

Remittances, Migration and Inclusive Growth: The Case of Nepal

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1. Introduction

In recent years, many policymakers have shifted their focus away from a narrow concern with GDP growth towards a broader target of 'inclusive growth.' This concept is understood to encompass both a lasting reduction in absolute poverty and a more equitable distribution of the gains from growth (UN, 2010). In other words, the focus has shifted from the quantity to the quality of growth.

This paper reviews the unique experience of Nepal, a land-locked least developed country in South Asia, bringing out lessons from the Nepalese experience which have wider applicability. In Nepal, as in other countries, increasing attention is being given to the inclusivity of growth. In particular, we observe the importance of remittances in reducing poverty in Nepal. But the impacts of remittances and migration on poverty should not be understood only in relation to increased household incomes and consumption. Rather, a more holistic understanding is necessary that considers how remittances can shape social behavior more broadly, including by raising expectations and increasing opportunities. This policy brief covers, in a digested format, many of the issues examined in a 2013 ARTNeT working paper by the same authors (Maskay and Adhikari, 2013).

2. Growth amid uncertainty

Nepal has experienced severe political instability over the past two decades. Several changes of government, and sporadic violence, have created ongoing uncertainty about the country's direction. This has undermined business confidence and deterred investment. Yet despite the upheavals, Nepal's GDP growth has been largely stable over the past two decades, averaging around 4% annually. While not high by the standards of emerging Asia, this sustained growth has contributed towards a sharp decrease in the poverty headcount rate. Based on the three National Living Standard Surveys (NLSS), the poverty levels in 1996, 2004 and 2011 went from 42% to 31% and 25% respectively. Thus from the

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perspective of poverty reduction, recent growth in Nepal could be labeled ‘inclusive.’

Period	Average Growth Rate
1984/5 - 1994/5	4.94%
1995/6 - 2002/3	4.23%
2003/4 - 2009/10	4.29%
2010/11	4.27%
Total period average	4.54%

Table 1: Economic Growth in Nepal, 1984—2011

Source: Government of Nepal

One explanation for this dramatic fall in poverty amid ongoing political instability has centered on the role of outmigration and remittances. As shown in Figure 1, there has been a sharp growth in the ratio of remittances to GDP from about 10% in 2001/02 to about 23% in 2011/12. In contrast to earlier periods, the recent era has also seen greater diversity in migration destinations. In earlier periods most migrants worked in India but today Nepalese labour migrants are found in numerous locations. As migration to destinations other than India requires Government permission, resulting remittance flows are now recorded by formal banking channels and accordingly reflected in the country’s balance of payment.

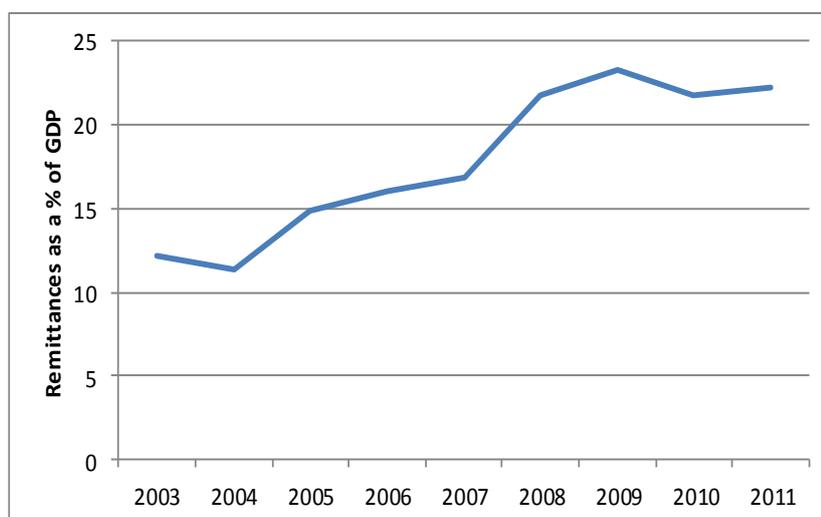


Figure 1: Remittance Flows to Nepal as a Percentage of GDP

Source: World Bank

3. Remittances and Inclusive Growth

A conventional interpretation of the linkages between remittances and inclusive growth centers on the contribution of remittances to household income and thus poverty reduction. In Nepal, the share of households who received remittances increased from 22% in 1996, to 32% in 2004 and then to 56% in 2011: a doubling of remittance receiving households over one and a half decades. Further examination of how remittances are used shows that they are largely spent on consumption and not long-term investment. One estimate is that around 80% of spending is on consumption and less than 3% used for investment (NLSS,

2012). Therefore, under this understanding, the impact of remittances, even if they contribute to poverty reduction, is primarily by supporting short-term consumption. The policy recommendations which would follow such an analysis would simply center on (i) further facilitating remittance inflows through formal banking channels (ii) shifting remittance expenditures towards productive investments.

There is, however, another route to take. It is possible to examine the data from a broader and more holistic perspective. The relationship between remittances, income and poverty is not as unidirectional as initially assumed but is mutually reinforcing, with both positive and negative externalities, and unforeseen consequences. Remittances can have impacts beyond simply increasing household spending power: they can alter behavior in other social spheres as well, for example, by changing attitudes to gender, education or participation in the labour market. These changes can also potentially contribute to reduction in poverty and income inequality.

4. The social consequences of remittances: a wider perspective

To properly understand the relationship between remittance, migration and inclusive growth we need to look beyond household income effects and consider wider social impacts. In Nepal, remittance inflows were accompanied by many unforeseen consequences. Remittance inflows, combined with social programmes run government and NGOs, such as free health care, free education, and allowance for old/disabled people, invigorated rural society by increasing awareness of opportunities and raising expectations.

Gender Impacts

The most striking example of the social changes in Nepal resulting from out migration has been the empowerment of women in the rural areas. As men have moved abroad to work, women left behind in Nepal have gained increasing autonomy and discretion over household budgets. In a nationally representative survey of married women, more than half of currently married women who earn cash said that they themselves mainly decide on how their cash earnings are used; two in five indicated that the decision is made jointly with their husbands and only 5% said that the decision is made mainly by their husbands (MOHP et al, 2011). Similarly the proportion of surveyed married women who earned cash for their work and who solely decided on the use of their cash earnings has increased from 31% in 2006 to 53% in 2011. Almost one in four women, who have cash earnings in Nepal, earn about the same as or more than their husbands. Almost one quarter of women have made purchasing decision for their households and almost 30% of those decisions were made jointly for their household purchase (MOHP et al, 2011; Pedraza, 1991).

It is now recognized that gender equality and female empowerment are central to improvements in standards of living and well being (World Development Report, 2011). Further, the empowerment of women in the rural economy has led to drastic changes such as increasing access to information, offering new choices, and providing demonstration effects. Thus an unforeseen consequence of foreign labor employment to Nepalese labor is that it has spurred societal changes, namely the empowerment of women in rural areas.

Access to Public Facilities

Increasing household incomes from remittances alongside social programmes have raised access to a wider variety of public facilities and services such as schools, health care

providers and passable roads. Improved access was especially marked in households in rural areas who received remittances vis-à-vis those who did not receive the remittances. For example, in 2011, 95% of households in Nepal were within 30 minutes of access to the nearest primary school, with almost 62% of households having access to health facilities within 30 minutes. This is a vast improvement over the situation in 1996 when only 88% and 44% percent of households had access to primary schools and health facilities over these distances, respectively. Table 2 shows the changes in access to different types of facilities over the period covered in the NLSS period. These improvements in facility access and accessibility for those in rural areas have raised expectations about entitlements among poorer households creating yet more demand for service improvements in future.

Table 2: Percentage of rural population with access to different public facilities

Facility	NLSS I (1995-96)	NLSS II (2003-04)	NLSS III (2010-11)
Bus stop	33.1	53	66.2
Vehicle passable	58.0	67.6	79.8
Haat bazaar	41.4	60.7	64.0
Market center	24.2	34.4	44.7
Agricultural center	24.5	31.9	42.8
Sajha/Cooperatives	25.9	33.7	53.9
Bank	20.7	27.8	39.9

within 30 minutes travel

Source: Nepal Living Standard Survey, Nepal Central Bureau of Statistics

Labour Market

Outwards migration has also had unforeseen consequences for the domestic labour market. This has changed the composition of labour supply and triggered structural changes in the composition of employment (see Figure 2). The share of agricultural wage employment has been sharply reduced; however, daily wage rates in the agriculture sector increased from 75 to 175 Rupees over between 2004 and 2011, a larger percentage increase than in the non-agriculture sector. This was due to a tightening of domestic labor market (both agriculture and non-agriculture); however, that the wage increased in a higher rate in the agricultural sector shows an increase in employment opportunities and alternative particularly for low-income groups. An increase in wage rates can be a pivotal element for rural growth dynamics (Brown et al, 2013; Housen et al, 2012).

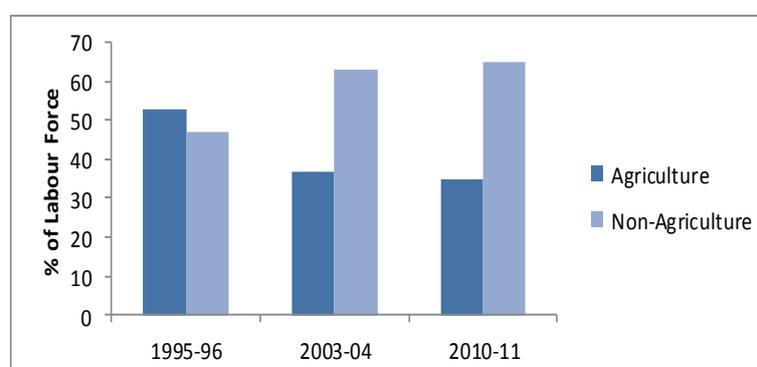


Figure 2: Changes in Structure of Wage Employment

Source: Nepal Living Standard Survey, Nepal Central Bureau of Statistics

5. Recommendations

Remittances give expanded opportunities to households and contribute to inclusive growth, not only by boosting household incomes but also by changing attitudes, expectations and behaviours. For example, in Nepal remittances gave people access to public health facilities; in contrast to earlier behavior where they consulted traditional healers. Likewise, households are now eager to send children to school rather than retaining them for household work.

To continue the process of social transformation to which remittances are contributing, we make the following recommendations:

(a) The Government of Nepal should foster an economic environment conducive to the productive use of remittances. In particular it should maintain a reasonable level of economic stability through building consensus among the political parties on minimum common economic agenda for development.

(b) The Government of Nepal and Nepal Rastra Bank should create structures to channel remittances towards productive long-term investments

(c) Nepal Rastra Bank and the Central Bank of Nepal need to facilitate remittance inflows through the formal banking channels, thereby contributing to the development of financial services.

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