

Impact of Remittances on the Nepalese Economy: Opportunities and Challenges

Laxmi Sharma

Lecturer

Department of Rural Development

Padmakanya Multiple Campus

laxmi2028sharma@gmail.com

Abstract

This study focuses on the role of remittances in the Nepalese economy drawing on data from the different secondary data. It analyzes the influence on household income, poverty alleviation, and overall economic development. The research then presents regression analysis between remittance and HDI and finds a high correlation. While finding remittance to be critical to Nepal's improving quality of life, the study also highlights challenges associated with remittances, including brain drain and over reliance. The article advocates for a strategic approach to continue maximizing their positive impact on the national economic landscape.

Keywords: remittance, migration, poverty reduction, sustainable growth, household income

Introduction

Remittance refers to money sent by a migrant from abroad to family members in their home country. It is a critical force shaping the global economy.

Remittance is essential to the beneficiary country's household consumption and economic development. Several studies like Gaudel (2006) indicate that remittance is a major source of foreign currency for ensuring surplus payments as a compensation from young, energetic, laborious and enthusiastic migrants from Nepal. Migrants should be encouraged to return with skills and knowledge for utilizing their savings and working experience for the development of our nation.

Ang et.al (2009) analyzes consumption and investment and their potential for rebalancing economic growth and creating long-term human and capital investment. Thapa and Acharya (2017) cited data from the Nepal Living Standards Survey 2010/2011 which shows that the remittance recipient households tend to spend more on food, health and education as compared to remittance non-receiving households.

Another study by Chhetri et al. (2020) shows that Nepal ranks 19th position in top remittance receiving countries of the world whereas its percentage in contribution in GDP ranked it in the 4th position. Remittance as a percentage of Nepal's GDP is increasing while agriculture, forestry and fishery as a percentage of GDP is decreasing. This denotes a negative correlation between them. Although remittance affects agriculture negatively in the short term, Tuladhar et al. (2014) has argued that it could be positive in the long run

because of availability of skills, resources, knowledge and income from abroad. Uprety (2017) found consumption of goods increases because of remittance while Dahal (2014) found that it impacts human capital growth positively and international business negatively.

This study delves into the significant influence of remittances on Nepal's economic landscape. It underscores their contribution to family earnings, alleviating poverty, and fostering economic progress. The research also addresses the complexities tied to remittances, underlining the importance of adopting a tactical plan to promote enduring economic expansion and lessen susceptibilities, such as those related to spending on health and education. The primary goal of this research is to dissect the complex roles remittances play within Nepal's economy. It seeks to scrutinize trends and patterns in remittances by examining their socio-economic effects on households and communities that receive them, as well as their impact on the Human Development Index (HDI).

Methods and Materials

For the study, the systematic review method was used by searching literatures related to trends of remittances from articles published in various journals, books, series of Ministry of Labour, Employment and Social Security (MOLESS), International Organization for Migration (IOM), Economic Survey, Nepal Living Standard Survey (NLSS), Ministry of Finance (MoF),

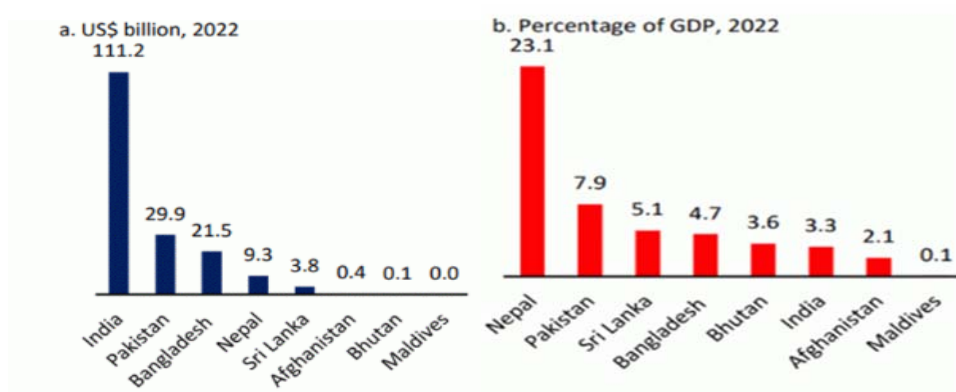
department of foreign employment, government of Nepal, publications of World Bank (WB) and others. These materials were collected from scientific publications and official websites and records for the qualitative analysis.

Remittance Volume in South Asia and Share in GDP

Figure 1 shows that remittance received by different countries in South Asia in 2022 reveals the surprising perspectives on the economic significance and interdependence of remittance and its contribution to the Gross Domestic Product (GDP) of the nations. In 2022, India received the highest remittance of 111.2 Billion USD, contributing to only 3.3 percent of its GDP. However, Nepal received 9.3 Billion dollars, contributing to 23.1% of the country's GDP.

Figure 1

Top Remittance Recipients in South Asia 2022



Source: World Bank Blogs 2023

Table 1 provides the top remittance-sending countries to Nepal along with the total remittance amount and the percentage of total remittance received in Nepal in 2019/20.

Table 1

Remittance Inflow by Country of Destination (First four months of 2019/20)

Country	Total Remittance amounts (in Billions) (NPR)	% share of Total Remittance received in Nepal
Qatar	53.93	17.7
India	43.16	14.2
UAE	40.87	13.4
Saudi Arabia	38.15	12.5
Malaysia	29.66	9.7
USA	25.42	8.3
Japan	22.87	7.5
Kuwait	11.52	3.8
Bahrain	8.79	2.9
South Korea	6.15	2.0
UK	5.04	1.7
Australia	1.34	0.47
Others	18.07	5.9
Total	304.97	100

Source: Nepal Rastra Bank (2020), cited in MOLESS(2022)

Nepal received the highest remittance of NPR 53.93 billion from Qatar contributing to 17.7 percentage of total remittance received, followed by NPR 43.16 billion from India contributing 14.2 percentage of total remittance, NPR 40.87 billion from UAE contributing 13.4 percentage of total remittance, and

so on. Whereas, the least remittance is received from Australia which is only NPR 1.3 billions sharing 0.4 percentage of total remittance. The crucial analysis of data shows that most of the migrants to Qatar, India and UAE belonged to the middle-economic class who migrated for economic purposes, whereas migrants to the developed countries like Australia belonged to higher socio-economic class who do not need to depend on remittance.

The table presented below showcases the flow of remittances into Nepal during the extraordinary circumstances of the COVID-19 pandemic, comparing data across the months from Fiscal Year (FY) 2019/20 to 2021/22. This examination of the remittances received in Nepal throughout these periods offers essential perspectives on how the worldwide health emergency has affected monetary transfers.

Table 2

Remittance Inflow During the COVID-19 Pandemic

Month	Remittance Received (in Billions NPR)		
	2019/20	2020/21	2021/22
Mid-July to Mid-August	75.4	92.7	76
Mid August to Mid Sep	78.3	73.0	79.4
Mid-Sep to Mid-Oct	76.5	93.1	83.9
Mid –Oct to Mid –Nov	74.7	78.9	73.1
Mid-Nov to Mid-Dec	72.0	79.1	76.2
Mid-Dec to Mid-Jan	70.3	78.5	79.9
Mid –Jan to Mid-Feb.	65.9	72.4	71.7
Mid-Feb. to Mid-March	79.2	74.4	91.1

Month	Remittance Received (in Billions NPR)		
Mid-March to Mid-April	34.5	86.9	93.5
Mid-Apr to Mid-May	53.9	80.9	87.05
Mid-May to Mid-June	94.0	61.1	92.39
Mid-June to Mid-July	100.2	90.2	103.13
Total	874.9	961.2	1007.31

Source: MOLESS (2022)

The global emergency triggered by COVID-19 led to the imposition of lockdowns in Nepal starting mid-March, resulting in a sudden drop of over 50% in remittance inflows. However, after mid-June, there was a significant recovery, with remittance volumes almost doubling. During the same months in Fiscal Year (FY) 2020/21 and 2021/22, no significant variations were noted. This stability can be credited to the increased use of formal channels for remittance transfers, as informal routes were shut down due to the pandemic. Additionally, the swift reopening of the manufacturing sectors in the Gulf Cooperation Council (GCC) countries played a crucial role in this recovery.

Impact of Remittance on Nepalese Economy

Remittance has a greater influence on the Nepalese economy. Remittance contributes to a substantial share of the country's GDP. As of January 2023, remittances accounted for about one-fourth (i.e 24.25%) of Nepal's GDP. Remittances contribute to Nepal's foreign exchange reserves that provides stability to the national currency and helps the country to meet its international

trade obligations. Remittance inflows contribute as the major income source of the Nepalese households for improving their standard of living, fulfilling basic needs such as food, housing, education, and healthcare.

Remittances also help in improving HDI by investing in education, healthcare and living standards. Huge amounts of remittances are directed to rural areas, stabilizing local economies and positively impacting rural communities where economic opportunities may be limited.

Remittance has provided job opportunities for individuals within Nepal (Neupane, 2020).

Impact of Remittance on Nepalese Society

The social effects of remittances on recipient households and communities in Nepal are significant as it influences family and community dynamics. General trends and observations confirm a notable shift in household gender roles with many male family members migrating for work. Women, particularly in nuclear families are burdened with greater responsibilities as heads of house. This shift empowers women for decision-making, mobility and access for socio-economic involvement (Wagle, 2012).

Remittance inflow has influenced community dynamics, especially in rural areas in stabilizing local economies that affected social cohesion and cooperation. Successful migration stories within communities have influenced

the youth to migrate for earning that promotes the migration cycle. This plays a crucial role in alleviating poverty of recipient households (Dhakal, 2013).

Exposure to different cultures through migration influences in adapting multiculturalism especially in remittance-receiving households. Investment in education has boosted them to be capable both socially and economically as the children get opportunities to complete their education that can lead them to achieve higher aspirations and potentially contribute to social mobility.

Improved access to healthcare services is another disbursement of remittance.

Families with remittance income experience better health outcomes, including regular medical check-ups and access to higher-quality healthcare services.

Remittances have supported elderly family members left behind and have enhanced well-being and care within the extended family structure.

Remittance has also been invested in community development projects for improving local infrastructure ultimately contributing to the community's overall development.

Challenges of Remittances

Despite all the benefits of remittance in the short term, overreliance on remittances poses risks in the long term. It creates dependency on external sources of income. The migration of skilled workers also poses a challenge of "brain drain", ultimately adversely affecting the overall development of the

nation. Some of the notable challenges and considerations of remittances are dependency on external income sources, social disintegration within family members and communities due to geographical dispersion. Rapid cultural changes due to migration can lead to cultural adaptation and preservation challenges.

While remittances bring about positive social changes, policymakers and communities need to address challenges and ensure that the positive impacts are sustained over the long term. Encouraging investments in education, healthcare, and community development can help maximize the social benefits of remittances.

Policy Implications

Government policies and regulations in both Nepal and host countries play a crucial role in influencing the flow and impact of remittances. Effective procedures are necessary to maximize positive effects and mitigate potential negative consequences.

Relationship between Migration and Remittance

Remittances have increased nearly three times in the past 20 years. In terms of remittances to GDP as of 2017, Nepal is sixth in the world (28.3%), trailing only Haiti (29.2%), Tajikistan (31.5%), and Tonga (34.2%). The remittance now accounts for around one-third of GDP, nearly doubling from 12.2% in

2003. This is both an economic and a human story: one member of every four Nepalese homes works overseas at any given time. Approximately 3.5 million work permits were issued between 2008 to 2017.

Based on work permits issued, the top destinations for Nepali migrant workers are Saudi Arabia (18.9%), Malaysia (33.3%), and Qatar (19%). The most popular destination in India, where work permits are not needed. One of the primary drivers of labor migration is to provide a better life for their families, and better education for their children. Remittance is positively correlated with higher education spending, more years of schooling, and more opportunities for girls to pursue higher education in Nepal. Research has indicated a direct correlation between remittances and health outcomes, including higher spending on higher-quality medical care, a higher likelihood of visiting a doctor, higher birth weights, and lower child mortality.

Overall, the relationship between migration and remittance in Nepal is complex and has positive and negative implications. Remittances have played a significant role in poverty reduction and economic growth in Nepal, but they also have potential downsides that need to be addressed through policy interventions.

Contribution of Agriculture, Fishing, Forestry, and Remittance to GDP

For families and countries, remittances provide a vital economic lifeline that meets basic necessities. When managed sustainably, agro-forestry has positive impacts on the environment and society as it plays a significant role in both the world's economies and food security. The fishing industry is essential for supplying food and a means of subsistence, but responsible management is needed to avoid overfishing and the damage of ecosystems. One can see each sector has its own unique set of challenges and opportunities. It is important to develop policies that promote sustainable growth in all sectors in order to ensure a prosperous future for Nepal.

Table 3

Contribution of Agriculture, Fishing, Forestry, and Remittance to GDP, Nepal

Sector	Contribution to GDP	Employment	Environmental benefits	Challenges
Forestry	8%	20%	Regulates climate, prevents soil erosion, provides habitat for biodiversity	Deforestation, climate change, overgrazing
Agriculture	30%	60%	Provides food for Nepal's population	Climate change, soil degradation, lack of access to credit and markets

Fisheries	2%	2%	Provides protein for Nepal's population	Overfishing, habitat loss, pollution
Remittances	30%	0%	Reduces poverty, improves living standards	Increased dependency on foreign income, brain drain of skilled workers

Source: World Bank (2019/20)

Based on data presented in Table 3, remittance and agriculture equally contribute

to the GDP (30 % each). Both provide necessities for families but remittance creates the problem of 'brain drain' and overreliance on foreign economies whereas agriculture creates less crucial challenges, such as soil degradation and

lack of access to loans. Data provides a good insight for policymakers to focus on other areas, such as agriculture, fisheries, and forestry, to balance out the drawbacks of remittance.

Statistical Analysis

An autocorrelation plot for historic remittance data was created and analyzed in the study.

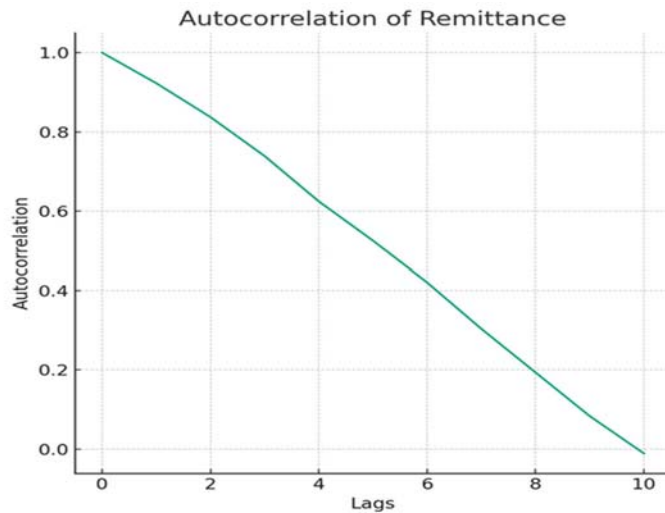
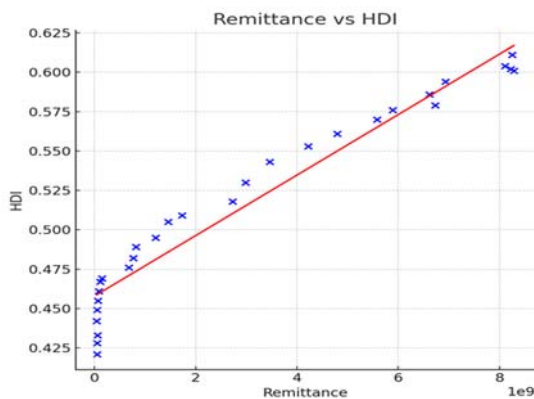
Fig 2*Autocorrelation of Remittance*

Fig. 2. shows the autocorrelation of remittances at different lags. This Autocorrelation plot for 'Remittance' indicates a strong positive correlation at initial lags, gradually decreasing with increasing lags. This suggests that remittances in a given year are significantly correlated with remittances in the preceding years, especially in the immediate past.

The correlation coefficient between 'Remittance' and 'HDI' is approximately 0.969. This indicates a very strong positive linear relationship between remittances and the Human Development Index (HDI). As remittance increases, HDI tends to increase as well.

Fig 3*Regression between Remittance and HDI*

Then a regression model was trained between Remittance and HDI with HDI as the independent variable. Fig. 3. visualizes the linear relationship between 'Remittance' and 'HDI'. The scatter plot shows individual data points, and the line represents the best-fit line from the linear regression analysis. The closeness of the data points to the line indicates a strong linear relationship. The linear regression model, with 'Remittance' as the predictor and 'HDI' as the response variable, shows a high coefficient of determination (R^2) of about 0.939. This means that approximately 93.9% of the variability in HDI can be explained by the remittance variable.

Interpretation of the Results

The high initial autocorrelation in remittances suggests that the remittance amounts are not random over the years but are influenced by their past values.

This can be due to sustained economic or policy conditions in the country affecting remittance flows.

The strong correlation between remittances and HDI suggests that remittances may play a significant role in improving human development outcomes. This could be through various channels like enhanced household income, better education and health services, and overall economic development. The linear relationship between remittances and HDI indicated by the regression model further confirms the positive impact of remittances on human development.

This relationship implies that policies encouraging or facilitating remittances could positively affect the country's human development.

The intricate relationship between migration and remittance is a focal point of this study. The findings underscore the positive aspects, noting the significant role remittances play in poverty reduction and fostering economic growth.

Acknowledging these benefits, the study also brings attention to potential downsides, emphasizing the need for nuanced policy interventions to mitigate challenges associated with migration, such as brain drain and social disintegration. The study highlights the complex relationship between migration and remittance, noting positive impacts on poverty reduction and economic growth. However, the study also notes the potential downsides that necessitate policy interventions.

In a comparative analysis with other sectors, remittances emerge as a unique contributor, playing a pivotal role in poverty alleviation and the enhancement of living standards. The study advocates for sustainable growth in the remittance industry, recognizing its potential to shape Nepal's prosperous future. Balancing the benefits of remittances with potential challenges requires a multifaceted approach, including targeted policies that foster sustainable development across various sectors.

The study compares remittance with other sectors, emphasizing its unique contribution to reducing poverty and improving living standards. It advocates for sustainable industry growth to ensure Nepal's prosperous future.

Conclusion

The statistical and regression analyses suggest a strong and positive relationship between remittances and the HDI. This underlines the importance of remittances in socioeconomic development. However, it is essential to note that correlation does not imply causation, and other factors might also contribute to the changes in HDI.

Remittances are indispensable to the Nepalese economy, significantly contributing to household income, poverty reduction, and overall economic growth. The study advocates for a strategic approach to maximize its positive impact. Nepal must diversify its economy, create job opportunities, and

support local businesses for sustainable progress. As remittances continue to be a crucial component of Nepal's economy, a deliberate strategy is essential for a stable and independent economic future. Nepal must diversify its economy, create jobs, and support local businesses.

While remittances are essential, a well-thought-out strategy is needed for a stable and independent economic future. This includes fostering innovation, entrepreneurship, and domestic industries to reduce reliance on external financial inflows. By promoting sustainable economic practices, Nepal can secure a resilient and self-sufficient future beyond the immediate impact of remittance.

Recommendations

The study recommends some strategic initiatives to utilize remittance. The study advocates for a thorough exploration of remittance utilization at the household level, emphasizing on education, healthcare, and entrepreneurship. Furthermore, the study recommends long-term economic diversification to reduce reliance on remittances. It recommends policies for promoting technology, agriculture, and manufacturing investments to foster a more resilient and self-sufficient economy. To encounter the potential adverse effects of brain drain, the study suggests strategies for creating opportunities for skilled individuals within the country.

The study also recommends community-based development programs for local communities effectively utilizing remittances. The study suggests that there is importance of establishing mechanisms to monitor and understand evolving social dynamics within remittance-receiving households and communities.

Investing in programs that enhance the skills of the youth within the country is recommended to address both unemployment concerns and reduce reliance on overseas employment as the primary avenue for economic advancement.

Public awareness campaigns are proposed to inform migrant workers and their families about responsible financial management, including guidance on investments, savings, and long-term financial planning. Lately, the article recommends the collaboration between policymakers and financial institutions to create innovative financial products tailored to the needs of remittance-receiving households.

References

Ang et al. (2009). Remittances and household behavior in the Philippines. Asian Development Bank Economics Working Paper, (188).

Chandra, V. (2023). Remittance flows reached an all-time high in 2022 in South Asia. World Bank Blogs, October 10, 2023

Chhetri, R. K., KC, P., & Dhakal, S. C. (2020). Remittance and its impact on Nepalese Economy. Acta scientific agriculture.

- Dahal, P. (2014). The impact of remittances on economic growth in Nepal: An analysis of a significant basis of development. *Asia Pacific Journal of Public Administration*, 36(4), 261-282.
- Dhakal, B. P. (2013). *Remittance and Its Impact on Education (A Case Study of Gola VDC In Bardiya district)* (Doctoral dissertation, Central Department of Rural Development Tribhuvan University Kirtipur, Kathmandu, Nepal).
- Gaudel, Y. S. (2006). Remittance income in Nepal: Need for economic development. *Journal of Nepalese Business Studies*, 3(1), 9-17.
- Ministry of Labor, Employment and Social Security (MOLESS). (2022). Nepal Labor Migration Report 2022. Government of Nepal.
- Nepal Rastra Bank (2019/20). Current Macroeconomic and financial situation, publication & statistics
- Neupane, N. (2020). *Relationship Between Remittances and Hdi in Saarc Countries* (Doctoral dissertation, Faculty of Humanities and Social Science).
- Thapa, S., & Acharya, S. (2017). Remittances and household expenditure in Nepal: Evidence from cross-section data. *Economies*, 5(2), 16.
- Tuladhar, R., Sapkota, C., & Adhikari, N. (2014). Effects of migration and remittance income on Nepal's agriculture yield

Uprety, D. (2017). The impact of remittances on economic growth in Nepal.

Journal of Development Innovations, 1(1), 114-134.

United Nations Development Programme. (2023). Human Development Index.

Human Development Reports.

Wagle, U. R. (2012). Socioeconomic implications of the increasing foreign remittance to Nepal: Evidence from the Nepal living standard survey.

International Migration, 50(4), 186-207.

World Bank (2019/20). KNOMAD staff estimates world development

indicators; IMF balance of payments statistics.