

Labor Migration and Remittances in NEPAL: An Overview

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Abstract

The flow of international migration has increased in recent years as a result of democratization, economic liberalization, and globalization. The volume of remittance flow to labor sending countries has also increased correspondingly. Labor migration and inflow of remittance have played important roles in Nepal's economy. This article analyzes the volume and trend of labor migration and remittances and their impact in Nepal's economy, which is heavily dependent on remittances from migrant workers. The contribution of workers' remittances to the foreign currency reserves is recorded to be more than 60 percent in recent years. However, remittances are also used more for consumption purposes than for productive investment. It is suggested that the government should take measures to improve the quality of labor by training on the one hand and induce remittance receivers to channel remittances to productive investment on the other hand. Effective execution of Foreign Employment Act 2007 is also of crucial importance.

Introduction

Neo-classical theories attempt to analyze migration by referring to the 'push' and 'pull' framework assuming that two forces, one in the country of origin (the push factor) and other in the country of destination (the pull factor), operates in the migration processes. The migration of labor force can have several positive effects on the economy of home country. First, it may have a positive impact on employment and wages where there is excess labor force due to a high rate of population growth. Second, remittances sent by migrants help reduce poverty of their family availing money for household expenditure. Third, migrant laborers transfer skills, technology and investments that can accelerate productivity and economic growth. Fourth, remittances contribute to foreign exchange reserve of labor sending countries which are in dire need of foreign exchange to import the goods and services. In the labor force receiving country, on the other hand,

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the problem of labor shortage is solved, possibly with cheaper labor force than their own national labor force.

As a result of worldwide waves of democratization, privatization, economic liberalization and globalization, there have occurred flow of information, production and market flexibility of goods and services. There has been rapid flow of resources in production, trade, finance, and investment after globalization in 1980s and 1990s. The proportion of migrants from Asia, Africa and Latin America has become increasingly significant for employment (Karna, 2008).

South Asian countries acknowledge that emigration helps to promote economic growth, eases the pressure of unemployment and much needed foreign exchange through remittances and increases consumption, savings and investment at both household and macro levels (Pant, 2006). A recent study of World Bank (2009) estimated the remittance flows to developing countries at \$328 billion in 2008, which is a relatively more stable flow of financing than foreign direct investment, portfolio equity and foreign aid. India, China and Mexico retained their positions as the top recipients of migrant remittances among developing countries in 2008.

Following the trend of developing countries, Nepal has demonstrated an increasing trend in labor migration and volume of remittance inflow. Further, due to the Maoist insurgency and internal conflict in Nepal, labor out-migration was pushed since later part of 1990s and is continuing till to date. About 1.5 million of Nepali youths have migrated to different countries of the world to get employment. Remittance sent by these workers contributes significantly to the foreign exchange reserve of Nepal. There are, however, not only positive impacts of labor migration and remittances but also negative effects indicated in Nepal's economy. This article makes an attempt to examine this situation.

Historical Sketch of Nepali Migration

Migration of Nepali people in search of employment and livelihood opportunities as well as permanent settlement is not a new phenomenon. Internal mobility of population started after the unification of the country in 1768. However, formal external migration began after Nepalese citizen started to work in the British army following the Sugauli Treaty of 1815 signed between Nepal and Britain. This treaty allowed Britain to recruit Gurkhas in their military service. The history of seasonal and temporary migration to India is very old. This has been continuous process due to the open border between Nepal and India, close socio-economic relationship and large employment market in India. The labor migration from Nepal to other countries except India and Britain is a recent phenomenon. The Foreign Employment Act, 1985, identified a number of countries to which Nepali labor force was encouraged to migrate for employment purpose. The identified countries were included Gulf states where oil boom had created a massive demand for foreign labor. The overseas migration started to grow despite many constraints. The increased flow of information and liberalization in travel led to a significant growth of foreign employment in East Asia, South East Asia and the Gulf

countries after restoration of multiparty democracy in 1990 in Nepal (Karna, 2008). In the later part of 1990s, movement of Maoist rebels across the country disturbed the peace and employment situation in Nepal. This situation worked as the 'push' factor to migrate Nepali labor force for the employment outside country. Thus, the pace of migration of Nepali youth for foreign employment increased dramatically. This conflict also resulted in increased flow of migrants from the Mid-west and Far-west regions to India.

The data for labor migration is available only the migration through official channel to the overseas countries. Many Nepalese go abroad through the unofficial channel which is not in record. The recording of labor migration to India is very difficult since labor can move without a passport through open border and it has been a tradition between Nepal and India for centuries.

The official recording of data for overseas labor migration was started from the year 1989/90 (DOLEP, 2000). A total of 3605 workers were migrated to overseas countries during five years from 1989/90 to 1993/94. The annual number of labor migration for 15 years (from 1994/95 to 2008/09) is presented in Table 1. A total number of 1394 thousand labor force has been migrated from Nepal to overseas countries till April 2009. This is the tremendous increase in labor migration from Nepal in the last period, especially since 1996/97.

Table 1: Volume and Growth of Migrant Labor Force, Nepal, 1993 to 2009

Fiscal Year	No. of migrants	Annual Growth Rate (%)
1993/94	3605	-
1994/95	2159	-40.1
1995/96	2134	-1.2
1996/97	3259	52.7
1997/98	7745	137.6
1998/99	27796	258.9
1999/00	35543	27.9
2000/01	55025	54.8
2001/02	104736	90.3
2002/03	105043	0.3
2003/04	106660	1.5
2004/05	139718	31.0
2005/06	165252	18.3
2006/07	219450	32.8
2007/08	229373	4.5
2008/09*	186783	
Total	1394281	

* First 10 months only.

Sources: Department of Foreign Employment, Database, Kathmandu:

The growth of labor migration in the last one and half decades is highly inconsistent. There are some possible reasons for these fluctuating growth rates in labor migration. First, the record keeping system of concern government department is not systematic one. At the same time, worker licensing and work permit system is also inconsistent. Sometimes, therefore, many Nepali laborers fly from India without work permit due to lengthy and complicated administrative procedure to get the official permit. Secondly, international demand for Nepali workers, mainly from gulf countries and Malaysia, has not been consistent due to their own domestic policy and labor requirements.

When examined monthly labor migration data for 10 months of fiscal year 2008/09, the nature of fluctuation as annual data is exhibited (Table 2). In May 09, nearly forty percent decline is recorded in labor migration from Nepal. This high decline indicates the impact of global recession to the Nepali workers abroad which is also confirmed from the news published in different media that many Nepalese returned home from Gulf countries and Malaysia since they were laid off from the job.

Table 2: Monthly Flow and Growth Rate of Labor Migration in First 10 Months of 2008/09

Months	No. of migrant workers	Growth (%)
Aug. 08	23130	
Sep. 08	25027	8.2
Oct. 08	17386	-30.5
Nov. 08	20543	18.2
Dec. 08	18685	-9.1
Jan. 09	17374	-7.0
Feb. 09	18715	7.7
Mar. 09	16768	-10.4
Apr. 09	18091	7.9
May 09	11077	-38.8

Source: Department of Foreign Employment, Database, Kathmandu.

Remittances

The volume and value of remittances flowing into Nepal from migrant workers abroad is significant and increasing rapidly. The detail record of remittance inflow to Nepal is not available. The volume of remittance income can be shown only the amount entering through the banking system though description of remittance inflow through other various mediums also discussed in brief based on the available estimates. The amount of workers' remittances was received \$2738.3 million in the year 2008/09. It was only \$535.6 million in the year 2000. Thus, the absolute increase of workers' remittances recorded 411.3 percent in nine years from 2000 to 2009. However, the annual growth rates show the inconsistency in this period (Table 3).

Table 3: Inflows of Workers' Remittances in Nepal

million US \$)		
Year	Workers' remittances	Annual Growth Rate (%)
2000	535.6	-
2001	642.6	20.0
2002	621.1	-3.3
2003	700.0	12.6
2004	797.2	14.0
2005	910.6	14.2
2006	1356.2	48.9
2007	1430.2	5.5
2008	2188.1	53.0
2009	2738.3	25.2

Source: NRB (2007). *Quarterly Economic Bulletin*, Vol. 42, No. 1,
NRB (2009). *Quarterly Economic Bulletin*, Vol. 44, No 3 & 4.

This inconsistent growth rate of remittance inflow may have some possible reasons. The migrant workers do not send their earnings in regular and scheduled mode. The another important reason can be the medium of transfer of remittance since some mediums they use are unofficial and illegal for which there is no record in the banking system (See Table 6).

Every conscious Nepali citizen comments these days that Nepal's economy is remittance economy. When analyzing the data on foreign exchange reserve and proportion of remittance for the last 10 years, this comment has been proved. Table 4 presents the percentage contribution of remittances to the foreign exchange reserve and GDP.

Table 4: Contribution of Workers' Remittance to Foreign Exchange Reserves and GDP

(In million US \$)					
Year	Foreign Exchange Reserve	GDP	Workers' Remittance	% of Remittance to Foreign Exchange Reserve	% of Remittance to GDP
2000	932.5		535.6	57.4	
2001	1006.4	6008.7	642.6	63.9	10.7
2002	1034.6	6003.4	621.1	60.1	10.3
2003	1163.4	6352.2	700.0	60.2	11.2
2004	1455.6	7303.7	797.2	54.4	10.9
2005	1484.3	8213.7	910.6	61.3	11.1
2006	1780.9	9080.3	1356.2	76.2	14.9
2007	1998.9	10357.4	1430.2	71.6	13.8
2008	2477.1	12645.3	2188.1	88.3	17.3
2009	2872.4	12536.1	2738.3	95.3	21.8

Source: 1. MoF (2009). *Economic Survey, Fiscal Year 2008/09*

2. NRB (2009). *Quarterly Economic Bulletin*, NRB, Vol. 44, No 3 and 4

The contribution of remittances to the foreign exchange reserve is more than sixty percent, except in the years 2000 and 2004 whereas in these two years it has also contributed by more than fifty percent. It is interesting to note that the share of remittance to foreign exchange reserve is overwhelmingly high as 88 and 95 percent in the years 2008 and 2009 respectively. Thus, the proportion of contribution is increasing significantly in the later years.

When observed the contribution of remittance to gross domestic products (GDP), it is more than 10 percent in all the years under study. The percentage share of remittance to GDP is increasing in the later years. In 2009, its contribution to GDP was recorded as more than one-fifth share. When compared the annual growth rates of labor force migration and annual inflow of workers' remittances, there is no relationship between them.

Table 5: Relationship between the Growth Rates of Labour Force Migration and Remittance Inflow

Year	Number of migrants	Remittances (in million US \$)	Growth of migrants (%)	Growth rate of remittances (%)
1999/00	35543	535.6	-	-
2000/01	55025	642.6	54.8	20.0
2001/02	104736	621.1	90.3	-3.3
2002/03	105043	700.0	0.3	12.6
2003/04	106660	797.2	1.5	14.0
2004/05	139718	910.6	31.0	14.2
2005/06	165252	1356.2	18.3	48.9
2006/07	219450	1430.2	32.8	5.5
2007/08	229373	2188.1	4.5	53.0
2008/09	186783*	2738.3	-18.6	25.1

* First 10 months; Source: Table 1 and Table 3.

In the year 2001/02, the growth rate of labor migration was recorded 90.3 percent whereas inflow of remittances is declined by 3.3 percent. In the year 2007/08, remittances increased by 53 percent but the growth of labor migration was just 4.5 percent.

There may be two reasons for this negative relationship between growth of labor migration and growth of remittance inflow. One reason is not recording of remittance inflow in the official channels as many workers send their earnings through unofficial channels. The next one, as explained earlier, is unscheduled and irregular sending of money by the workers to their family. In the case of labor migration also, it may be the poor record keeping of government department and labor migration via India without work permit form the government.

Table 6: Percent of Remittance Transfers by Medium of Transfer

Medium of transfer	Rural area	Urban area	Overall
Bank	16.85	29.12	21.69
Money Transfer	45.52	41.21	43.82
Hundi	31.54	24.73	28.85
Others	6.09	4.95	5.64
Total	100.00	100.00	100.00

Sources: NRB (2008). *Report on Household Survey, Nepal*. p. 75.

In this paper the analysis of the actual flow of remittances is confined to only through official channels and data available from the central bank of Nepal though there are various other mediums through which remittances is coming into Nepal. A recent study conducted by central bank (NRB, 2008) has revealed different proportions of remittance transfers by workers' through different mediums.

It is interesting to note that about 44 percent of the total remittances coming into Nepal is transferred through money transfer agents (Table 6) which are hundreds in number and scattered all over the country with their branches and outlets even in the small rural towns. More than one fourth proportion of workers' remittances is transferred through Hundi which is illegal in nature. Hundi and others (may be friends and relatives) account more than one third (34.5%) amount of remittance transferred to Nepal. These remittances are not included in official figure. It is believed that a large proportion of remittance is transferred through unofficial mediums. As mentioned earlier, a large number of labor force migrate through unofficial channels and via India without work permit. The remittances from labor force do not come through official channels.

Implications

Remittance is not only contributing to foreign exchange supply of Nepal. It is also helping to the operation of industries, internal trade, various occupations, banks and financial institutions and import trade in the country. The contribution of remittances to GDP is estimated to be more than 20 percent with increasing trend. The government did not feel any shortage of foreign exchange to import goods from other countries. The amount of foreign exchange reserve is increasing. From the observation of the Nepal's economic indicators, experts comment that economy of the country is operating by remittances. The poverty level of Nepali population reduced to 31 percent from 38 percent during the situation of critical conflict in the country (CBS, 2004) is mainly through the remittance.

As the increase in remittances, the pressure to the government to increase employment and economic growth through expanding industry and business has reduced. The government is made free from the responsibility of maintaining good governance, financial discipline and making economic reform. Remittance-receiving families are

lavishly spending remittance money as they have received free of cost. A recently conducted household survey report has revealed that 30 percent of the total households in the country have at least one member working outside the country (NRB, 2008). These family members are sending money regularly to their families. The recent Economic Survey (MoF, 2009) has shown that the level of consumption of Nepali people has increased by 6 percent in 2008/09 compared to the previous year. The price of goods and services is increasing every day in the market. The central bank has recorded price inflation rate as nearly 14 percent (MoF, 2009). The monetary economists are of the view that price inflation is high because of heavy flow of money in the market.

A survey of central bank has recorded how remittances are used by the receiving families (NRB, 2008). The survey has exhibited that about half (49%) of the remittance is used for buying land and house.

Table 7: Remittances and their Use by Rural/Urban Market Centre

Use of remittances	Rural area (%)	Urban area (%)	Overall (%)
Repay the debt	31	21	25
Buying of land and house	45	52	49
Saving in bank	5	15	11
Cash in hand	2	1	1
Education, health and others	12	7	9
Social works	4	2	9
Other investments	1	3	3
Total	100	100	100

Source: NRB (2008). *Report on Household Survey, Nepal*, p 74.

Real estate prices in urban and town developing areas are escalating rapidly because almost half of all remittances are used to buy land. At the same time, housing development business and construction of private houses are rapidly increasing. Thus, the significant proportion of remittances is used in unproductive sectors. Similarly, of the total amount, one fourth part is used for repaying the debt and only little more than one-tenth (11%) is saved in the bank.

The remittances have come from foreign countries, spent on consumption and revenue has also risen. The government again brought distributive and populist program from increased revenue. But the country is losing its own productive capacity since the investment of remittances is not made in productive sector. Import volume is increasing every year. It is thus felt that the country is entangled in such a cycle. The poverty has reduced significantly but the gap between remittance receiving and not-receiving families is widening.

A part from the migration of youth outside country, there is heavy flow of rural-urban migration within the country also, and shortage of labor is experiencing in rural agricultural families. It is argued that there are only women, children and elderly population residing in the rural areas. Shortage of labor has compelled to keep the

agricultural lands barren. This has resulted in declining agricultural output and productivity leading to food shortage. If this situation continues, the country will be compelled to import large quantity of food grains in near future.

Conclusion

The population of high-income countries is increasing at a very slow rate. The population of some European countries is declining; and some countries in the world are experiencing under-population in relation to their resource development. Such countries have compulsion to import labor force from developing countries which have less resource development and or surplus labor force. This will be benefit also for them to import cheaper labor from developing countries to compete their products in the global market. At the same time, there is increasing pressure of World Trade Organization, liberalization and globalization of economies to open the labor market in industrialized countries. In such a situation there is a possibility of increasing labor migration from the developing countries like Nepal, India, Bangladesh, Philippines and Indonesia. In this context, the government intervention to stop labor out-migration will not be wise rather it will create several problems in the economy and society.

The government in this respect should focus basically on two issues. Firstly, Nepali labor force is not competitive with skill and training in the international labor market, and they are low paid as well. The workers also complain that they have to do 3D (dirty, dangerous and difficult) jobs due to the lack of adequate skill and training. The government, therefore, should enhance the quality of its labor force. Secondly, as above analysis has shown, remittances received in the country are used in unproductive purposes. The government should take measures to induce remittance-recipients to channel remittances towards productive investments. In addition to several measures towards labor quality improvement and utilization of remittance, the government should execute Foreign Employment Act, 2007 effectively.

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