NEPAL RISK OUTLOOK

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Migrant Workers, Remittance, and Nepali Economy

POLICY BRIEF

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Summary

Remittance remains a crucial pillar of the Nepali economy, supporting almost one-third of the national GDP. Like other economic sectors, this sector has been disrupted in recent years due to Covid-19, increasing integration of technology into key sectors, and related government plans and policies. In this brief, we highlight major issues related to the Nepali migrant workers and their sent remittance.

Background

Nepalese have a long history of foreign employment. A prominent example is Nepali people's recruitment in the British (and later Indian too) army since the early 19th century. Labor migration[1], though, started after the liberalization of the economy in the 1990s. The Seventh Five-Year Plan (1985-90) addressed the issue first. Nepal started issuing labor approvals since 1994.

Since then, the number of Nepali residents going abroad to earn their living has increased by leap and bounds. It took a quantum leap at the turn of the century when Maoist insurgency engulfed most rural areas and economic opportunities were hard to come by. The number of people seeking labor permits peaked in 2014. The figure below shows the labor permits issued by Department of Foreign Employment[2] since 2008-9. There are many migrants and seasonal migrants who travel to India. An estimate by SAWTEE suggests 279,000 Nepali seasonal migrant laborers work in India and regularly cross the border to and from India[3].

4 out of 5
migrant workers are from 18-35 age groups

3 out of 5
migrant workers are unskilled or low-skilled

Labor permits issued

Year	Male	Female	Year	Male	Female
2009	211371	8594	**2016**	38226	18467
2010	284038	10056	**2017**	362766	20105
2011	344300	10416	**2018**	331679	22419
2012	361707	22985	**2019**	215630	20578
2013	423122	27767	**2020**	157137	15129
2014	490517	29121	**2021**	55879	5549
2015	477690	21412			

2009 indicates FY 2008/9

Source: MOLESS, 2020[4] ; MOLESS 2021[5,6]

Nepal's population is young, but lacks job opportunities at home. Labor migration has provided an immense alternative to Nepali workers. Since the early 2000s, the volume of workers headed to the Gulf Corporation Council (GCC) countries and Malaysia increased significantly. The labor migration from Nepal is pre-dominantly male (as evidenced from figure above). 4 out of 5 migrant workers are from 18-35 age groups[7]. Similarly, around 3 out of 5 migrant workers are unskilled or low-skilled[8]. GCC countries account for more than 80 percent of the migrant laborers from Nepal (see the figure below). Qatar, UAE, Saudi Arabia, Kuwait and Bahrain round off the top 5 labor recipient destinations[9].

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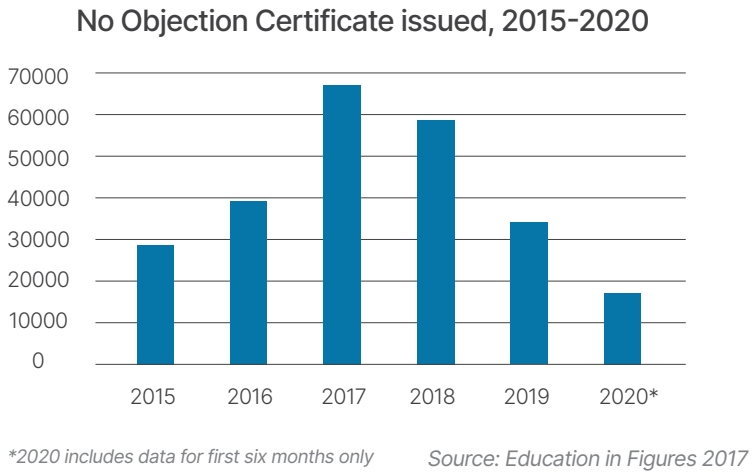
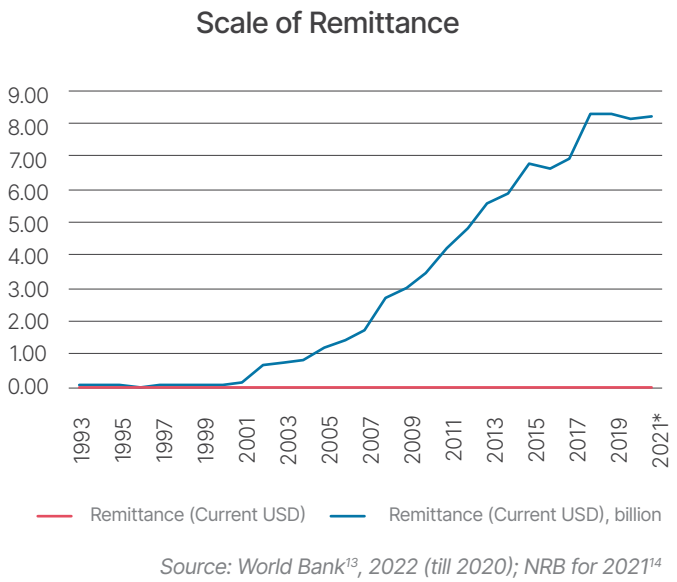
Study abroad has been another major way of labor migration in the last decade. The following graph illustrates the number of No Objection Certificates (NOC) issued by MoEST. NOC is mandatory for students to

send money abroad to pay for university admissions and fees. Australia is the destination of almost half of those students followed by Japan. They contribute a significant amount to the remittance too.



As labor migration has increased, so has remittance. The share of remittance in Gross Domestic Production (GDP) has increased steadily and stabilized around a quarter of the GDP after reaching its peak in FY2015/16 (almost a third of GDP)[10]. The figure below shows the remittance inflow in Nepal since 1993. In the first six months of the FY2021/22, remittance was USD 3.93 billion[11].

Despite the decrease in labor migrants since 2015, remittance has increased. Remittance was also predicted to decline during the Covid-19 pandemic as restrictions were imposed around the globe[12]. However, it showed incredible resilience in 2020 and the following year.



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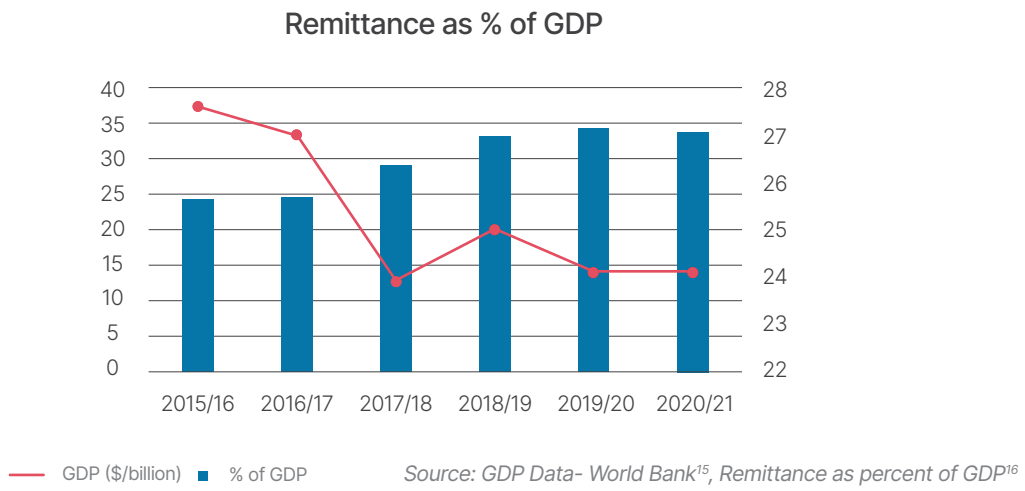

Source: GDP Data- World Bank[15], Remittance as percent of GDP[16]

Covid-19 and Impacts on Remittance Flows to Nepal

After the surge of the global pandemic, a slew of lockdown measures were imposed to contain the virus. There were multiple predictions suggesting that the flow of remittance would dwindle in Nepal. A month after the first lockdown in April 2020 a bleak prediction was forecasted for the global remittance trend[17]. Various policy banks' predictions for Nepal were - Asian Development Bank (28.7 percent) and the World Bank (14 percent One-fourth of Nepal's GDP is comprised of remittance. Any imposition in the flow of remittance would have adversely impacted the economy of Nepal which was already in the doldrums. Defying all odds, there was a steady flow of capital that was remitted back to Nepal.

A combination of factors contributed to this trend. Such a trend stemmed from the increased use of formal channels to remit money due to the cessation of Nepal's border during the lockdown period. As a result of the open border between Nepal and India, citizens of both countries access informal methods to channel the money they earn in foreign destinations. Illegal and informal methods like Hundi and Hawala system came to a grinding halt as the borders between India and Nepal were closed. Even smuggling of gold and other precious rocks that occurred through the open border become less prevalent during the lockdown.

A large stock of Nepali workers, an estimate of 4 million, is still abroad. According to a report produced by the Covid-19 Crisis Management Centre, 489,418 Nepalis were rescued after the surge of the pandemic[18]. The remittance flow only decreased by 0.5 percent to NPR 875 billion when compared to the previous year[19]. Presumably, the large labor stock preferred to stay in the destination country and send remittances back to Nepal. Due to the uncertainty of the Covid-19 situation in Nepal and the lack of economic opportunities many have preferred to stay back in their destination country[20]. Other minor factors also contributed to this trend like laborers economizing their expenses and spending less on recreational activities in the wake of the pandemic[21]. A decline in in-kind goods (electronics and clothes) forced people to transfer only cash through formal channels. Therefore, contributing to the steady flow of remittance into Nepal.

In the past two years remittance has managed to contribute significantly to Nepal's GDP. The remittance flow increased in the fiscal year 2020-21 by 9.8 percent to NPR 961.05 billion when compared to the preceding year[22]. In the fiscal year, 2019-20 remittance accounted for 22.3 percent of the aggregate GDP, and for 2020-21 it amounted to 22.5 percent of the GDP[23].

However, as the Covid-19 situation in Nepal is normalizing so is the informal transaction of capital and goods. In the first five months of the fiscal year 2021/22 the remittance flow has already witnessed a downfall of 6.8 percent to NPR 388.58 billion in the review period[24]. During the same period last year, the country saw an increase of 11.0 percent.

Evolving Issues in Remittance Investments

Cryptocurrency in the 21st century remains a novel concept for many and governments like Nepal have a hawkish attitude towards it. Bitcoin and Ethereum are cryptocurrencies to name a few. Blockchain software serves as a platform for cryptocurrencies to conduct transactions, record transactions, and provide proof of ownership through Non-Fungible Tokens (NFT). NFTs are traded through cryptocurrencies.

Cryptocurrencies are only on digital platforms. This makes it a decentralized form of money transaction. They are not in the records of the government bodies or banks. Transactions conducted by cryptocurrencies don't come under the preview of the central banks rather it is a direct mode of transaction.

Nepal Rastra Bank the central bank of Nepal has deemed cryptocurrencies as an illegal form of financial transaction. The Rastra Bank Act and the 2019 Foreign Exchange Regulation Act have stated trading in cryptocurrencies as an illegitimate form of transaction. The Cyber Bureau Department of Nepal has arrested three crypto traders[25]. Researchers from the central banks have also attributed the recent dip in remittance to the new fad of cryptocurrency[26].

Economic Implications

Looking at the past data for remittance shows that remittance to Nepal has increased after disasters have happened. Despite the predictions to the contrary, the country saw an increase in remittance after the 2015 earthquake and during the Covid-19 pandemic. This could be because of a few reasons. First, Nepali migrant workers tend to send extra money during times of crisis in Nepal such as earthquakes or pandemics. Second, during the lockdown, there was limited informal channels (hundi), thus, more migrant workers remitted using a formal channel. Third, the source of remittance is not the migrant workers alone. The last decade has seen a large number of young Nepali migrate to advanced nations for education.

However, the data also shows that in recent years there has been a decrease in the number of people leaving for foreign countries for employment and as the Covid-19 pandemic has slowed down the remittance amount being sent back has been decreasing. This decrease in remittance amount is worrying because remittance has become an integral part of Nepal's GDP- in the past fiscal year it made up a quarter of the total GDP. In addition, remittance has played an integral part in poverty reduction and improving the living standard of people, especially in rural areas.

According to NRB, remittance inflows decreased to USD 3.93 billion in the first six months of the current fiscal year. In comparison to the same period last fiscal year, this is a decrease of 6.2 percent[27]. The decrease in remittance has also affected the balance of payment and foreign reserves of the country. While rising imports and a decrease in exports have contributed to the depletion of foreign reserves, the

NRB has taken measures to limit the outflow of foreign currency- one such step taken has been to reduce the maximum amount of currency that citizens travelling abroad can carry with them.

decrease in remittances has further exacerbated the problem[28]. NRB has taken measures to limit the outflow of foreign currency- one such step taken has been to reduce the maximum amount of currency that citizens travelling abroad can carry with them. Previously, the minimum amount required was $1000 and it was set to $500 and $250[29]. The decrease in remittance has also contributed to the liquidity crunch that the country is currently facing.

In Nepal, remittances have played a major role in the economy of the country. Remittance has been a major contributor to increasing household income- the data from the third Nepal Living Standard Survey conducted in 2010/11 showed that 56 percent of Nepali households received remittance. Of this number, 11.6 percent received remittance from India and 69.1 percent from other countries besides India. The increase in household income has led to increased expenditure on consumption, health, and education[30]. In addition, research has also shown a link between poverty reduction and the remittance a household receives- the data shows that remittance-receiving households are 2.3 percent less likely to be caught in poverty in comparison to a non-remittance receiving household and the probability of household falling to poverty decreases by 1.1 percent with every 10 percent increase in remittance a household receives[31]. In this way, remittance has played a vital role in boosting the economy of the country.

Social Implications

In addition to the economic changes, the changing trend of migration has had an impact on the social-cultural and political dynamics of Nepal. As the male members of the family migrate, the role of women in the family has changed. Women especially those from a nuclear family have begun to take on more responsibilities as a head of a household. They also have increased mobility, access to economic and social resources and decision making ability[32].

GoN Policies and Actions

Below is the timeline of key plans and policies formulated by the Government of Nepal to facilitate the works of migrant workers and subsequent remittance flows:

- Foreign Employment Policy 2012
- Foreign Employment Rules 2008
- Foreign Employment Act 2007
- Foreign Employment Act 1985
  - Amendment in 1998
- *Note: For female migrant workers, there have been restrictions placed over various years that have prohibited them from going to certain countries most often for domestic work.*
- July 2014- Travel restriction on women going to Gulf countries and Malaysia for domestic work

April 2017- Ban on women travelling to Gulf countries for employment as domestic workers

Policy Recommendations

1. During the pandemic, more migrant workers remitted money using formal channels. The channels should be further widened. Arrangements should be made such that migrant workers can send remittances to their own or designated bank accounts at home, which could be indicated before going abroad. For this, in addition to NRB and other GoN authorities, private banks and financial institutions too need to work on further strengthening workers' financial literacy on these affairs.

2. Nepali policies on migrant workers focus on 'sending' migrant workers abroad, but the limited emphasis on an integrated approach on how such remittance can be used as a source of investment or economic growth. GON needs to take a holistic approach in this regard.

3. GONs approach of sending semi-skilled/skilled workers after G2G agreements is a step in the right direction. Such agreement has been signed with Israel, the UK, and South Korea among others. It will help ensure that the migrant workers get better-paying jobs with health security as well.

4. Nepal should identify skills gap areas and prioritize sending migrant workers to countries where the workers have a chance to be trained in those skills. This will be beneficial to the Nepalese economy and for the workers.

5. The recordkeeping of migrant workers by Nepalese authorities in migrant recipient countries is weak because of poor data management and the presence of migrant workers who go abroad using illicit channels. Even the workers may not feel it important to register with the embassy. This has created problems during times of crisis when rescue or support is needed for those. In this context, the immigration form at TIA that includes their contact in the destination country and emergency contact in Nepal would go a long way. NRNA should also be engaged in this endeavour.

6. Countries like India , with which Nepal has a deep economic integration, have started discussions around the implementation and legalisation of cryptocurrency, albeit, the lawmakers are still working on passing the cryptocurrency bill. But the point is that a breakthrough regarding a discussion around cryptocurrency has commenced. Nepal should keep up with the global trends in emerging technologies. The Nepal Rastra Bank can impose taxes on the transaction conducted through crypto to generate a revenue stream.

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