



## **IMPACT OF REMITTANCE IN NEPALESE ECONOMY**

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### **ABSTRACT**

***Background** – Remittance means transfer of funds from one place to another for different purpose. In other words, it is a transfer of money by foreign workers to an individual in his or her home country.*

***Purpose** – The purpose of the study is to examine the impact of remittance in Nepalese economy.*

***Methodology** – Due to the specific nature of the research objectives, descriptive yet analytical research design has been used.*

***Findings** – Remittance plays vital role in the economic development of Nepal.*

**Keywords** – Remittance

### **Background**

Remittance means transfer of funds from one place to another for different purpose. In other words, it is a transfer of money by foreign workers to an individual in his or her home country. Generally, it is transfer of money from a buyer to a distant seller. Funds being received in host country from other countries are termed as inward remittance and funds being transferred to other countries are termed as outward remittance.

Originally transfers of fund were done through informal channel i.e. Hawala (Hundi) in which the sender deposits the transfer money and commission to a businessman at the originating center, who in turn would inform his agent in the different place at receiving center to pay money to the beneficiary on identification. But now due to the emergence of large banking network

throughout the world, funds are being remitted more from formal channel i.e. banks, post office and money transfer operators etc.

Remittance is not a new phenomenon in the world. Several European countries, for example Spain, Italy and Ireland were heavily dependent on remittances received from their emigrants during the 19th and 20th centuries. Italy was the first country in the world to enact a law to protect remittances in 1901 while Spain was the first country to sign an international treaty (with Argentina in 1960) to lower the cost of the remittances received.

In 2004, the G8 met at the Sea Island Summit and decided to take action to lower the costs for migrant workers who send money back to their friends and families in their country of origin. In light of this, various G8 government developmental organizations, such as the UK government's Department for International Development (DFID) and USAID began to look into ways in which the cost of remitting money could be lowered.

In September 2008, the World Bank established the first international database of remittance prices. The Remittance Prices Worldwide Database provides data on sending and receiving remittances for over 200 "country corridors" worldwide. The "corridors" examined include remittance flows from 32 major sending countries to 89 receiving countries, which account for more than 60% of total remittances to developing countries. The resulting publication of the Remittance Prices Worldwide Database serves four major purposes: benchmarking improvements, allowing comparisons across countries, supporting consumers' choices, and putting pressure on service providers to improve their services. At the July 2009 summit in L'Aquila, Italy, G8 heads of government and states endorsed the objective of reducing the cost of remittance services by five percentage points in five years. To drive down costs, the World Bank has begun certifying regional and national databases that use a consistent methodology to compare the cost of sending remittances.

## **Importance of Remittance**

Remittance from foreign employment has been playing important role in developing countries. Major benefits of the remittance are:

- **Revenues for Government and Private Sector**

Remittance has become an important source of revenue for government through tax and fees. These fees include fees paid by manpower companies, passport fees, value added tax and other

non-tax revenues. Similarly, remittance has become an important source of revenue for private sector as well. Various recruitment agencies, agents, medical institutes, orientation institutes, training institutes, advertisement, photograph shops, air-ticketing, local transports, hotels, restaurants etc have been collecting significant amount of revenue.

- **Employment Opportunities**

Different commercial banks, finance companies and money transferring agencies which are responsible for the transfer of foreign currency in the domestic financial market, provide an opportunity of employment for different people in the country. Similarly, airlines, training institutes, hotels, transports, recruitment agencies etc. also give an opportunity for employment.

- **Poverty Reduction**

Living standard of people can be improved by remittance. From the macroeconomic point of view, the remittance is the major source of income for the major household in the nation. Household income is increased by remittance which also supports to increase contribution in financial capital, education of the children, social capital and other productive areas.

### **Types of remittance**

- **Family Remittances:**

It refers to remittances that are sent by individual immigrants working in the foreign locations to their family, relatives or friends in their home country. These remittances are sent every month and they assist the families of the migrants to survive. These remittances also help the poor families to fight against poverty. The family remittances are regarded as the major form of remittances across the world where millions of workers are working hard in distant land away from their home for earning their livelihood.

- **Community Remittances:**

It refers to the remittance sent by various hometown associations to organizations and communities in their home country. This money has been used for the developmental activities of communities such as in building infrastructure, church, parks, and roads. It also offers health care to the poor. The community remittances are also used for offering health benefits, education, and employment to big communities who need these facilities in the home countries.

- **Migrant worker Remittances:**

These remittances refer to the cash transfers done by migrant workers for sending the money to the families, friends and relatives back home. The migrant worker remittances make up a large chunk of money inflows into home country by the people who have migrated to foreign locations in the search of money, job or education.

- **Social Remittances:**

These remittances basically comprise of various ideas, practices, and social capital that make up the backbone of many remittances that flows from workers of one country to another. Thus social remittances assist the traditions and culture of one race or community, to socialize with the cultures and traditions of another community. Social Remittances help in the bonding of people and do not have money associated with them.

### **Objectives of the Study**

The main objectives of the study is to study the impact of the remittance in Nepalese economy

### **Methodology Used**

This study has followed both descriptive and analytical approach of research. Secondary data on the economic analysis have been collected for getting the answer of different issues of the study. Different reports published by the Nepal Rastra Bank, Central Bank of Nepal, Ministry of Finance, Central Bureau of Statistic and data from websites have been used for analysis.

### **Analysis of the Study**

### **Remittance in Global**

In 2015, \$440 billion went to developing countries, setting a new record compared to \$436 billion in 2014 i.e. increased by 0.9%. Overall global remittances also totaled \$586 billion in 2015 compared to \$583 in 2014 billion. In line with the expected global economic recovery next year, the global flows of remittances are expected to accelerate by 4.1 percent in 2016, to reach an estimated \$610 billion, rising to \$636 billion in 2017. Remittance flows to developing countries are expected to recover in 2016 to reach \$459 billion, rising to \$479 billion in 2017.

The top five migrant destination countries continue to be the United States, Saudi Arabia, Germany, Russia and the United Arab Emirates (UAE). The top five remittance recipient countries, in terms of value of remittances, continue to be India, China, Philippines, Mexico and France. India and China, receive tens of billions of US dollars in remittances each year from their expatriates. In 2015, India received an estimated \$72.2 billion and China an estimated \$64 billion.

The top five countries who's GDP have highly contributed by remittance in 2015 are Timor Leste, Tajikistan, Kirgizstan, Nepal and Moldova, which are 216.6%, 42.1% 31.5%, 29.1% and 24.9% respectively.

#### **Top five recipients' countries of Remittance (in billion dollars')**

<b>Countries</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
India	68.82	69.97	70.97	72.2
China	57.99	59.49	61.49	63.9
Philippines	24.61	26.7	27.9	29.8
Mexico	23.37	23.02	24.5	25.7
France	22.05	23.34	23.94	24.6

(Source: World Bank, 2015)

#### **Remittance in Nepal**

Nepalese economy has witnessed various structural changes. Economy has gradually been shifting from agriculture sector to non-agriculture sector (service, industries and remittance). Contribution of the agriculture sector to GDP is in declining trend while that of non-agriculture sector is gradually increasing. Services sector under the non-agriculture sector has also been expanding rapidly. The average contribution of agriculture sector to GDP between FY 2001/02 and FY 2005/06 had remained at 35.7 percent while it slipped to 33.9 percent between FY 2006/07 and FY 2010/11 and stood at 33.0 percent between FY 2011/12 and FY 2015/16. During the same period, average contributions of the non-agriculture sector were recorded as 64.3 percent, 66.1 percent and 67.0 percent respectively. Contribution of agriculture sector to GDP is 31.7 percent while that of non-agriculture sector is 68.3 percent in the current fiscal year 2015/16.

Out of different non-agriculture sector remittance plays vital role in the economy of the country. Remittances to Nepal have a stronghold in the national economy and they have also transformed the lives of a large number of rural people. Remittance inflow in Nepal began with the entry of Nepalese youths in the British Indian Army during the World War I. Following this, there were increased remittances to Nepal when a large number of Nepalese youths joined the Indian army in the 1950s and 60s. Simultaneous to this, the increased number of Nepalese migrant workers in India also contributed to bring in remittances from India. This initial phase of foreign employment came to a sea-change in the second stage in the 1990s, at the wake of globalization, when a large number of Nepalese opted for jobs in Malaysia and Gulf countries. Government of Nepal now has opened 109 countries for foreign employment. Remittances have become a major source for hard currencies for the national economy and so have become for a household. Number of remittance receiving household has reached 56 percent in the country. Remittance has 32.1 percent share in GDP in the first eight months of 2015/16, and has surpassed the incomes received from tourism and national exports for the last three consecutive years. Remittance inflow has been credited for heavy foreign reserve and management of monetary resource for small and medium scale industries. Besides, remittance has helped the country's economy from being shambles at a time when the world was reeling under recession. Remittance has also tremendously supported to poverty alleviation. It is roughly estimated that about 0.35 million jobs are created all over the country by the phenomenon of labor migration – Foreign employment, remittance and its contribution to the economy of Nepal. Nepal's Economy Survey 2015/16 states that about 58% of Nepalese households receive remittances and that it constitutes one third of the gross domestic product (GDP) of Nepal. The same report agrees that the poverty rate has decreased significantly from 42% in 1995 to 23.8% in early 2014, a change which is largely attributed to remittance. At a household level, remittance has helped reduce poverty and increased access to health and education services. At a macro level, this is the largest source to augment foreign exchange reserve and to improve the current account position. Nepal received 435 billion rupees of remittance in fiscal year 2012/13 and it is predicted to increase to 617.3 billion rupees in 2014/15. In addition to these formal accounting, there is a large share of money transferred to Nepal through Hundi or other informal transactions. The fact is the amount of remittance is thought to be about 5 times higher than the total foreign grants and

loans that Nepal received in 2013/14. The share of foreign loan and grants, and remittance constitutes 5.9% and 32.1% of GDP respectively.

### Remittance Inflow

Descriptions	2011-12	2012-13	2013-14	2014-15	2015-16*
Remittance Inflow (Rs. billion)	359.6	434.6	543.3	617.3	427.9
Percentage Change	41.8	20.9	25	13.6	15.2
Ratio to GDP	23.5	25.6	27.7	29.1	32.1**
Share of remittance Income in current transfer income	84	87.3	85.6	87.9	85.1

(Source: Economic Survey 2015-16                      \* First Eight Months                      \*\* Annual Estimate)

Nepal Living Standard Survey states that due to remittance and migration driven economy, poverty of Nepal reduced from 42% (1995-96) to 25.2%(2014). From the macroeconomic point of view, the remittance is the major source of income for the 58% household in the nation. Household income increased by just 22.4% in1995-96 while remittance has caused 70% increased during 2015. So, the household income's contribution in increased financial capital, education of the children, social capital, and migration-specific knowledge can't be ignored. The returned migrant were found to have developed values like punctuality, work-ethics, gender sensitivity and productive capability.

More than 512 thousand active youths enter into the Nepalese labor market each year. There is a large gap between demand and supply of labor. The growth of skilled manpower and creation of employment is not satisfactory. More than 1,300 youths leave the country every day. Around 3.48 million foreign employees who left country from formal and informal means are categorized as 1.5 percent skilled, 23 percent semi-skilled and 75.5 percent unskilled. Earthquake and border obstructions caused labor to lose their jobs which is why the employment growth rate is estimated to remain below 2.9 percent.

## Country wise details of foreign employment

(First eight months of 2015-16)

Countries	Male	Female	Total
Qatar	85460	1125	86585
Malaysia	41651	1325	42976
Saudi Arabia	92091	1255	93346
UAE	29091	5884	34975
Kuwait	6210	539	6749
Bahrain	1806	228	2034
Oman	1607	667	2274
South Korea	2019	100	2119
Japan	2799	93	2892
Others	3757	2528	6285
<b>Total</b>	<b>266491</b>	<b>13744</b>	<b>280235</b>

(Source: Department of Foreign Employment, 2015)

Lack of employment opportunities in Nepalese labor market, low payment, price hike, Nepalese culture that does not respect every jobs, increased expectations of youths due to the development in communication and technology, and high affection of youths towards foreign employment have contributed to exodus of Nepalese youths to foreign employment. Earthquake and subsequent border obstructions, that rendered negative impact on the agricultural and industrial sectors, left several youths unemployed where foreign employment became an alternate choice for them. Officially 110 countries are opened for foreign employment. To prepare expert and skilled manpower for in-house employment/ self employment along with entrepreneurship and foreign employment, governmental and non-governmental sectors are providing youth and job oriented technical and vocational trainings targeting youth labor force. Twenty one percent of such labor force is leaving for foreign employment after the receipt of training.

From the fiscal year 2006/7 to fiscal year 2014/15 total number of 3,201,268 Nepalese left the country for foreign employment among them 3,065,462 are men and remaining 135,806 are women. The total numbers

of workers left for foreign country in the first eight months of fiscal year 2015/16 is 280,235, among them 13,744 are women and 266,491 are men.

## Conclusion

Remittance means transfer of funds by a foreign worker to an individual in his or her home country. It plays a vital role in economic development of any country. Remittances help to increase the revenue of government, to increase the employment opportunity and to reduce poverty of the country. Remittances play important role in the economy of Nepal i.e. 32.1 percent share in GDP in the first eight months of 2015/16. It has been found that 78.9% of total remittances are spent in daily consumption where as 7.1% in repaying loan, 4.5% in household property, 3.5% in education and 2.4% in capital formation. The amount of remittances could be doubled if the government makes labor agreement with major destination countries and if the migrants are skilled or semi-skilled. If used with clear plans and wisely, remittance can induce a chain of development from individuals to households, and from communities to the country.

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