



REMITTANCE AND ITS IMPACT ON ENTREPREUNERSHIP A CASE OF KATHMANDU VALLEY

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1. Introduction

In context of Nepal, the number of Nepalese going abroad is increasing significantly in the last two decades. The number of labor permit issue increased by 150 percent (i.e. 204, 533 in fiscal years 2006/07 to 512,887 in 2014/15). As there is rising trend of migration, the workers remittance income is also moving in the same direction. The remittance income has precipitously increased from 56 billion in 2000/01 to 617.27 billion in 2014/15. (Economic Survey, 2014/15) The contribution of remittances to GDP has been ranging from 11 % to 19. 4% during the period of 2002/03 to 2009/10. The remittance to GDP ratio was higher in 2008/09 (21.20 %) but sharply decreased in 2010/11 (18.50 %). The share of remittance to GDP has fluctuating trend until FY (2010/11) then after, it has an increasing trend up to 30 percent 2014/15. The proportion of the households receiving remittances from all sources has been increasing-- rather exponentially-- and suggesting both increasing dependence and vulnerability on remittance income at the household level. About 23 % of the households reported for the receipt of remittances in 1995/96, which increased to 32 percent in 2003/04. However, the proportion has significantly increased to as high as of 56 percent in 2010/11(CBS III). Some informal estimates also suggest that about 70 percent of the households are receiving the remittance. (CBS I, II and III) Along with the increasing proportion of the households receiving the remittance, the size of remittance received has also increased. The average size of remittance received during 1995/96 was about 15000 Nepalese rupees that nearly doubled to 34000 in 2003/05. The figure has indeed increased by 1.5 times to 80000 in 2010/11. This suggests average amount of remittance received is also increasing over the years. (CBS, I, II &III) In the past decades (2001-2015), Nepal's received a huge amount of remittance income, , whereas fall in earning from export and a sharp rise in foreign import (Ministry of Finance, 2015). The ratio of remittance to GDP that stood 11.2 percent in FY 2004/05



reached 30.0 percent by FY 2014/15. However, the increased inflow of the remittance could not boost up to domestic productive activities. Consequently, the number of abroad migrations has increased, the export GDP ratio has plummeted to 4.0 percent of GDP and imports GDP ratio has surged up to 36.5 percent of GDP in the FY 2014/15. Whereas the ratio of export to GDP in the FY 2001/02 was 10.8 percent suggesting that workers remittances income has no contributions in gaining international cost competitiveness (Thangunna & Acharya, 2013). Instead, the money coming in from work being done outside the country has led to an explosion in the consumer demand and being spent on products that were manufactured outside the country not really contributing in generating the productive employment and entrepreneurial capabilities to the country. As a result, so-called phenomenon of “Dutch Diseases” might be in play as the influx of foreign currency in the form of remittance appreciates value local currency. In recent debates, policy-makers and researchers increasingly have argued that the long-term impact of migration remittances on economic development will depend on the end use the remittances in the country of origin (Osili, 2007). Income from remittances positively benefit—both in short run and long run and directly--to both the recipients and their national economy. They are prime sources of income to least developed country like Nepal than other sources such as ODA, foreign investments and other sources from private sector. It can positively contribute to the national economy through various macroeconomic mechanism such as investment and saving, consumption and economic growth and also create distributional justice.

Regarding this, one set of literature documents that large amount of remittance has gone for consumption without contributing towards the accelerating the productive activities. However, few argue that migration and remittances has contributed towards human capital formation including entrepreneurship development in the international context.

Entrepreneurship is the process of designing, launching and running a new business. The people who create these businesses are called Entrepreneurs. Entrepreneurs are the ones who take risk, invest time and money and try to create employment opportunities in the economy. They are the one who directly or indirectly play crucial role in acceleration of the economic growth. According to NLFS (2018-19), 11.4 % of the population are unemployed. Therefore, entrepreneurs have important role to play in the process of industrial as well as economic development. They could assist to generate employment opportunities, to raise income and to break the vicious circle of

poverty. Remittance equally affects the investment, consumption and living standard of the society. According to Accelerator Theory of Investment, there is positive relationship between income and investment where changes in income determines the investment. However, NLSS III (2010/11), reports that 79 % of the remittance are used for normal expenditure and only 2 % is used for investment. Devkota (2016) states that even the majority of investments they made are in real estates for purchasing house and land. So, the main question is how the remittance is being used. Has the situation changed now? The remittance receiving households have remittance as one of the sources of income if not the only source. So, does this increment in their income have any effect on investment in business? So, study therefore tries to study the impact of remittance on entrepreneurship.

1. Statement of the Problem

There are no specific studies conducted focusing on the effects of migration and remittance on health and educational outcomes; and entrepreneurial effects with reference to the recent dataset of poor and low-income households in Nepal. Hence, such linkages are not still well answered. Our study, unlike an existing one, is among premier studies specializing on the human capital accumulation and entrepreneurial development effect of migration and remittance with reference to poor and low- income households of Nepal.

Although, at national level, there are some studies focusing on the relationship between migrations, remittance, human capital and entrepreneurship development, most of them have used the national level data of Nepal Living Standard Survey—various rounds of NLSS--and, some of them have used micro based primary data. However, in our knowledge, this study is perhaps the first in its status to use the recent data of Poverty Alleviation Fund of Nepal. PAF data set consists of majority of poor households, unlike NLSS and other data sets, which consists both poor and non-poor households, this study has focused on nexus between remittance migration, human capital enhancement and enterprise development with special focus on poor households.

Political instability, rampant corruption and vested interests of handful Nepali elites being few of the reasons behind it. This has made life of uneducated and unskilled manpower even more difficult than the educated and skilled ones. Most of the Nepalese are working

in Saudi Arabia, Malaysia, Qatar and U.A.E as low skilled workers. The migrants remit money back to their family member. In the context of Nepal, the remittances are used for diverse purposes by the recipient households. But are they being used in productive areas like establishing a business or in entrepreneurial activities? Despite a constant rise in remittance earnings, the productive use of remittances has been a matter of concern. Promoting the productive use of remittances is arduous and challenging. It requires a concerted effort from government and other agencies to create a new channel for productive use of remittances and to promote migrants' savings, both at the household level and the national level. Several researches have been carried out at both national and international level in the past to identify the uses of remittances. Devkota (2016), stated that most of the return migrants were interested in purchasing plots for land. A majority of the return migrants were buying land plots in urban area for wealth accumulation. His finding was that only 4.4 % of the migrants were utilizing the remittance as business investment. Similarly, Amuedo- Dorantes & Pozo (2006), found that remittance income was being used for basic consumption, health care, and education for the household members than business investment in the Dominican Republic. Jahjah, Chami, & Fullenkamp (2003), argued that major percentage of the remittance is spent on status-oriented goods while a smaller percentage is allocated for productive investment. They argued that investment in housing, land and ornaments are not productive to the economy. Hence, majority of the studies found out that maximum remittance income is being used for consumption than business investment. Based on the above discussed issues followings is the research question:

1. What is the impact of remittance on entrepreneurship on both the municipalities?

2. Objectives of the Study

1. To analyze the impact of remittance on entrepreneurship on both the municipalities.

3. Literature Review

Study by Devkota (2016), taking the sample of 275 returnee migrants in Nepal, find that households spending almost all of their remittance income in unproductive sectors—such as purchasing land and households' consumption-- and allocating only 4.44 percent of their remittance income in entrepreneurial activities. Similar to other international studies such as Reyes, et al.(n.d.), the study further ascertains the factors positively affecting as well as the factors hindering the household's decisions to business and entrepreneurship. Saving made by the migrants, education of the migrants, duration of migration, household size is some of the key factors determining the households decision to engage into the business and entrepreneurial activities. And, however, political, institutional and supply side factors – such as strikes, government policies towards investment, administrative mechanism, energy scarcity—were found as obstacles for migrants' decision to engage into entrepreneurial activities.

In Nepal, Chalese (2013) study on impact of migrants' remittance on entrepreneurial activities. The main objective of study was to examine people's behavior on capital management by using the primary data from 77 households; this research found that people have the lower-level motivation to run the new business by using the remittance. These findings show that remittance is not a strong base for the entrepreneurship development in future as well because remittance has the low contribution to enhance entrepreneurial activities. Yang (2008) uses four linked household surveys from the Philippines to analyze how exchange rate shocks during the 1997 Asian financial crisis affected the expenditure patterns of 1646 Philippine households receiving international remittances. Since the paper has panel data from before and after the 1997 crisis, it is able to analyze how different types of exchange rate shocks: positive and negative affects the changes in the expenditure patterns of households receiving remittances. The study shows that the appreciation of a migrant's currency against the Philippine peso was a positive income shock for the migrant's origin household in the Philippines. The greater the appreciation of a migrant's currency against the Philippine peso, the larger the increase in household remittance receipts (in pesos). These increases in migrant resources are used primarily for investment in origin households, rather than for current consumption



Black & Castaldo (2009) explores the relationship between international migration and entrepreneurship development. The returnees who had accumulated saving while abroad were more likely to invest in entrepreneurial activities than those with less or no accumulated saving. Their model also shows that the work experience was way more significant determinant than education level in determining whether or not a returnee becomes an entrepreneur.

McCormick & Wahba (2001) a survey that includes data on the pre- and post-migration employment histories of migrants, the paper is able to examine how international migration and remittances affect the probability that a migrant will become an entrepreneur, employer, self-employed person or business owner – upon return from working abroad. This paper finds that two factors: time spent working abroad and total amount of money saved abroad have a positive According to the paper, illiterate Egyptian migrants may not learn many new skills working abroad, and this is the reason that savings accumulated abroad rather than time spent abroad is the critical factor affecting the likelihood of becoming an entrepreneur. Wahba & Zenou (2012) investigate on whether return migrants are more likely to become entrepreneurs than non-migrants. The aim of this paper is to study what makes an entrepreneur. To test this idea, they used data from a rich survey: ELMS (1998) carried out by the CAPMAS in Egypt.

They found that, even after controlling for the endogeneity of the temporary migration decision, an overseas returnee is more likely to become an entrepreneur than a non-migrant. Although migrants may lose their social capital, they accumulate savings and experience overseas that increase their chances of becoming entrepreneurs.

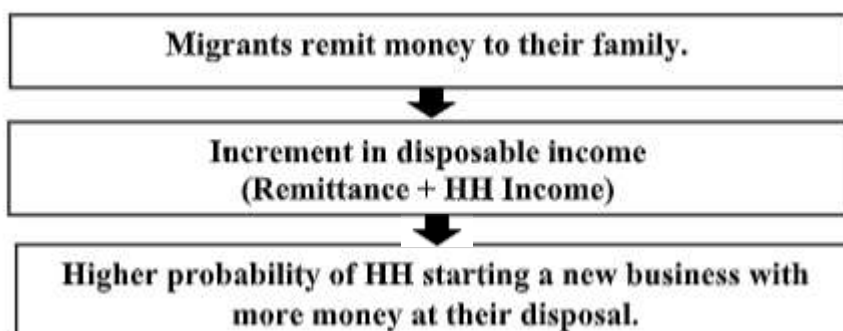
Bettin, Lucchetti, & Zazzaro (2012) examines how far the level of financial development in the migrants' country of origin affects their remittance decisions. This paper tries to investigate to what extent the level of financial development in the home country affects decisions on whether and how much to remit. They analyzed remitting decisions for a sample of immigrants to Australia from 125 different countries. Empirical analysis is based on the third wave of the first cohort of the LSIA selected among legal immigrants who entered Australia between 1993 and 1995 from 125 different countries both developed and developing countries. They used double-hurdle model with endogenous

continuous regressors. A double-hurdle model is a useful tool Amuedo- Dorantes & Pozo (2006) studied on the relationship between remittance inflows and business ownership. They found out that the remittance receipts were attracted by the presence of investment opportunities in their native country. However, they also concluded that the inflows do not promote entrepreneurship activity even though the remittance played a key role as a potential source of capital for business investment. They remittance income were being used more for basic consumption, health care, and education for the household members than business investment in the Dominican Republic. Regarding entrepreneurship they argue that remittances may drive entrepreneurship by easing household liquidity constraints. However, businesses may attract remittances if migrants' remit, expecting either to take advantage of good investment opportunities back home or to be favored in future inheritances. Vasco (2013), analyzes the effects of migration, household remittances and average remittances per household at the town level on business ownership in rural Ecuador. In order to answer this question, it estimates the likelihood of a household owning a business by means of a Probit model. Their study shows that education, credit and access to services have positive impact on the probability of rural house owning a business and hence migration and remittance don't have any effect at all.

4. Research Methodology

This study is based on **analytical research** design.

5.1 Conceptual Framework



This increment in their disposable income might lead them to starting a new business and thus making them entrepreneurs.

5.2 Area of the study

This study is Kathmandu valley of Nepal. I selected 400 households from 9 different wards so the area to cover was huge. In order to gather the data from 400 HH. I visited almost 500 households.

The entrepreneurship is modeled as a function of household and demographic characteristics and the receipt of money transfers from abroad:

$$Y = f(\alpha + \beta_0 \text{HH size} + \beta_1 \text{HH marital status} + \beta_2 \text{Average education attainment of family} + \beta_3 \text{Demographic Characteristics} + \beta_4 \text{HH receives a remittance} + u.)$$

Where,

Y= probability being entrepreneurship

u = error term

Entrepreneurship is dummy variable, 1 if the Household invests or 0 if Household doesn't invest. The model can be expressed as:

$$Y=1, \text{ if } Y^* > 0 \quad (1)$$

$$Y=0, \text{ if } Y^* \leq 0 \quad (2)$$

6. Regression Result

The table below shows the Probit result of households becoming entrepreneurs. The Geographical Belt of the households is statistically significant for entrepreneurship at 1% level. Size of the households is not significant for entrepreneurship. The research expected it to play significant role as in many of the previous studies. For example, Shark and Bloom (1985) stated that family size was significant for entrepreneurship. Similarly, the study by Tuladhar (2014) also suggests that the households with more family members increases the likelihood that a family owns a business since more family members means more manpower and more social capital. However, this study shows that size of the households doesn't have significant effect on entrepreneurship.

The educational level of a family is also significant for the entrepreneurship at 15% level and is negatively correlated to entrepreneurship. This model predicts that the family with the higher average education are less likely to become entrepreneurs. The families with more educated family members are more likely to get proper job than the one with less education. So, those families generally tend to go for job rather than become an entrepreneur. In such family employment is more desirable. This prediction is in line with Reyes, et al., (2013)

The marital status of the households is also significant for entrepreneurship at 5% level. This study shows that the households with the "Married" person as HH are more likely to become entrepreneur than other.

The remittance received by households is not significant to entrepreneurship. This contradicts with one of the latest researches by Kakhkharov (2018) which states that the propensity to start a family business differs between households that receive remittances and those that do not. However, this is plausible because most of the remittance HHS receiving in the survey tend to use the money for consumption, education and other expenses. This hardly left any disposable income for them and even if they had excess money most of them wanted to invest in capital assets like house, land etc.

Table: 1 Probit Model of Remittance and Entrepreneur

VARIABLES	Probit
Geographical Region (Reference:"0")	
Municipality	0.353*** (0.258) -
Family Size	-0.0177 (0.0766)
Marital Status of HH(Reference:"0")	
Single	-
Married	0.234** (0.200)
Widow/Widower	-
Separated	-
Remit (Reference: "None")	
No	0.129 (0.780)
Yes	-0.123 (0.188)
Not Applicable	-
Average Family Education	-0.102** (0.0384)
Constant	-0.845 (0.452)
Observations	390

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

7 Conclusion

The survey result concludes that most of the households use the remitted money for consumption and other household expenses. The remitted money is hardly enough to cover their regular expenses. So, the remittance money has little to no impact on entrepreneurship. The survey even made a hypothetical question to the respondents just to know their mentality regarding business. They were asked what will they do if they were to receive even more remittance? It was sad to know that they simply don't want to be associated with business even when provided with more remittance as proven by the survey result where only 10% were willing to invest in business. It is appalling that people don't have appetite for risk and business and they would rather sleep on a pile of money rather than invest in business. No matter how much money they get through remittance, majority of them will still choose to save it for the future or purchase new assets rather than open or invest in business.

Similarly, a Probit model was used to analyze the impact of remittance on entrepreneurship. The result shows that remittance has no significance over individual becoming an entrepreneur. Instead there were other factors which have higher significance on entrepreneurship. The result concludes that Geographical Region of the households is highly significant for entrepreneurship. Similarly, the average education of the households was also significant for our model. The family with higher average education were less likely to become entrepreneurs as high educational qualification makes it easier for them to get job. The marital status of the household head too has significance in our study as married people are more likely to become entrepreneur than others.

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