growth. Remittances mainly flow to poor and marginalized families living in rural and remote areas thus, contributing to local and national economic development in Nepal and enabling poor and marginal families to break the harsh cycle of poverty.

The Economic Survey of 2016/17 indicated that Nepal received remittances of NPR 450 billion in the first eight months of FY2016/17 (MOF, 2017). The consequences of remittance have the potential in reducing poverty, increase investments, and promoting growth however, for remittances to make noteworthy contributions, dedicated policies and programs need to be implemented. The Ministry of Labour, Employment, and Social Security (MOLESS, 2019) expressed that the Government of Nepal recognizes the value of remittances which is considerably greater than that of aid and that they have the potential to make a major contribution to national and local economies. The Migration and Development Brief highlighted that remittances to low-income countries like Nepal reached a record high in 2018, which certainly played an important role in promoting economic development (World Bank, 2019).

The Nepalese economy is becoming more remittance-dependent due to low economic return from agriculture and unemployment opportunities (Ratha, 2015). An increased migration leads to growth in remittances, which in turn helps developing countries like Nepal to expand its economy. However, he emphasizes dismissing the myth surrounding remittances that they compensate for the migration of the most highly qualified, or brain drain. It is time and again reasoned that although poor countries may lose the scarce human capital that is essential for development, they gain another scarce factor, namely financial resources in the form of remittances. The two are not substitutes. Remittances are not a trade-off for brain drain for several reasons. The real unfavorable effects of brain drain for developing countries arise from the migration of the upper end of the human capital distribution (engineers, scientists, physicians, and professors). This scarce human capital is usually drawn from the upper decile of the income distribution rather than the middle. Although, there are exceptions for the most part these households are in less need of remittances, unless the country of origin undergoes a major crisis.

ILO (2017) determined the contribution of remittances to employment, economic growth, and the alleviation of poverty and that remittances should be recognized and capitalized for the income of both origin and destination countries. The journal published by Shrestha (2007), stresses that Nepal receives billions of rupees every year in the form of remittances sent by Nepalese migrants across the world which have substantially maintained macroeconomic stability in Nepal. He further proclaims remittance as one of the six pillars of Nepal's economy, the others being agriculture, tourism, water, trade, and investments. The remittances received could go many times higher with the existing

number of Nepalese migrants in the world only if the government strategically and systematically manages the remittances process and transfer. Though the government has proclaimed strong commitments to institutionalize the foreign employment regime to reap maximum benefit and for the protection of Nepalese migrants, there are still many challenges ahead to making International Labor Migration safe, organized, and productive.

Pant (2008) expressed his views on the perspective of remittances to reduce poverty and economic vulnerability of Nepal. In his paper, the author emphasized the formulation and implementation of effective remittance-enhancing policies and strategies to stimulate the economic development of Nepal. He denotes remittances as a constant source of income other than FDI, development assistance, and private flows. The rise of remittances as a new approach to economic development and poverty alleviation has urged the government, international organizations, and multilateral institutions to recognize and apply methods on how remittances inflow could be maximized for the development of Nepal.

The World Bank report (2017) examined that in FY1996, approximately one in four Nepali households received some form of remittances. This converted to one in three by FY2004 and more than one in two by FY2011. Not only did more households start receiving remittances but the number of remittances received also increased over the years. The first half of the 2000s saw a drastic increase in remittances from 2 percent of GDP in FY2000 to 15 percent in FY2005, 22 percent in FY2010, and as much as 30 percent in FY2016, making Nepal the second highest recipient in the world among countries with a population of over 1 million and measured as a share of the economy. Further, the report determines that with the rise in inflow, remittance is likely regarded as the primary engine behind the improvements in living standards witnessed in Nepal. Large-scale remittances solve several problems for Nepal. It reduces unemployment, alleviates poverty, enables greater consumption, and leads to higher tax collection, and at the same, it lessens the pressure on the government to discontinue the long history of exchanging favors for help.

Chaudhary (2020) concludes that decreasing remittance inflow due to the COVID pandemic could significantly hamper the economic growth rate of Nepal. However, an editorial published in the Kathmandu Post states that even when the Covid-19 pandemic

worsened the global economic crisis leaving millions of people without a job and despite a reverse migration in Nepal, Nepali migrant workers sent home NPR 961.05 billion in the FY2019/2020, the highest remittance received since overseas employment in Nepal started over two decades ago (Prasain, 2022). Despite the labor markets in the Gulf Cooperation Council countries and Malaysia being severely impacted by Covid-19 which left millions of migrant workers with no options but remittances proved far more resilient than expected in Nepal because of the massive labor stock abroad with at least 3 million Nepalese working in different countries for decades.

Chaudhary (2022) assesses the contribution of remittances to the GDP of Nepal. Remittances started to surge from FY1999/00 surpassing 10 percent of GDP, making remittance a major source of foreign exchange reserve. In FY2019/20, Nepal recorded NPR 875 billion remittance (NRB, 2020) constituting 23.3 percent of GDP which is significantly larger than the collective amounts of gross exports, official development assistance, and foreign direct investment in Nepal.

Seddon et al. (1998) focused on a study conducted by the National Planning Commission (1980) which estimated that 35 percent of total household income in rural Nepal came from remittance. In their journal, they specified the remittance economy as a major significance for reducing poverty both as a source of foreign exchange and as a source of income to many households throughout the country, particularly in the hill areas. They also underlined that the value of remittances increased substantially in the last ten years. During the second half of the 1970s, the recorded value of money sent back from abroad doubled from NPR 90.7 million in 1974-75 to NPR 216.8 million by 1980-81. Over the next decade, the official value of remittances increased three-fold to reach NPR 676.8 million by 1989-90. It was estimated that in the mid-1980s, Nepal gained nearly USD 47 million annually from British Gurkhas as remittances and Indian currency worth USD 100 million from Nepalese in the Indian Army. The authors in their study further highlighted that there were four major world regions where Nepalese migrants were employed. The West (northern Europe and North America), the Far East and South East Asia, the Gulf, and India. Only a small number of Nepalese were employed outside these four regions.

The survey published by ADB (2017) examined remittances as the factor that has had the most significant impact on reducing poverty in Nepal. The survey further stated that the

contribution of remittances has been a key factor in increasing per capita income and poverty alleviation. Remittances helped maintain macroeconomic stability in Nepal during the conflict era by becoming the second largest source of income after agriculture. Similarly, the survey showed that remittances increased from 15.3 percent of GDP in FY2006 to 18.7 percent in FY2011 whereas the remittances amount increased from NPR 13 billion in FY1996 to NPR 259 billion in FY2011 and the percentage of households receiving remittances increased from 23.4 percent in FY1996 to 56 percent in FY2011. Likewise, the nominal average amount of remittance per recipient household increased from NPR 15,160 in FY1996 to NPR 80,436 in FY2011. The share of remittance in total household income among recipients increased from 26.6 percent in FY1996 to 30.9 percent in FY2011 and nominal per capita remittance received for all of Nepal increased from NPR 625 in FY1996 to NPR 9,245 in FY2011.

Adhikari (2021) established a view that certain policies and acts executed by the government of Nepal have played a favorable role in remittances inflow as remittances have become a major source of foreign exchange earnings and Nepal's economy in the recent years has become remittances based. He further particularizes that only proper utilization of remittance money can leverage the development impact. For long-term development efforts, Nepalese should be encouraged to utilize remittance in productive investments like small businesses and projects that generate jobs and help Nepal's economy to sustain itself.

## CHAPTER III

### RESEARCH METHODOLOGY

#### 3.1 Conceptual Framework

This paper aims to explore the role of remittances in poverty alleviation in Nepal and as well as identifies the pivotal relationship between remittances and poverty alleviation. This course-driven work has summarized and evaluated the impact of remittances on Nepal's economy and poverty alleviation in the range of topics that have been described chapter-wise. It is a work of secondary research taking the existing effective data and information into consideration for the study on Remittance and Poverty Alleviation in Nepal and as well as examines the impact of current policies, institutional features, and the legal framework adopted by the government on the productive uses of Remittance. It investigates the significance of remittances for Nepal's poverty alleviation. Since this work is not primary research; this researcher considers literature review as a method of building conventional knowledge about the role of remittances in poverty alleviation in Nepal. In this process, internet resources, various journals, reports, articles, textbooks, debates, and critiques have been explored to address the role of remittance in Nepal's poverty reduction. Secondary literature and statistics on remittances in Nepal were reviewed. Information and data were reviewed from various sources including the World Bank, Nepal Rastra Bank, International Labour Organization, Agricultural Development Bank, National Planning Commission, Ministry of Finance, Department of Foreign Employment, Ministry of Labor, Employment, and Social Security.

#### 3.2 Research Design

The study approach is a qualitative method. The research is a predominantly qualitative approach that seeks to explain how and why remittances play an important role in poverty reduction and economic stabilization in Nepal. The paper uses secondary data sourced from a variety of channels for providing descriptive backing for the study. This paper interprets and analyzes existing data for providing insights into the study. In this research, the evaluation and exploration of the relationship between remittances and poverty alleviation in Nepal from the list of studies done in the past have led to secondary and qualitative research. The use of secondary data and information collected from various sources has helped to prepare this paper.



### **3.3 Sources of Data**

The data collected is completely secondary. The data used in the study are published in the newspaper, books, journals, government publications, economic surveys of the Ministry of Finance, reports from the Ministry of Labor, Employment and Social Security, Central Bureau of Statistics, and the published reports of the World Bank, Agriculture Development Bank, International Monetary Fund, World Economic Forum Survey Reports, International Labor Organization's Database and from the analytical reports of INGOs and the UN. Several research papers, and the World Bank, ILO, NPC, NRB, and IMF working papers were also studied to find out the facts.

The information and data collected for this report are obtained from the Department of Foreign Employment and various study reports conducted in this field. In all cases, secondary data were obtained from the World Bank and Nepal Rastra Bank Working Paper Series and reports while other data are collected from different sources.

#### **3.3.1 Data Representation**

The data in this study is represented by tables, graphs, and line charts.

## CHAPTER IV

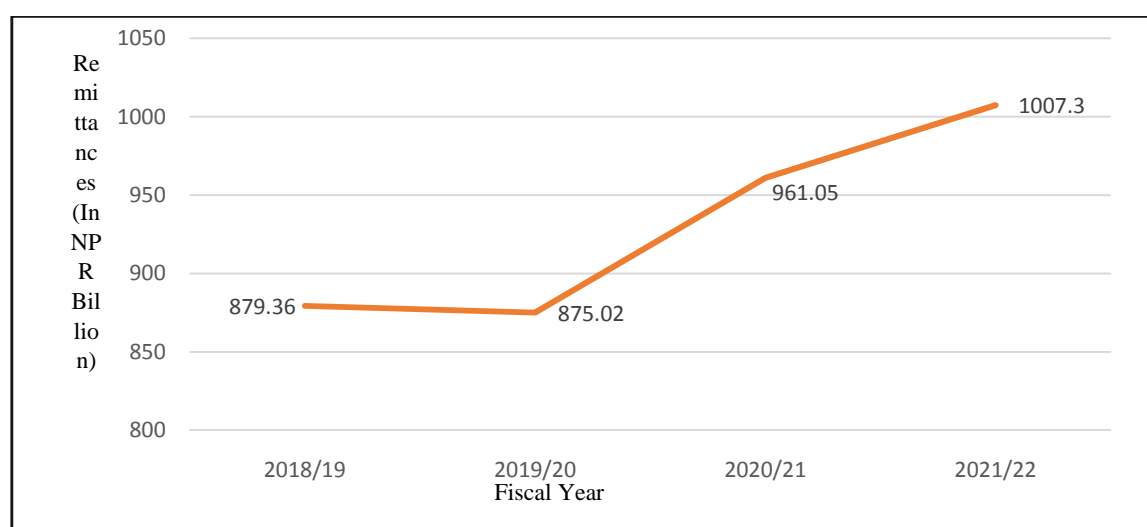
### DATA ANALYSIS, INTERPRETATIONS, AND FINDINGS

In this chapter, applicable data have been presented and interpreted regarding the role of remittances in poverty alleviation and the economic growth of Nepal. The data are collected from secondary sources in the context of this study's questions and objectives as stated in the first chapter. This study explores the phenomenon of remittance from different perspectives and interprets as discussed in the Research Methodology chapter. There is strong and definite evidence that supports remittance's role in alleviating poverty in Nepal.

#### 4.1 Scale of remittance inflow

With reference to figure 4.1, the flow of remittances to Nepal amplified by 4.8 percent to reach NPR 1.007 trillion (USD 7.98 billion) in August of the FY2021/22 compared to NPR 961.05 billion (USD 7.62 billion) in the corresponding period of the FY 2020/21. The remittance inflows to Nepal increased from NPR 87.1 billion (USD 0.69 billion) to NPR 92.4 billion (USD 0.73 billion) from mid-May to mid-June 2022 alone which was a 6.12 percent increase from the previous month. The increase in remittances is significant for the revival of Nepal's economy and as well as for Nepalese households whose income underwent gravely due to the COVID-19 pandemic.

Figure 4.1: Annual remittance inflow to Nepal in four consecutive FY (in NPR billion)



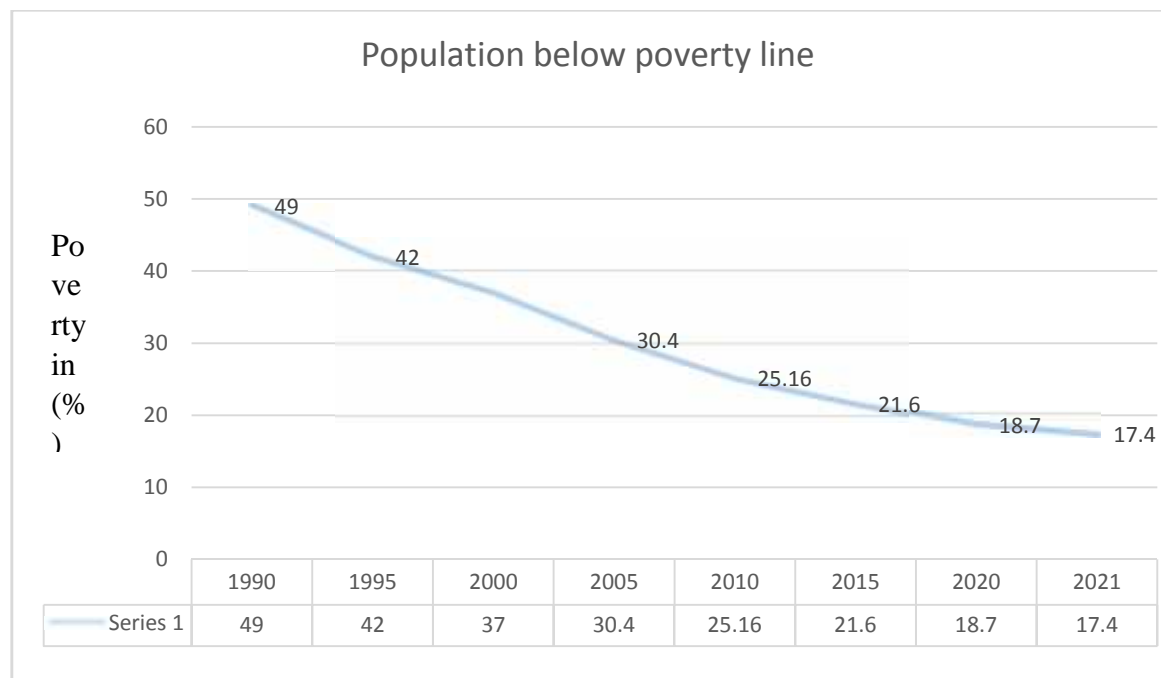
Source: NRB Current Macroeconomic and Financial Situation of Nepal (ending mid-July 2022)

Like other sectors, the remittance economy had been disrupted in recent years due to COVID-19 pandemic. Remittance was predicted to decline during the COVID-19

pandemic as a lot of restrictions were imposed around the world. However, remittances in Nepal showed incredible resilience in 2020 and the following year. As a consequence, remittances have been playing a major role in the economy of the country.

#### 4.1.1 Significance of remittance for poverty reduction

Figure 4.2: Decreasing rate of poverty in Nepal



Source: Economic Survey of 2020/2021

The decreasing trend of poverty in Nepal has been attributed to an increase in remittance inflow. The 11 percent decline in poverty incidence in Nepal between 1996 and 2004 has been attributed to an increase in remittance by Nepal’s Central Bureau of Statistics in its survey of the Nepal Living Standards of 1996 – 2004. The poverty rate declined by an average annual rate of 2.2 percent points between 1995- 1996 and 2010- 2011 and stood at 25.2 percent in 2016. The rate of poverty decline seen in Nepal during the period 2003- 2004 and 2010- 2011 was among the fastest in the world. The World Bank suggested that remittances could be the primary driver behind the improvements in Nepal’s poverty reduction between 2000 and 2010 which was almost twice as fast for households with migrants than those without.

Table 4.1: Annual remittance inflow to Nepal over the last 30 years in USD

Year	Remittance (USD Billion)	Year	Remittance (USD Billion)	Year	Remittance (USD Billion)
1993	0.055	2003	0.771	2013	5.59
1994	0.050	2004	0.823	2014	5.89
1995	0.057	2005	1.212	2015	6.73
1996	0.044	2006	1.453	2016	6.61
1997	0.049	2007	1.734	2017	6.93
1998	0.068	2008	2.727	2018	8.29
1999	0.083	2009	2.983	2019	8.24
2000	0.111	2010	3.464	2020	8.11
2001	0.147	2011	4.22	2021	7.62
2002	0.678	2012	4.79	2022-P/*	7.98

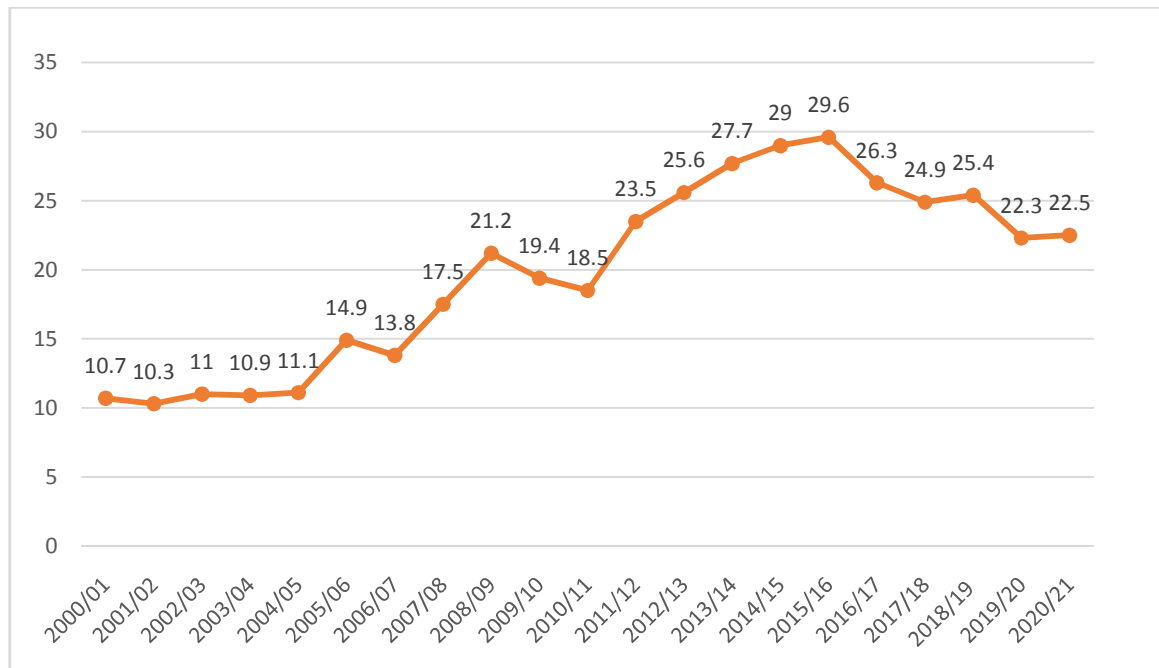
Source: Statista, published by S. Ganbold, Oct 2021. Note: P/\* refers to preliminary

As shown in table 4.1, in 2020 the value of remittances received in Nepal amounted to approx. 8.11 USD. This was a significant increase from 2011 in which Nepal received just 4.22 USD worth of remittances.

The ten years civil war and the unsettled decades of political transition had far-reaching implications for Nepal's economic growth. Throughout this period, the economy of Nepal suffered acutely and operated at a low equilibrium with an average per capita growth rate of 2.5 percent only which was very low in comparison to progress made by other South Asian neighbors (World Bank, 2016). Nepal's fragile economy and along with the wave of globalization in the 1990s opened the way for Nepalese to enter the world labor market. Therefore, given all the odds Nepal made remarkable progress in improving living standards and reducing poverty during this period. The increase in labor migration also increased remittance income and as a result, small businesses and service-oriented industries started to open in urban areas with the increase in remittance income. Due to this, the poor and vulnerable people started getting internal employment opportunities leading to a gradual rise in living standards. The improvement in poverty reduction and the progress in living standards was the drastic increase in remittances sent by Nepalese working overseas since the late 1990s. Not only have more Nepalese households started receiving remittances but the number of remittances received by these households also increased over the years.

#### 4.1.2 Significance of remittance to Nepal's GDP

Figure 4.3: Remittance as a share of GDP (in %)



Source: Nepal Rastra Bank, 2021.

According to figure 4.3, in the past years, remittance has managed to contribute significantly to Nepal's GDP. The remittance flow increased in FY 2020/21 by 9.8 percent to NPR 961.05 billion when compared to the previous year. In the FY 2019/20, remittance accounted for 22.3 percent of the GDP, and for the FY 2020/21 remittance accounted for 22.5 percent of the GDP.

In 2018, Nepal was ranked the fifth highest remittance recipient as a share of GDP amongst all countries in the World and was the highest recipient in the South Asian countries (World Bank Group, 2018). According to the Nepal Development Update published by the World Bank, in Nov. 2018, informed that remittance grew by 10 percent in FY 2018 but as a share of GDP declined from 26.3 percent in FY 2017 to 25.1 percent in FY 2018. In FY 2018/19, the remittance inflow grew by 7.8 percent and the contribution of remittance to GDP stood at 25.4 percent (NRB, 2019).

Remittances remain a fundamental pillar of Nepal's economy supporting almost one-third of the national GDP. Looking at the data for remittance shows that remittance flow to Nepal has increased despite the pandemic and the 2015 earthquake. The decline in remittance flow to Nepal can be very distressing because remittance has become an important part of Nepal's GDP. The size of remittances increased from 1.3 percent of

GDP in 1995 to 23 percent in 2010. In 2016, remittances accounted for 29 percent of GDP and also accounted for 16 percent of average household income, up from 6 percent in 1995- 1996 (World Bank, 2016). With the growth, households with migrants undoubtedly benefited from remittances and realized their importance as their living conditions improved considerably. But, households without migrants also benefitted from opportunities created by the changes in the structure of the domestic economy brought indirectly by remittances in the community. In the course of the fragile economy during the Maoist insurgency and transition in Nepal, remittances contributed significantly to reducing poverty, and surging household income and expenditure. Additionally, it became the single biggest source of foreign exchange earnings in Nepal. Nepal was the first remittance-receiving country in the world in terms of percentage of the GDP which increased from 1.5 percent of GDP in 1993 to 32.2 percent in 2015, amounting to USD 6.7 billion (World Bank, 2016). Remittance showed strong uplift in the country's economy.

#### **4.1.3 Significance of remittance for household income**

Subsequently, remittance has played an integral part in poverty reduction and refining the living standard of Nepalese, especially in rural areas. It is a helping hand for many struggling families and communities in Nepal. Remittance help people access food, health care services, and quality education. If compared to other foreign aids, the household-to-household nature of remittances makes it an integral and direct means of achieving accelerated poverty reduction in Nepal. Remittance has been the foremost benefactor in increasing household income as shown in table 4.2.

Table 4.2: Statistics of remittances

DescriptionNepal Living Standards Survey			
	1995/96	2003/04	2010/11
Percent of all households receiving remittances	23.4	31.9	55.8
The nominal average amount of remittance per recipient household (NPR)	15,160	34,698	80,436
Share of total percent of remittances received by the household from India	32.9	23.2	11.3
Share of total percent of remittances received by the household from other countries	22.4	53.3	69.1
Share of remittances in total household income among recipients	26.6	35.4	30.9
Nominal per capita remittance received for all Nepal (NPR)	625	2,100	9,245
The nominal total amount of remittance received (million NPR)	12,957.8	46,365.5	259,088.5

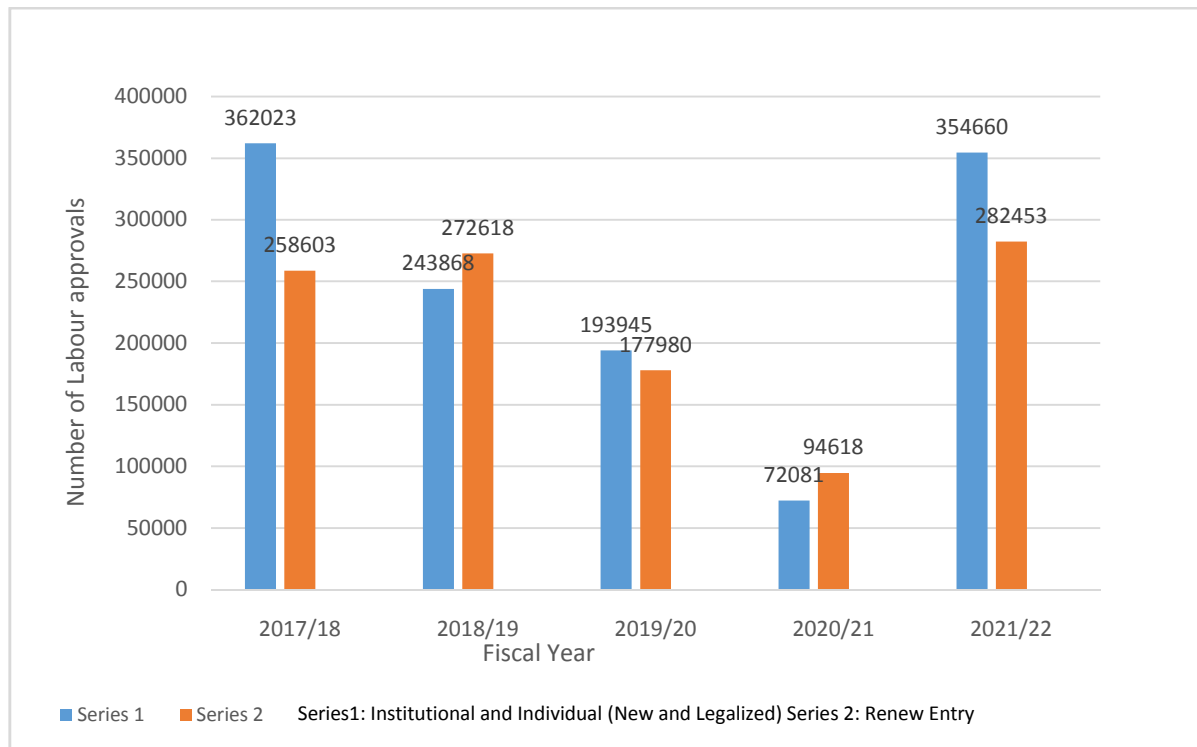
Source: Nepal Living Standards Survey Statistical Report Volume II 2010/11

The data from the Nepal Living Standard Survey of 2010/11 showed that approx. 56 percent of Nepalese households received remittances. Out of this number, 11.3 percent received remittances from India and 69.1 percent from other countries besides India. Nepal Living Standard Survey showed that remittance income had significantly contributed to reducing the headcount poverty rate from 42 percent in 1995/96 to 31 percent in 2003/04 and 25 percent in 2010/11, also the percentage of sampled households receiving remittances increased sharply from 23.4 percent in 1995/96 to 55.8 percent in 2010/11 (Central Bureau of Statistics 2011). This increase in household income has led to increasing expenditure on consumption, health, and education. Thus, the inflow of remittance has uplifted the living standards of many poor families in Nepal which has directly contributed to decreasing trend of poverty in Nepal.

Remittance has led to reducing poverty in poor households. The data shows that remittance-receiving households are less likely to be caught in poverty in comparison to non-remittance-receiving households and the probability of households falling into poverty decreases with every percent increase in remittance a household receives. In this way, remittance has played a vital role in boosting the economy of Nepal and at the same time reducing the poverty level.

#### Increase in the Number of Migrant Workers Seeking Labour Approval

Figure 4.4: Annual number of Labour approvals in the last five years (2017-2022)



Source: Department of Foreign Employment 2021

The number of Nepali workers taking approval for foreign employment increased from 72,081 to 354,660 as of mid-July for the FY 2021/22. The increase indicates a huge 392 percent jump in the number of workers seeking employment abroad as most countries have no more lockdowns and COVID-19 restrictions and have opened employment opportunities. Likewise, the number of Nepali workers seeking renewed entry approvals also increased by 198.5 percent to reach 282,453 in mid-July 2022 against a decrease of 46.8 percent in the previous corresponding period (DoFE, 2022).



## Destination Countries

Table 4.3: Top Ten destinations of Nepali Migrant Workers in the last three FY (2019-2022)

S.N.	Country	Annual Data			Percent Change	
		2019/20	2020/21	2021/22	2020/21	2021/22
Institutional and Individual (New and Legalized)						
1	Saudi Arabia	39279	23324	125374	-40.6	437.5
2	Qatar	29835	22131	76822	-25.8	247.1
3	UAE	52085	11611	53846	-77.7	363.7
4	Malaysia	39167	106	25770	-99.7	-
5	Kuwait	8974	2	22786	-100.0	-
6	Bahrain	3305	3146	7592	-4.8	141.3
7	Romania	1930	1954	6423	1.2	228.7
8	South Korea	3542	16	4253	-99.5	-
9	Oman	1996	1556	3627	-22.0	133.1
10	Cyprus	1447	1003	3222	-30.7	221.2

Source: Department of Foreign Employment 2021

The table shows that Saudi Arabia and Qatar are among the top destination countries for Nepali worker migrants. As per the annual data released by the Department of Foreign Employment ending mid-July 2022, an increasing number of Nepali workers sought labor approvals for Saudi Arabia, Qatar, and the United Arab Emirates among many others.

This chapter is an attempt to scan the contribution of remittance flows to the economy and poverty reduction of Nepal. It examines the scale of remittance that flows in Nepal and investigates the significance of remittance flows for Nepal's poverty problems. This chapter demonstrates the role of remittances, particularly focusing on poverty and the economic development of Nepal. The data for this analysis are mainly derived from four sources: World Bank Reports, MOF, NLSS, and NRB Reports. In addition, other relevant sources such as the Department Employment report and ILO report are carried out for extra exploration of the subject. Understanding the flow and prominence of remittances in poverty alleviation is particularly important in the current scenario when Nepal's economy is experiencing a crisis because of COVID-19. In this context, the

paper examines the available evidence on remittance flows and their potential poverty alleviation effects. This chapter does not aim to present new, empirical estimates of remittance flows but rather presents a review of the reliable evidence gathered from various data sources and academic studies on remittance flow and its impact in Nepal.

## **4.2 Findings of the Study**

The major findings explored from the study are:

- i. Remittance inflows to GDP in Nepal were reported at 24.25 percent in 2020, according to the World Bank Development Indicators (2020). The rise in remittance in FY 2021/22 is by a small margin of 4.8 percent against the increment in FY2020/21. Despite the minimal rise, the remittance amount is important for the revival of Nepal's economy which was affected severely due to COVID-19 (NRB, 2022).
- ii. Nepal was the first remittance-receiving country in the world in terms of percentage of the GDP which increased from 1.5 percent of GDP in 1993 to 32.2 percent in 2015, amounting to USD 6.7 billion (World Bank, 2016). According to NRB's Statistical data, in FY 2013/14, the total remittances received by Nepal was NPR 543 billion. Similarly, in FY 2014/15, Nepal received remittances of NPR 617 billion, in FY 2015/16, the total remittances received was NPR 665 billion, in FY 2016/17, NPR 695 billion remittances were received, likewise, in FY 2017/18, Nepal received remittances of 776 billion, and in FY 2018/19, the total remittances received was NPR 783 billion (NRB, 2020). The total remittances received by Nepal increased significantly from NPR 543 billion in FY 2013/14 to NPR 783 billion in FY 2018/19, increased by NPR 200 billion (33.9 percent). The total remittances received by Nepal contributed to 29 percent of the country's GDP in FY 2018/19 (NRB, 2020).
- iii. Nepalese worker taking approvals for foreign employment increased from 72,081 to 354,660 in FY 2021/22 (DoFE, 2022). Nepal suffers from miserable poverty, low income, and high unemployment. All these difficulties act as a push factor for foreign employment. The government has legalized its migrant workers to travel for foreign employment in as many as 110 countries (DoFE, 2021). However, NRB 2020 published a report stating that it received remittances

from 172 countries. This trend has been observed for the last couple of years leading to gradual growth in Nepal's remittances (DoFE, 2021). As per the annual data from the Department of Foreign Employment (2021) an increasing number of Nepalese workers pursued employment approvals for Saudi, Arabia, Qatar, and the United Arab Emirates.

- iv. The main reason that prevents remittances from serving Nepal's economic growth is the average high cost of sending remittances to Nepal which is 4.05 percent (World Bank, 2018). To maximize the use of formal channels such as banks, non-banking financial institutions, and money transfer operators, the cost of remitting money should be lowered. During COVID-19, The World Bank predicted Nepal's remittance to decline by 14 percent while Nepal Rastra Bank predicted remittance would decline by 15 percent. However, the drop in remittances to Nepal was much lower than estimated.
- v. In FY 2019/20, remittances to Nepal in USD declined by 3.3 percent while in FY 2020/21, it increased by a huge margin of 8.2 percent, crossing USD 8 billion (World Bank, 2022). Nepal received approx. USD 8.1 accounting for 24 percent of Nepal's GDP (Nepal Labor Migration report, 2020). About 20- 30 percent of Nepalese migrants send remittances through informal channels (Nepal Labor Migration report, 2020). There are over 52 Money Transfer Operators in Nepal (NRB, 2019). Nearly 55.8 percent of the total households in Nepal receive remittances (Nepal Labor Migration Report, 2020). In 2021, the government made it mandatory for prospective migrants to open a bank account before leaving for foreign employment (NRB, 2021).
- vi. In 2020, the Foreign Exchange Management Department of the NRB through a directive allowed migrants to send money through digital channels including mobile banking, internet banking, electronic card, and digital wallet. NRB has also directed the remittance companies in Nepal to start the service in association with digital wallet operators (NRB, 2020). NRB has doubled the ceiling of e-payments made by users via a pre-paid card, mobile banking, and internet banking by 100 percent to NPR 200, 000 (NRB, 2020). The Foreign Exchange (Regulation) Act of 2019 B.S. promoted the use of foreign exchange transactions.

- vii. Apart from being a crucial economic indicator, remittance also has a positive effect on household consumption and savings (NLSS, 2011). Nepal Multidimensional Poverty Index (shows a marked reduction in poverty from 30.1 percent in 2014 to 17.4 percent in the year 2019, mainly because of remittances (NPC, 2021). Remittance is predicted to remain a crucial economic player in Nepal for a very long time until adequate employment opportunities are created (World Bank, 2017). Nepalese Migrant households are the ones who are directly benefitted from the remittances. Remittances increase the recipient's household resources and provide working capital. Remittances reduce poverty levels and result in higher education and health expenditures at the household level (World Bank, 2016).
- viii. Remittance provides poor and disadvantaged households to be involved in financial activities. They help improve access to financial services and boost small business investments. They also contribute the human capital that helps the functioning of a dull economy (NEF & ASD, 2012). By encouraging productive investment at the local level, remittances generate income and employment opportunities and thrive for new economic services for Nepalese (Dhakal & Maharjan, 2018). The government of Nepal needs to identify systems that are needed to be implemented to support investment in business activities through remittance flows (Pant, 2008).

## CHAPTER V

### POLICY MEASURES, RECOMMENDATIONS, AND CONCLUSION

In this chapter, the main factors that contribute to the regulatory environment of remittance policy in Nepal are discussed. Over the years, there are many good initiatives and practices in various ways, the government has been executing in remittance regulation. The economic impact of remittances on receiving countries depends on how the money is governed. Since remittances represent a significant share of Nepal's GDP, Nepal has expressed its commitment to designing and implementing smooth remittance governance policies and regulatory framework. There is an increasing concern on the part of the government and stakeholders regarding the situation of remittance and Nepalese migrant workers.

#### 5.1 Government Policy Measures

Because of the potential positive effect of remittances, the government of Nepal has been giving due priority to promoting overseas employment and mobilizing remittances to maximize the benefits from the transfers. The government of Nepal has accepted remittance as one of the strategies to reduce poverty. In this regard, Nepal Rastra Bank began granting licenses to private sector companies interested in the remittance transfer business (NRB, 2010). Additionally, NRB granted permission to manpower agencies engaged in sending Nepalese migrants to work overseas, to open foreign currency accounts in the Nepalese Commercial Banks out of the foreign currency earnings that they made under the prevailing rules. A policy arrangement was also introduced where if a Nepal-based licensed money transfer agency situated overseas required a bank guarantee for receiving advance payment from the principal company, such services within the stipulated limits would be made available directly from the commercial banks. Subsequently, to utilize remittances of Nepalese working abroad via banking channels issued a five-year Foreign Employment Bond with an interest of 9.5 percent (NRB, 2010). The issuance of the bond is to facilitate Nepalese overseas workers to invest their money in the bond that would be utilized for the government's development programs.

Nevertheless, there are no clear-cut Remittance Policies and Acts in Nepal to appropriately facilitate its usage and transfer. The government of Nepal has yet to plan the future course of Acts and Policies on remittance. Since there are no separate remittance plans and policies in Nepal, the Foreign Employment Acts, Foreign

Employment Rules, and Foreign Employment Policy have incorporated remittance plans and policies as well. Below are the brief key plans and policies frameworks formulated by the government of Nepal to facilitate the works of Nepalese migrant workers and their following remittance flows:

i. Foreign Employment Act 1985

The Foreign Employment Act of 1985 is the first legal document to address the matters relating to Foreign Labour Employment of Nepalese. This act was useful to make foreign employment systematic and to achieve and as well as to maintain the economic interests of Nepalese willing to obtain foreign employment. This act provided a license to the companies willing to operate Foreign Employment Enterprises.

ii. Foreign Employment - First Amendment Act, 1992

This was the first amendment of the original Act. This act was made to improve the Foreign Employment Act of 1985. This amendment was made as per the need for a changed context at the national and international levels of foreign employment. This amendment prohibited the transfer of ownership and liability of the licensed agency. Selected workers are to be sent for foreign employment within four months of the date of selection and in case the company failed to do so, have to pay back the amount received from the workers along with an interest at 18 percent per annum within 15 days.

iii. Foreign Employment - Second Amendment Act, 1998

The Foreign Employment Act was amended for the second time in 1998 to bring positive flexibilities to make foreign employment businesses more accessible and convenient. In efforts to make the selection process more transparent, details of the type of employment, the licensee also needed to furnish a duplicate copy of the requisition notice of the employer institution and a copy of its license, provision of merit list of the applicants with alternative candidate's name to submit to Department of Foreign Employment. Restrictions on children under the age of 18, provision of specific information to the worker about the nature of work and working conditions, submission of an annual report with detailed activities, and information on the nearest relative country who could consent to bear responsibility for the migrant worker were included in the Act.

iv. Foreign Employment Act 2007

The Act was made to amend and combine laws relating to foreign employment similar to those mentioned in the 1985 Act and its two amendments. It was formulated by the Government of Nepal, Ministry of Labour and Transport Management, and enacted by the Legislature-Parliament. This Act consisted of laws relating to foreign employment to make foreign employment business safe, and protect the rights of migrant workers while promoting remittance money. Laws such as information dissemination to migrant workers, removal of the discriminatory clauses relating to women, provisions on producing skilled manpower, bilateral agreement and treaty, right to specify remuneration, service charges, free visa-free tickets, insurance, labor desk, use of the national airport, labor attaché, foreign employment welfare fund, foreign employment tribunal, foreign employment promotion board were included in this Act. Additionally, the provision of medical examination from recognized government hospitals, and agencies detailed information on the licensee holder's organization, permission from the Department of Foreign Employment before taking a passport from applicants, provision of compensation, and labor permission sticker were also included.

v. Foreign Employment Rules 1999

The Rules were framed to exercise the power deliberated in the Foreign Employment Act of 1985. The rules had detailed provisions regarding the issuing and renewal of licenses. The licensee was to establish an office within three months of obtaining the license and equip it with at least five employees and basic facilities like telephone, email, etc. The rules also specified that the contract had to mention all the necessary details, including the position of the employee and details of work to be done, remuneration, details about the probation period, compensation in case of injury, disability, or death, arrangement to bring back the dead body of the worker, procedure for settling disputes between the employee and the employer and arrangements about leave and insurance were also incorporated in the Rules.

vi. Foreign Employment Rules 2008

The Foreign Employment Rules 2008 were framed to apply the rules and regulations for the implementation of the Foreign Employment Act of 2007 for the attainment of the objectives of that Act. The Rules included the selection of companies and their licensing, requirements for bank guarantee, renewal and cancellation of manpower companies,

provision on the selection of workers, including advertising an application process, orientation training and skill training, details on the establishment and utilization of the Foreign Employment Welfare Fund, the formation and duties of the Foreign Employment Promotion Board, awarding the best agency were mentioned. Appointment of a woman labor attaché in countries where 1000 or more Nepalese women workers are employed, establishment and operation of child-care centers for the protection of children of female migrant workers were also added to the Rules. Subsequently, following the changing context of overseas employment and to address foreign labor-related issues, the Foreign Employment Rules 2008 has been amended five times in 2011, 2014, 2017, and two times in 2019.

vii. Foreign Employment Policy 2012

The Foreign Employment Policy of 2012 was passed to formulate to give direction for the effective management of foreign employment and to make the process of migration safe and accessible by overcoming the shortcomings of the existing Acts and Rules in addressing issues related to foreign employment. This Policy incorporates the provision of various international conventions including the Universal Declaration of Human Rights, International Covenant on Civil and Political Rights 1966, Convention on the Elimination of All Forms of Discrimination Against Women 1979, Convention on the Rights of Child 1989, ILO Convention 97- Migration for Employment Convention 1949, and ILO C143- Migrant Workers (Supplementary Provisions) Convention 1975. This Policy is guided to make relevant with foreign employment laws, the Interim Constitution of Nepal 2007, the Three-Year Interim Plan (2010/11 to 2012/13), the National Human Rights Action Plan 2004, and the Beijing Action Plan 2005 with regards to migrant workers and migration.

viii. Remittance Directive (Nepal Rastra Bank, 2010)

A remittance by law came into effect under the Foreign Exchange Act of 2019 B.S. to regulate individuals or companies licensed to conduct a remittance business. It regulates the following aspects of the remittance business:

- a. It mandates that a remittance business be conducted by an interested firm only after obtaining a license from NRB and lays down the procedures and qualifications for obtaining that license.



- b. It specifies the paid-up capital and deposit required to operate a remittance business. The paid-up capital and deposit are different for firms interested in operating as a principal and as agents.
- c. It sets out the duties and responsibilities of a firm licensed to conduct remittance business. It addresses the following subjects: the condition to be met when conducting remittance business, the maintenance of a remittance database, and the submission of monthly statements related to remittance, in specified formats along with the audited financial statements of the firm conducting the remittance business.
- d. It specifies the supervisory rights of Nepal Rastra Bank both on-site and off-site.
- e. It also sets out other regulations related to change in the areas of operations, renewal of license, cancellation of license, and closure of operations.

ix. Remittance-based Acts and Rules

Remittances in Nepal are regulated by the Foreign Employment Acts of Nepal to regularize, control and shape foreign employment. Additionally, the government of Nepal has framed and executed Nepal Rastra Bank Remittance Regulations 2067 B.S. for an individual firm, company, or institution authorized for remittance business under a foreign exchange transactions license. The regulations incorporate detailed procedures such as eligibility criteria, supporting documents required, and the conditions for inward remittance business. The Regulations also clearly sets out the condition the firms should follow while carrying out the business. The firms must comply with anti-money laundering policies while undertaking remittance business.

x. Remittance based Policies

There is no separate remittance policy in Nepal. Issues related to remittances are dealt with in Foreign Employment Policy 2012. The Policy addresses current problems and issues relating to foreign employment. It highlights all applicable features on migration and remittances and guides the management of foreign employment and protects the rights of workers in foreign employment.

Some of the important aspects of policies focused on remittances in Nepal are:

- a. Reimburses remittance fees charged to migrant workers for remitting money through formal channels.

- b. Financial Literacy for foreign employees and their family members.
- c. Five-year Foreign Employment Bond earning at 9.5 interest.
- d. Allows Nepali workers to invest in shares with attractive investment avenues and national priority projects.
- e. Rebates customs dues and taxes and has special facilities for certain goods imported by migrant workers returning from foreign employment.
- f. Gives special deductions to returnees on customs dues and taxes for importing machinery to start a business.
- g. Expands formal channels for remitting money such as banks, financial institutions, and money transfer agencies, and makes their role more effective in the remittance business.
- h. Provision made by Nepal Rastra Bank to provide 15 paisa per USD 1 as commission to licensed private firms in addition to the prevailing buying rate.
- i. Bank guarantees facilities from commercial banks for Nepal-based licensed agents or representatives of a money transfer agency situated overseas for receiving advance payment from the principal company.
- j. Use of microfinance institutions in the remittance business including savings and credit cooperatives.
- k. Promulgated remittance regulation to grant a license to private sector organizations for inward remittance business.

Likewise, Nepal has also adopted regional, bilateral and international policy instruments for migrant workers and remittance. Nepal has been engaging in significant processes in labor migration and remittance including the Colombo Process, and the Abu Dhabi Dialogue. Nepal is an active member of the Abu Dhabi Dialogue which is a regional forum of labor-sending and labor-receiving economies for coordination of issues related to governing overseas labor migration.

Noteworthy measures implemented by the Government, Private Sectors, and International/Regional Organizations in Nepal in recent years that have improved Remittances Flow and Migration in Nepal:

#### Government Policy Regulators

The government has made it mandatory from the fiscal year 2017/18 for potential migrants to open a bank account before leaving for foreign employment. In 2020, the

Foreign Exchange Management Department of the NRB through a directive allowed migrants to send money through digital channels including mobile banking, internet banking, electronic card, and digital wallet. NRB has also directed the remittance companies in Nepal to start the service in association with digital wallet operators. NRB has doubled the ceiling of e-payments made by users via a pre-paid card, mobile banking, and internet banking by 100 percent to NPR 200, 000. The Foreign Exchange (Regulation) Act 2019 promoted the use of foreign exchange transactions. The Foreign Employment Information Management System 2018 monitors and keeps the records of outbound and return migrant workers through an integrated online platform.

#### Private Sectors

WorldRemit partnered with eSewa Money in April 2021 to facilitate remittance from 50-plus countries to Nepal. This partnership enables migrant workers to instantly send money to eSewa mobile wallets of their family and friends. Crosspay and Global IME Bank Nepal partnered in 2021 to provide a secure and convenient digital platform to make global money transfer. Migrant Workers can access the application with smartphones and computers. Nepal Investment Bank Ltd. signed an agreement in 2021 with BankOnUs, India to offer the “Paisa Pathaune App” a service for Nepali migrants and residents anywhere in India to transfer funds from India to Nepal round the clock from their mobile.

#### International/Regional Organizations

Swiss Agency for Development and Cooperation (2021) – Safer Migration Project (SaMi) supports potential migrants both women and men from project districts by providing them with accurate and relevant information on safer migration so that they can make informed decisions. ILO- Migrants Rights and Decent Work Project (MIRIDEW, 2021) focuses on strengthening the service delivery capacity of diplomatic missions in major destination countries, supports the Government of Nepal to be prepared and positioned better in regional and global domains, and also promotes new destinations or sectors in existing destinations for low-skilled Nepalese migrant workers. NRB 2021 undertook a reviewing and assessing exercise about the World Bank General Principles for International Remittance Services, to identify specific actions to be taken to promote the most efficient payment infrastructure for facilitating remittance services.

Regardless of the existence of a formal remittance channel, there are many obstacles for migrant workers in transferring money. Many reviews and reports suggest that the potentially positive role that remittances can play in Nepal is not being fully realized due to unclear regulation, irregular implementation, and relatively inadequate supervision. Despite remittance is an important income source in Nepal, the intersection between remittance and development does not exist. No impressive efforts have been made by the government to address the genuine issues of remittance transfers and usage in Nepal. This can be attributed mostly to informal remittance transfers as such transfers keep money away from the formal system and prevent any opportunity for investing it for development. If remittance comes through a formal channel, financial products such as saving and credit schemes and insurance can be developed to target remittance money. The availability of such financial products encourages savings and discourages unnecessary consumption, provides an opportunity to invest in productive assets, and reduces vulnerability to poverty risk.

Transfer costs, lack of awareness, difficulties to access services, and trouble with documents have been the major problems. The issue is highly relevant for Nepalese workers migrating to India where the use of formal remittance transfer is minimum. Even though migration to India has decreased with the opening of new labor markets during the 1990s and an increasingly larger share of remittance now comes from other countries, India has remained the major destination for Nepali migrant workers for a long time because of higher income opportunities than in Nepal, geographical proximity, historical and cultural link, low travel cost, open borders, visa-free entry. The volume of migration to India and the result of remittance from India are still very significant. Despite the significance of remittance coming from India, policymakers in Nepal have failed to apply impressive policy instruments and strategies to the remittance flow and practice. The survey done by the ICIMOD (2018), stated that most of the Nepalese in rural areas had little understanding of formal transfer mechanisms. They claimed that the process of remitting through banks and money transfer operators was long with a lot of requirements making it burdensome for mostly uneducated families. Many didn't understand bank policies and procedures so they didn't prefer to use banks to remit money. Moreover, the banks were located in the district headquarters, and reaching them was a time-consuming and expensive method.

Hundi is a traditional method of sending money which is now illegal in Nepal but still is very popular among Nepalese migrants in Nepal, the Gulf countries, Southeast Asia, and the West. The Hundi system operates based on trust between brokers in two different countries without an official and legal license. For example, if a Nepalese migrant worker wants to remit money from Dubai, the hundi broker in Dubai contacts another hundi broker in Nepal and asks the Nepali broker to make payment to the recipient. Hundi is a fast and easy way of remitting money usually with a lower rate of commission than charged by the formal methods of remittance transfer. Hundi brokers make their profit on exchange rates and commissions. But Nepalese workers in India generally carry back remittances themselves or send remittances with friends and relatives.

The majority of Nepali people from provinces six and seven migrate to India for work. Migration to India remains an important livelihood strategy for most of the families in these two provinces. Remittance income has been one of the most important sources of their living. So, when these migrants come back from India, carry back money themselves to Nepal. This process is widely used by the people from these provinces. The remoteness of the area makes these provinces less knowledgeable about the formal way of transferring money and continue to depend on informal mechanisms. Therefore, there have been many cases where Nepalese migrant workers are robbed or even seized by Indian Police at the border while on their way back to Nepal. This issue is highly relevant in province five and province six of Nepal where there is a very high propensity for migrating to India.

A suitable program, policy, and action looking at the multiple facets of remittance are required to promote the practice of formal remittance transfer operators and consequently the proper usage of remittance money in Nepal. An integrated approach is necessary to ensure that migrant workers are aware of formal channels and that the formal channels are equipped to capture migrant remittances and develop their productive use. Such actions would help to overcome the challenges linked with physically carrying the remittance money. It would help bring about the development of financial services based on remittances, thus, helping to increase the financial access of poor communities. It would help create opportunities to invest remittance in productive assets which would eventually lead to wealth creation and thereby help reduce poverty in those households.

## 5.2 Recommendations

The remittances are used for varied purposes by recipient households. NLSS (2011) found that most remittances are used for meeting household everyday consumption needs, education, paying back the loan, and purchasing of land, and a very tiny amount is used for investment in the productive sectors. The question of how to help migrant workers preserve their earnings and to undertake sound investments has been a contemporary issue of discussion in Nepal. Due to a lack of policies and institutions promoting remittance investment, lack of products for investment, lack of knowledge and skills about investment, and low savings, people haven't been able to correctly utilize remittance money in Nepal. Policies need to be invented to encourage the use of remittances for promoting long-term development and wealth. Government has to articulate policies that send more remittances through official rather than unofficial channels. To increase the level of remittances by encouraging migrant workers to hold their savings in financial assets in the country rather than holding them abroad or spending money their savings on consumer goods. To encourage migrant workers to invest in productive uses and assets in Nepal, the three initiatives at the macro-meso and micro levels are:

### i. Macro-level Initiatives

Promoting official channels for remittance transfer. A large proportion of remittances are transferred informally, especially from India, Gulf countries, and Southeast Asia countries. The use of informal channels for transferring remittance is called hundi. The hundi system has been one of the biggest concerns for participants working for productive use of remittance. This system does not allow the monitoring of the total amount of capital entering Nepal therefore, how are the remittances spent by families and relatives receiving remains unknown. Remittances from India are mostly carried by the Migrant workers themselves whereas the majority of migrant workers in Gulf countries and Southeast Asian countries use formal channels, however, Nepal still faces the challenge of continued use of the hundi method. To maximize the use of formal channels such as banks, non-banking financial institutions, and money transfer operators, the cost of remitting money should be lowered. Strengthening the formal remittance infrastructure by offering the advantages of low cost and easily accessible can shift remittance flows from informal to formal.

Foreign Employment Savings Bond. The primary aim of issuing this bond is to promote saving cultures among Nepalese working overseas. This bond is popularly known as the diaspora bond. This bond targets Nepalese migrant workers intending to channel their remittances into investment in Nepal's development of infrastructure and programs. Foreign Employment Savings Bonds could play an important source of finance for the government of Nepal and an important investment opportunity for Nepalese migrant workers. However, due to a lack of awareness, complicated procedure, short sale period, and concerns about exchange rate risk as payments are made as per the rate at the time of subscription, Nepal hasn't gained positive results from this bond as compared to the great success achieved by India and Israel. To improve the performance of this bond, structuring the bond is required followed by creating awareness, planning, increasing incentives for financial agents, increasing the target market, and conducting an investor's education program (NEF & ASD, 2012).

Pension Programme. Nepalese migrant workers are not eligible to sign up for the pension scheme with the Employee Provident Fund as relished by all government employees and public enterprises salaried workers in Nepal. However, the government of Nepal is in the discussion stage about the formation of an Overseas Employees' Pension Benefits Fund in partnership with the Employee Provident Fund of Nepal. A strategy aiming at the needs of Nepalese migrant workers will be highly beneficial even though faced with multiple challenges since the number of beneficiaries are large and scattered around the globe. Nonetheless, a proper pre-departure orientation program could deal with such challenges.

Financial Literacy Programmes. Financial education for Nepalese migrant workers is important to promote the productive use of remittance in Nepal. Most migrant workers from remote areas of Nepal are financially illiterate and lack the basic skills required for business start-up and management. Financial literacy program will build their confidence in investing in the productive sector. Since most migrant workers held from rural and poor communities, microfinance institutions will be an excellent association for them to develop their financial literacy which will have a greater effect on promoting savings and investment of remittances.

Remittance through microfinance institutions. The government of Nepal needs to recognize schemes that need to be implemented to support investment in business activities. MFI help address the demand for remittance-linked financial services,

especially among poor and geographically remote people in Nepal. MFI has a competitive advantage based on a bulk of techniques that reduces the high transaction costs of outreach to poor customers. MFI has the potential to promote broad-based development as well as expand the volume of remittance flows enabled through the financial system. MFI in Nepal needs to expand its micro and small business portfolio which could be linked with business development services such as training, business advice, and skills to entrepreneurs. The MFIs have to develop their capacities first so they can better serve their prospective clients.

Establishing savings and investment vehicles. The government of Nepal needs to learn from the success achieved by the governments of India, the Philippines, Brazil, and Mexico by employing a range of incentives to attract remittance funds to definite savings and investment vehicles and replicate these inducements in Nepal such as migrant pension plans, special loans or grants for business ventures, special access to capital goods and raw material imports for recent migrant returnees and investment and advisory services for business start-ups (Sander, 2003).

Making a special category of deposit accounts at commercial banks. When remittance money comes into the banks of Nepal, the money is counted in the same deposit pool as other deposits. There are no policies that separate remittance money and deposits from other deposits. Setting up a special category of remittance deposit at commercial banks where migrant workers could deposit their money earned would attract frequent remittance deposits in the country.

## ii. Meso-level Initiatives

Promoting investment in hydropower projects. The government of Nepal executed this initiative in their policies and programs for FY 2016/17 such as 'Hydropower with Investment of People' by channeling remittances in finance-specified projects. Remit Hydro Limited is a success story of utilizing remittance for investment in the hydropower sector of Nepal. Remit Hydro Limited is a subsidiary company of Hydroelectricity Investment and Development Company Limited which was established as a special purpose vehicle to implement the concept of remittance hydro. The company aimed to develop a mid-sized hydropower project that could be mainly financed by remittance money as a source of allowing migrant workers to get involved in the



development of Nepal as well as to make migrant workers aware of the need for saving and investments.

Promoting and regulating collective investment forums. Investment opportunities in Nepal are huge since it is supported by a liberal foreign investment policy of Nepal and the existence of an investment-friendly environment. A lot of opportunities are present in areas such as hydropower, hotels, tourism, manufacturing, construction, agriculture, mining, restaurants, information, and communication. Therefore, a collective investment forum will have the opportunity to pool remittances while providing reliable, well-versed information related to business and investment in Nepal. One such forum is 'My investment Group' which focuses on promoting the productive use of remittances in Nepal. Its objective is to tap remittances and channel them for investment. It has established ventures in the Middle East and other countries. It has also set up a remittance company called 'My Remit Pvt. Ltd. to provide a perspective on spending remittances in productive areas.

### iii. Micro-level Initiatives

Awareness of remittances. The awareness level of migrant workers needs to be executed before going for foreign employment. A pre-departure orientation program along with migration and remittance-related awareness could act as a powerful tool for raising awareness about remittance methods and processes and the productive use of remittance. In the host countries, a Nepalese Mission should organize various mediums to publicize remittance-related information.

Updating Available Data. Consistent data on remittance are key to understanding the impact of development. However, available data in Nepal are not very reliable because of the large amount of informal and wavering remittance transactions taken in Nepal. Therefore, the recorded data aren't reliable. The government needs to put a major effort to recover data on remittance. The government needs to examine the relationship between migration stock and remittance flows, migrant workers' remittance behavior and the way remittances respond to the changes in the source and destination countries.

Direction and support to start a business. Self-startup business or investment or any income-generating activities such as micro or small and medium-sized enterprises could be challenging because of the lack of knowledge of the type of business development support needed and its availability. Information about migrant workers, their

organizations, and receivers of the remittances should be enhanced in business development. Returnee migrant workers are not just a source of funding for rural investment but also an important source of human capital which could successfully be used for supporting the growth and development of micro, small, and medium-sized enterprises.

Special training arrangements for migrant workers. Training need to focus on increasing the confidence level of migrant workers for enhancing their entrepreneurship and other development skills which will eventually enable migrant workers to productively use the skills and knowledge acquired during their stay overseas and to provide the job technical support to enable them to start an enterprise back home for generating self-employment opportunities.

Allowing best interest rates on remittance funds. The government of Nepal needs to partner with the Banking and Financial Institutions of Nepal to design a deposit account with the provision of premium interest rates on the remittance funds which will encourage migrant workers to send more remittances through formal channels.

Remittance-linked financial and non-financial services. Since most remittance money is used for repaying loans borrowed from money lenders at high-interest rates, it is important that the Banking and Financial Institutions of Nepal design affordable remittance-linked financial services and loan repayments linked with remittances. This scheme would lower the debt burden of migrant workers. Professional training, advertising information regarding rural investment opportunities, and the provision of loans from financial institutions should be promoted and supported for migrant workers.

Management of social remittances. Social remittances are the ideas, behaviors, identities, and social capital that flow from receiving countries to sending country remittances. Migrants often bring with them social remittances that are shaped by their experience in the host countries. The role that plays in promoting immigrant entrepreneurship, community, family formation, and political integration is widely acknowledged but they are yet to be fully utilized for local economic development. The ideas and practices of migrants should be upgraded in the receiving countries. The mechanisms by which migrants send back social remittances to their sending communities and the role of remittances play in transforming sending country's social and political life need to be

carefully planned and examined. There is a need to properly manage social remittances to ensure that the sending country obtains full benefit from the remittances.

### **5.3 Conclusion**

Undeniably, there is strong and clear evidence that supports this thesis's arguments that remittance alleviates poverty in Nepal. The study of poverty remains incomplete if the role of remittance is disregarded. It is true for a country like Nepal where internal employment opportunities are not encouraging. As it is mostly the poor and disadvantaged who migrate and send remittances, remittance does make an important impact in achieving accelerated poverty reduction in Nepal. However, remittances alone aren't only the means completely responsible for poverty reduction in Nepal but it is certainly an important element that has supported Nepal's economy in recent decades. As a consequence, it becomes necessary to acknowledge the role remittances play in shaping poverty alleviation in Nepal and as well as discovering efforts for the deployment of remittance income for sustainable development. The government of Nepal, policymakers, experts, specialists, and economists must give remittance the attention it deserves as a significant economic instrument.

Nevertheless, there are always positive and negative sides to any subject in the sphere. Similarly, remittance has also favorable and opposite effects. As remittance is sent by the migrated workforce of Nepal, so not just workers are migrating but their skills and talents valuable for the country are also migrating which has indirect negative impacts on the development of Nepal. But, if looked over at these facts, the importance of remittance is abundantly greater for Nepal's economy. Remittances have played a vital role in uplifting the GDP of the country, raising the living standard, and improving poverty sufferings of Nepalese poor communities. In the year 2018, Nepal was ranked the fifth highest remittance recipient as a share of GDP amongst all countries in the World and was the highest recipient in the South Asian countries (World Bank Group, 2018). And, in the year 2020, the worth of remittances received in Nepal amounted to approx. 8.1 USD. This was a noteworthy increase from 2011 in which Nepal received just 4.22 USD worth of remittances. The increase in remittances was important for the restoration of Nepal's economy and as well as for Nepalese households whose income underwent gravely due to the COVID-19 pandemic. Even though the flow of remittances slowed during the COVID-19 pandemic, remittance remained more resilient than other

private capital flows helping smooth the pandemic's economic recovery in Nepal throughout 2020 and 2021.

Likewise, the number of Nepali workers taking approval for foreign employment increased from 72,081 to 354,660 as of mid-July for the FY 2021/22 (DoFE, 2022). The increase signifies a whopping 392 percent jump in the number of workers seeking employment abroad. Also, the number of Nepalese workers seeking renewed entry approvals increased by 198.5 percent to reach 282,453 in mid-July 2022 against a decrease of 46.8 percent in the previous corresponding period (DoFE, 2022).

Furthermore, the 11 percent reduction in poverty incidence in Nepal between 1996 and 2004 has been credited to an increase in remittance by Nepal's Central Bureau of Statistics in its survey of the Nepal Living Standards of 1996 – 2004. The poverty rate declined by an average annual rate of 2.2 percent points between 1995- 1996 and 2010- 2011 and stood at 25.2 in 2016. The rate of poverty decline seen in Nepal during the period 2003- 2004 and 2010- 2011 was among the fastest in the world. The World Bank advocated that remittances are likely to be the primary driver behind the improvements in living standards seen in Nepal and that poverty reduction between 2000 and 2010 was almost twice as fast for households with migrants than those without.

On the contrary, numerous reviews, studies, and reports proposed that the prospective positive role that remittances can play in Nepal is not being fully realized due to vague instruction, irregular implementation, and unsatisfactory management. Regardless of remittance being an important income source in Nepal, the juncture between remittance and development does not exist. No notable efforts have been made by the government to address the genuine concerns of remittance transfers and usage in Nepal. This can be accredited mostly to informal remittance transfers as such transfers keep money away from the formal system and prevent any opportunity for investing it for development. If remittance comes through a formal channel, financial products such as saving and credit schemes and insurance can be developed to target remittance money. The availability of such financial products encourages savings and discourages unnecessary consumption, provides an opportunity to invest in productive assets, and reduces vulnerability to poverty threat. Therefore, a suitable program, policy, and action looking at the multiple facets of remittance are required to promote the practice of formal remittance transfer operators and consequently the proper usage of remittance money in

Nepal. An integrated methodology is necessary to ensure that migrant workers are aware of formal channels and that the formal channels are equipped to capture migrant remittances and develop their productive use.

It is a fact that remittances do not robotically contribute to Nepal's economic development or poverty alleviation. It is the government that has to develop a correct mechanism that stimulates Nepalese migrants to send money to their families in Nepal and also to expertise policies to make maximum utilization of remittance by channeling them into long-term productive projects. In the long run, Nepal's economy cannot depend on remittances because overseas employment is not a permanent solution for the nation's growth as there are few risks associated with remittances such as if remittance flow is outsized, Nepal could face the risk of real exchange rate appreciation which can make Nepal's economy less competitive internationally, the remittance from the skilled workforce of Nepal is a brain-drain which means Nepal could face the shortage of skilled workers which would badly affect the long-term development of Nepal, remittance creates dependency, and migrant workers have to live far away from their home and families.

Despite its side effects, Nepal's economy is largely reliant on remittance income as it is a major source of capital formation. Also, the reliance of the majority of Nepalese migrant workers' families on the use of remittance money for consumption purposes makes it a crucial source of income. However, there is a need for the government to formulate effective programs to reassure Nepalese migrant workers to send money home through formal methods and invent tools that translate such money into productive undertakings in Nepal for long-term development. Because if the tendency of usage continues then the remittance sent to migrant workers' families will not be used efficiently. The families of migrant workers in Nepal should be encouraged and held to establish small and medium-sized enterprises for producing income and employment opportunities to support the improvement of Nepal's economy in the long run.

Although some of the evidence shows a mixed effect of remittance on Nepal's economy, most of the literature studies as discussed in chapter two find a significant positive impact of remittances on the reduction of poverty, growth of the economy, and human capital formation. The increase in human capital will help to increase the growth rate of the Nepalese economy in the coming years. The remittance obtained by families of

migrants in Nepal has been able to decrease their limitations on household income and raise that money to improve their living standards. However, the emphasis of remittance money should be more on the investment in productive activities rather than just consumption or raising living standards.

As a result, the intensification of remittances as a novel approach to economic progress in Nepal has insisted government, international organizations, and multilateral institutions, educational institutions recognize and apply necessary means on how remittances inflow could be capitalized for the benefit of Nepal's poverty reduction and economic expansion. It's been long overdue that government and policymakers of Nepal realize the positive aspects of remittance and establish a clear vision and strategies to speed up the country's development.

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