

# Impact of Global Economic Slowdown on Remittance Inflows and Poverty Reduction in Nepal

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## 1. Introduction

Historically, foreign employment has played a critical role in the Nepali society. Its nature, scope and dimension have undergone fundamental changes since the first known foreign employment in the beginning of the eighteenth century during the process of national unification when an exodus of peasants left to work in the tea estates in Darjeeling and Assam of India. In the early nineteenth century, hundreds and thousands of Nepali hill people joined the British Army and fought on the side of the Allied powers both during the World War I and World War II. The beginning of the construction boom in the emerging economies in East Asia and the Gulf in the 1980s provided yet another opportunity for young Nepalis to venture out for foreign employment in pursuit of a descent and dignified life. Foreign employment gives them employment and income opportunities which are not possible in the country. It has led to political and economic empowerment of people, including women, offering alternative to land-based wealth.

The attractions of foreign employment, despite some serious risks and problems, will remain as strong as ever given the nature of Nepal's economic and social structure, sluggish economic growth, perpetuated by elusive political stability. Prospects for nearly 400,000 new annual labor market entrants in Nepal are likely to remain bleak. In this political and economic context, the paper examines the issues and challenges concerning Nepal's developments in recent years, the role of foreign employment and remittance in the national economy, the impact of global economic slowdown on foreign employment and remittance, and its implications on poverty reduction. The analysis mainly relies on data on migrant workers from the Department of Foreign Employment and remittance and poverty figures from the Ministry of Finance, the Nepal Rastra Bank (NRB), the National Planning Commission (NPC) and the Central Bureau of Statistics (CBS).

## 2. Development Issues and Challenges

Nepal is a country in transition from the Hindu monarchy to a federal democratic republic. The transformation is mainly based on the Comprehensive Peace Agreement (CPA) signed between the Nepal government and the Unified Communist Party of Nepal-Maoist (UCPN-M) in November 2006. Its three main components are: (a) end all forms of social and political discriminations, (b) restructure the Nepali state to make it fully accountable to its citizens by guaranteeing fundamental rights and access to basic services, and (c) promote transparency and fight corruption. The Constituent Assembly, elected in April 2008, is now in the process of

drafting a new constitution, which would be the seventh in the last 60 years. There are serious doubts if the draft is ready by May 2010 as promised and whether it is accepted by all sections of the Nepali society. The political uncertainties, fuelled by power struggle among the political forces, have only dampened the prospects for higher economic growth.

The Interim Plan (2008-10) aimed at a 5.5% GDP growth, but the revised estimates show a 3.8% growth at base price and 4.7% at producer's price.<sup>1</sup> The sluggish growth is blamed on energy crisis, unfavorable weather, decline in capital expenditure, disturbances in the industrial sector, absence of elected local representatives and global financial crisis. At the same time, other South Asian economies are doing much better than Nepal, as shown in Table 1. Low economic growth has implications for Nepal's efforts at achieving the Millennium Development Goals aiming at halving the proportion of people living on less than one dollar a day and reducing child mortality rates by two-thirds. The balance of payment situation and foreign currency reserve has been described as satisfactory, thanks to the remittance inflow and increase in export and tourism earnings.

**Table 1: Economic growth rates in South Asian countries**

*Annual Percentage Change*

Countries	2006	2007	2008	Forecast	
				2009	2010
Afghanistan	8.2	12.1	3.4	9.0	7.0
Bangladesh	6.5	6.3	5.6	5.0	5.4
Bhutan	8.8	7.9	6.6	5.7	6.6
China	11.6	13.0	9.0	6.5	7.5
India	9.8	9.3	7.3	4.5	5.6
Maldives	8.0	7.2	5.7	-1.3	2.9
Nepal	3.7	3.2	4.7	3.6	3.3
Pakistan	6.2	6.0	6.0	2.5	3.5
Sri Lanka	7.7	6.8	6.0	2.2	3.6

Source: *International Monetary Fund, 2009.*

Nepal will certainly benefit from global recovery if it revives demands for Nepal's major export items – carpets, garments and pashmina. Export and imports are expected to grow by 28.6% and 12% respectively in fiscal year 2009-2010, leaving the trade deficit to widen to Rs. 208 billion. The Prime Minister of Nepal visited India in August 2009 and the two countries signed a new trade treaty that is expected to boost Nepal's exports to India. Exports to third countries hinges on the global economic recovery. The prospects are not very promising as some Nepali exports are already beginning to face stiff competition from regional exporters. For example, the garment exports, unable to compete with India and Bangladesh, have declined since the quotas on garments imported by the United States was phased out and eliminated on 1 January 2005 as part of the World Trade Organization's Agreement on Textiles and Clothing. Other major exports like pashmina and carpets may benefit from depreciation of the Nepali rupee against the dollar. The balance of payments is strong at the moment, with a surplus of Rs. 282 billion.

<sup>1</sup> Government of Nepal. 2009. Budget Speech of Fiscal Year 2009-10. Kathmandu: Ministry of Finance.

### 3. Impact of Global Recession on Nepal

Nepal has been mostly insulated from the first round effects of the global financial crisis owing partly to sound macroeconomic management and the underdeveloped nature of the financial markets that are not exposed to international markets but is vulnerable to the second round effects of the global economic slowdown working through export earnings, tourism receipts, remittances and external financing for infrastructure.<sup>2</sup> Since the adverse effects of the global economic slowdown are still emerging, there is no room for complacency for Nepal. Exports have been declining, and while remittances are holding up well so far, the sharp decline in oil prices is likely to reduce demand for additional migrant labor in the oil-rich Arab countries and could hurt remittance income in the coming months.

The NRB introduced the monetary policy for the year 2008-09 to address the impact of global economic slowdown on Nepal. It particularly addresses the issues of macroeconomic management in relation to foreign employment and remittance. The particular risks related to the financial sector emanating from the crisis relate to the excessive exposure of banks and financial institutions in real estate, rising share and asset prices, and loss of value of bank deposits resulting from negative real interest rates. Given these circumstances and an underlying liquidity overhang in the economy due to elevated inflows of remittances in later period of 2007-08, the central bank adopted a cautious and tighter monetary policy in order to control the monetary impacts on prices and anchor inflationary expectations for achieving macroeconomic stability.<sup>3</sup>

Some countries are already responding to the crisis with policy measures that directly affect Nepali migrant workers and remittance flow. For example, Malaysia has ordered business companies in the country to hire locals, who have lost their jobs due to global financial crisis, instead of foreign workers. The decision was announced by Malaysian Home Minister Hishammuddin Hussein following a Cabinet decision on 19 August 2009. Since Malaysia hosts the largest number of unskilled Nepali migrant workers employed in the manufacturing, agriculture and service sectors, the decision could hurt Nepal's remittance income. Since the phase out began in January 2009, the number of Nepali migrant workers in Malaysia has already declined from 50,554 in fiscal year 2007-08 to 35,070 in 2008-09.<sup>4</sup>

### 4. Impact on Foreign Employment and Remittance

It is difficult to describe the actual unemployment situation in Nepal in the absence of a reliable employment survey and projection of unemployment. Most official figures are skewed. The economically active population between 15 and 59 years of age is 10.5 million in 2001, up from 9.6 million in 1991. The young population aged between 15 and 29 years represented almost 25% of the total population and 13.6% of the total labor force. Only 13% from this group lived in urban area, thus indicating a high underemployment in rural areas. Unemployment rate was estimated at 5.1% of the population above the age 10 years old.<sup>5</sup> Every year 400,000 Nepalis

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<sup>2</sup> World Bank. 2009. *Impact of Global Financial Crisis on South Asia*. Washington: World Bank.

<sup>3</sup> Nepal Rastra Bank. 2008. *Monetary Policy*. Kathmandu: Nepal Rastra Bank.

<sup>4</sup> *The Himalayan Times*, Kathmandu, 20 August 2009.

<sup>5</sup> Central Bureau of Statistics. 2002. *Census 2001*. Kathmandu: Central Bureau of Statistics.

enter the job market, which means the unemployment rate is very high.<sup>6</sup> A White Paper on the Economy claimed that 1.5 million Nepalis were unemployed in the country and at least 300,000 unemployed youths enter into the job market annually seeking jobs.<sup>7</sup> Another report claimed 74.3% of the Nepalis above 15 years of age are employed, leaving only about 15% of the population unemployed.<sup>8</sup>

As shown in the table below, the Nepal Living Standard Survey II (NLSS II, 2003-04) estimated unemployment rate among 15-24 years of age group at 6% and incidence of child labor at 31% among 5-14 age groups.<sup>9</sup> With a sluggish growth, Nepal's economy is unable to accommodate 400,000 Nepalis joining the labor market annually. This means unemployment is more than what is reflected in the official figures, partly explaining the strong attractions towards foreign employment.

**Table 2: Employment Situation in Nepal 2003-04 in Percentage**

Region	Employment	Unemployment	Inactive	Total
By Gender				
Male	73.3	3.1	19.6	100
Female	71.7	2.7	25.6	100
By Development Region				
Eastern	74.9	2.9	22.2	100
Central	72.4	3.3	24.3	100
Western	73.2	2.7	24.1	100
Mid-Western	77.0	2.8	20.2	100
Far-Western	80.4	1.4	18.2	100
By Geographic Region				
Mountain	86.7	1.3	12.0	100
Hills	76.0	2.1	21.9	100
Tarai	71.1	3.8	25.1	100
Nepal	74.3	2.9	22.8	100

Source: Central Bureau of Statistics.

*Trends in Foreign Employment:* There was little information on the number of Nepali migrant workers and their contribution to the national economy until a survey was undertaken in 1997. According to the results of the survey, the number of migrant workers at that time was estimated at 100,000 working in 25 countries except India and sending home Rs. 29 billion in remittance.<sup>10</sup> Today, this number exceeds 200,000 in annual departures to more than 105 countries, as shown in the figure below. The only country banned for Nepali migrant workers is Iraq where militants murdered 12 Nepali migrant workers looking for jobs. India is not included in the official figures for a number of reasons, the most significant of which is the open border that requires neither passport nor visa for the Nepali and Indian nationals. Since there is no system of registration, the flow of migrant workers in between Nepal and India is at best guess estimate.

<sup>6</sup> Nepal government. 2009. *Budget Speech of Fiscal Year 2009-10*. Kathmandu: Ministry of Finance.

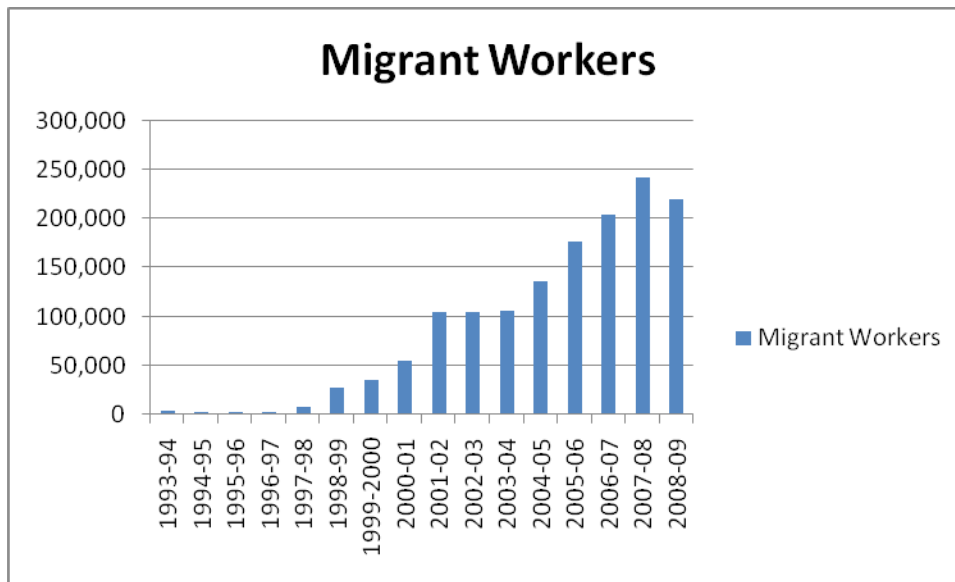
<sup>7</sup> Nepal government. 2008. *White Paper on the Nepali Economy*. Kathmandu: Ministry of Finance.

<sup>8</sup> Nepal government. 2008. *Economic Survey: Fiscal Year 2007-08*. Kathmandu: Ministry of Finance.

<sup>9</sup> Central Bureau of statistics. 2005. *Nepal Living Standard Survey II*. Kathmandu: Central Bureau of Statistics.

<sup>10</sup> David Seddon, Jagannath Adhikari and Ganesh Gurung. 2001. *The New Lahures: Foreign Employment and Remittance Economy of Nepal*. Kathmandu: Nepal Institute of Development Studies, p. 51.

**Figure 1: Nepali migrant workers overseas (excluding India) in Fiscal Year 1993-2009**



*Source: Economic Survey Fiscal Year 208-09*

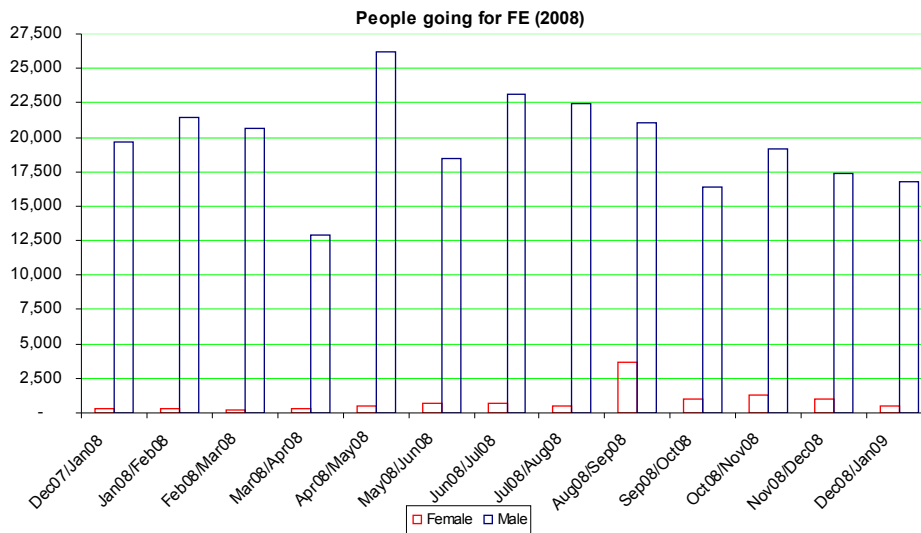
The number of migrant workers mentioned here refers to only those who sought and was granted official permission to work overseas. This means Nepali migrant workers who went overseas without seeking official permission are not included in this figure. This also means there is no official figure on the number of migrant workers who actually returned from overseas with or without having completed their job tenure. Thus this figure assumes that all those that sought and got official permission are working overseas and have not returned home.

The number of people who left for overseas employment in fiscal year 1993-94 was only 3,605. It continued to rise to 55,025 in 2000-01, and following the growing intensity of armed conflict in 2001-02 began to surge from 104,736 that year to reach 183,929 in 2004-05 and reached its peak at 249,051 in 2007-08. This indicates that migration from Nepal is also induced by domestic armed conflict. The trend somewhat slackened in the year 2008-09 when the number of migrant workers going overseas dropped to 217,164 mainly as a result of the global economic crisis. The total number of Nepali migrant workers leaving the country between 1993-94 and 2008-09 based on the official data on departures is nearly 1.5 million. The number of Nepali migrant workers who are employed overseas without the official permission is also believed to be 1.5 million. If both these figures are combined, there are currently nearly three million Nepali migrant workers overseas.

The number of women migrant workers has been growing over the years even as they make a tiny portion in the total number of migrant workers. This is partly as a result of the gender biased policies of the government and the male dominated social structures. The government took a controversial decision in March 1998, imposing a ban on employment of women in the Gulf countries. The decision followed reports of pitiable working conditions and a couple of deaths. Despite the ban, women continued to migrate without official permission. This only worsened their plight as they became doubly vulnerable in the absence of formal job agreements and manipulation by middlemen. The ban was lifted in January 2003. According to a news report,

30% of those applying for passports for overseas employment in Arghakhachi district are women seeking jobs for merchandise trading, computer typing and secretarial works in the Gulf countries.<sup>11</sup> Employment ‘away from home’ makes women financially independent and gives them valuable experience, knowledge and skills. However, the patriarchal and paternalistic social attitudes and behavior limit their freedom. Women make half the national population but their share in the total migrant population is about 10%.<sup>12</sup>

**Figure 2: Nepalis going for foreign employment in 2008 by month and gender**



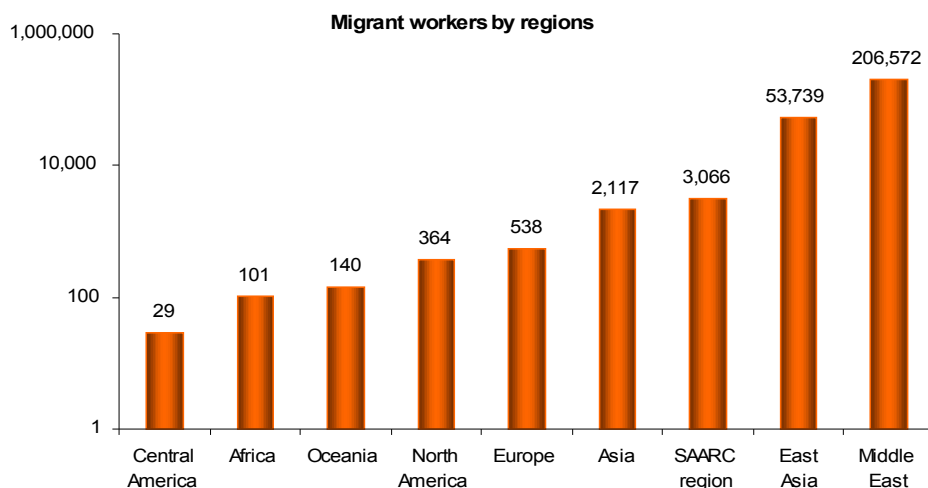
Source: Nepal Institute of Development Studies (NIDS), 2009.

In terms of region, the Gulf countries continue to be the top destination for Nepali migrant workers. Bahrain, Cyprus, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, United Arab Emirates and Yemen together hosted 206,572 documented Nepali migrant workers in the year 2008, as shown in the figure below. The second largest destination is East Asia which hosted 53,739 Nepali migrant workers the same year. The third largest concentration of Nepali workers was in the SAARC region (except India) with 3,066 official migrant workers in 2008.

**Figure 3: Nepali migrant workers by region**

<sup>11</sup> Kantipur, Kathmandu, 26 September 2009.

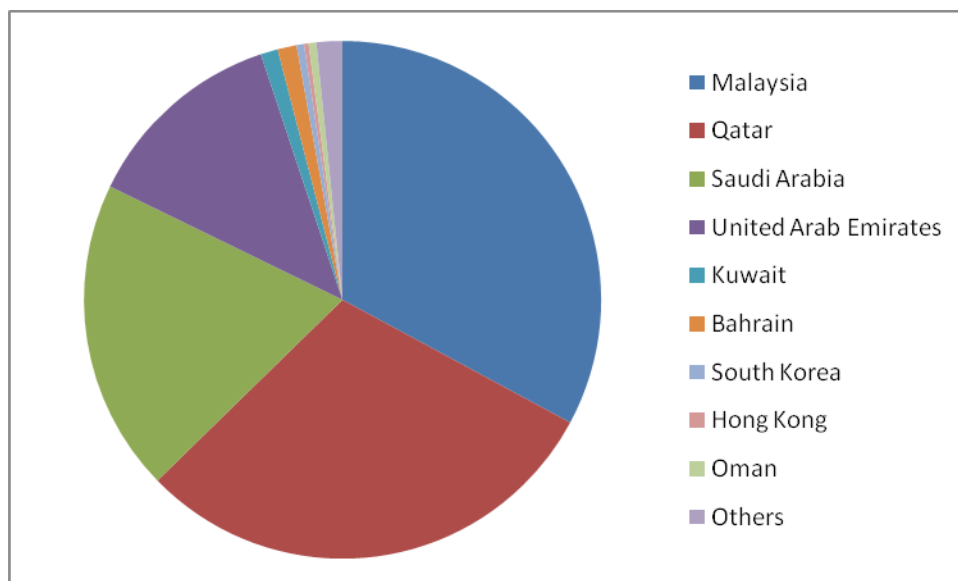
<sup>12</sup> Nepal Institute of Development Studies. 2006. *Nepali Women and Foreign Labor Migration*. Kathmandu: United Nations Development Fund for Women and Nepal Institute of Development Studies.



Source: Nepal Institute of Development Studies, 2009.

The figure below gives the size of total Nepali migrant workers in top 10 destinations for foreign employment. Malaysia is the top destination followed by Qatar, Saudi Arabia, United Arab Emirates and Kuwait.

**Figure 4: Top ten destination countries of Nepal's migrant workers**

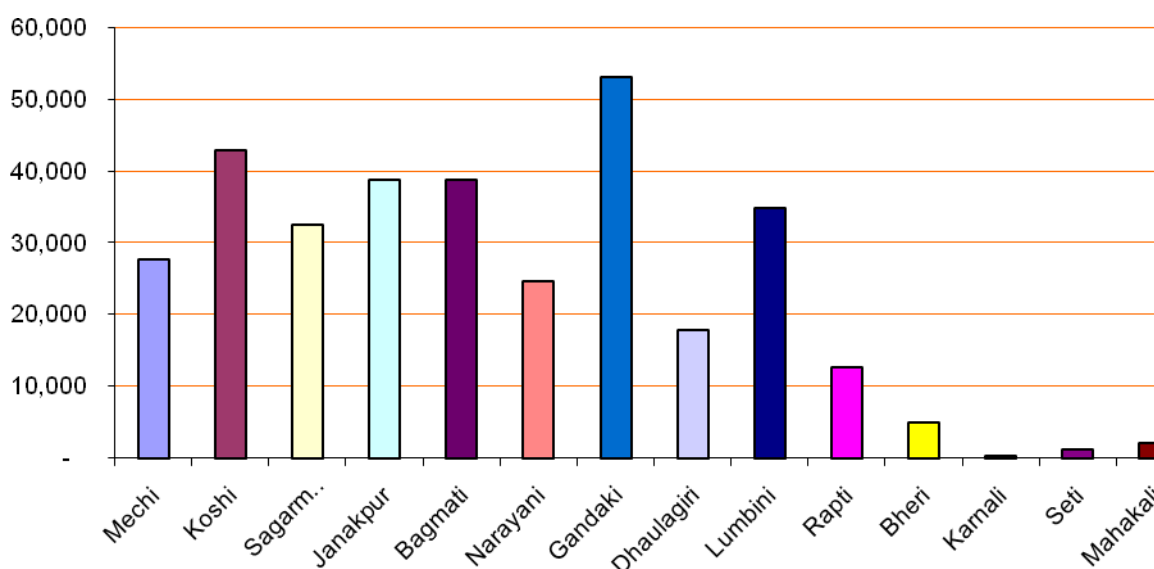


Source: Ministry of Finance, 2009.

As shown in the figure below, foreign employment is not inclusive of all ethnic groups or geographical regions. There is no data on the migrant workers by their ethnicity. However, there is a wide discrepancy in the regional representation as shown in this figure for the year 2008, which is fairly representative of the regional inclusion or exclusion. For example, Gandaki zone

in western region has the highest number of migrant workers followed by Koshi zone in the eastern region, Janakpur and Bagmati in the central region and Lumbini in the western region. Mid-western and far western regions have the lowest number of migrant workers. The Karnali zone in mid-western region has the lowest representation followed by Seti zone in far western region with the second lowest followed by Mahakali, Bheri and Rapti as the third, fourth and fifth lowest in terms of migrant workers.

**Figure 5: Migrant workers by zone**



According to latest figures for fiscal year 2009-10, the global economic meltdown is having its impact on Nepali migrant workers. This is indicated by (a) the declining number of people leaving for foreign employment, and (b) a substantial number of migrants are returning home before the termination of their job contracts. Data from the Department of Foreign Employment reveal that the number of Nepali migrant workers going to Malaysia has declined from 50,554 in fiscal year 2007-08 to 35,070 in 2008-09. Similarly, the number of Nepali migrant workers leaving for the United Arab Emirates declined from 45,342 to 31,688 during the same period. This declining trend is also substantiated by a decline in the demand for Nepali passports, a major indicator of migrant labor movements. In Mahottari district, for example, a 25% drop in the application for passport was reported.<sup>13</sup>

There are basically three reasons why the number of Nepali migrant workers has recently declined in the Gulf region. First, there has been slowdown in new construction works that mostly employ unskilled Nepalis. Secondly, many investors are deferring construction works in view of the economic situation. And thirdly, many companies are introducing heavy cuts in hiring laborers. In East Asian countries such as Malaysia, the demand for migrant workers is declining because most factories have closed down in response to a low demand from the European and American markets. As a result, not only less migrant workers from Nepal are

<sup>13</sup> Kantipur, Kathmandu, 9 September 2009.

going for foreign employment but those who had gone are returning. According to the Department of Foreign Employment, at least 193 Nepali migrant workers have returned between January and May 2009. This is the tip of the iceberg because many have returned but have not reported to the Department. Many of those who have returned had not completed their tenure as mentioned in the job contract and were sent on “long vacation.” There is no figure on the actual number of such returnees. Such a decline, if it continues for a prolonged period, is bound to have impact on remittance income.

### *Remittance Income*

The remittance income has been growing over the years, as shown in the table 2 below. It increased from Rs. 4,722 million in 2001-02 to Rs. 18,301 million in 2008-09. This figure includes remittances sent through formal banking channels only. There is no data on the flow of remittance by gender. A study in 2006 noted that the contribution of women to total remittance inflow amounts to more than 10%. This calculation is mainly based on the assumption that since women make nearly 10% of the migrant workers, their contribution to remittance income is at least their share in the total number of migrant workers. The same study found that high propensity of saving among women and their greater participation compared to men in migration to high income countries like Hong Kong, Japan, United States and United Kingdom meant their relatively higher contribution to remittance.<sup>14</sup>

The upsurge in remittances has led to a surplus in the current account, thereby strengthening the overall balance of payments (BoP) position. The share of remittances in total current account receipts, for instance, soared from 33.6% in 2001/02 to 50.8% in 2007/08 as shown below. Its contribution to the GDP has also been substantial. The overall BoP posted a significant surplus of Rs. 37.7 billion in 2008-09 compared to a lower surplus of Rs. 29.7 billion in 2007-08. The current account also recorded a massive surplus of Rs. 41.4 billion compared to a surplus of Rs.23.7 billion in 2007-08. This was largely attributed to the rise in net transfers by 36.5%. Under transfers, workers’ remittances increased by 47.0% in 2008-09 compared to a growth of 42.5% in the previous year. In mid-July 2009, the gross foreign exchange reserves stood at Rs.280.0 billion, an increase of 31.7% compared to the level as at mid-July 2008. On the basis of US dollar, gross foreign exchange reserves went up by 15.6% to US\$ 3.59 billion in mid-July 2009. The current level of reserves is adequate for financing merchandise imports of 11.8 months, and merchandise and service imports of 9.7 months.

**Table 2: Remittance flow**

Heading	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
Total remittances (in million NPR)	4,722	4,754	5,420	5,859	6,554	9,769	10,014	18,301
Share of remittances to current a/c receipts excluding grants (in %)	33.6	37.8	36.6	38.2	46.7	45.3	50.8	-
Ratio of remittances to GDP (in %)	10.3	11.0	10.9	11.1	14.9	13.8	17.4	19.1

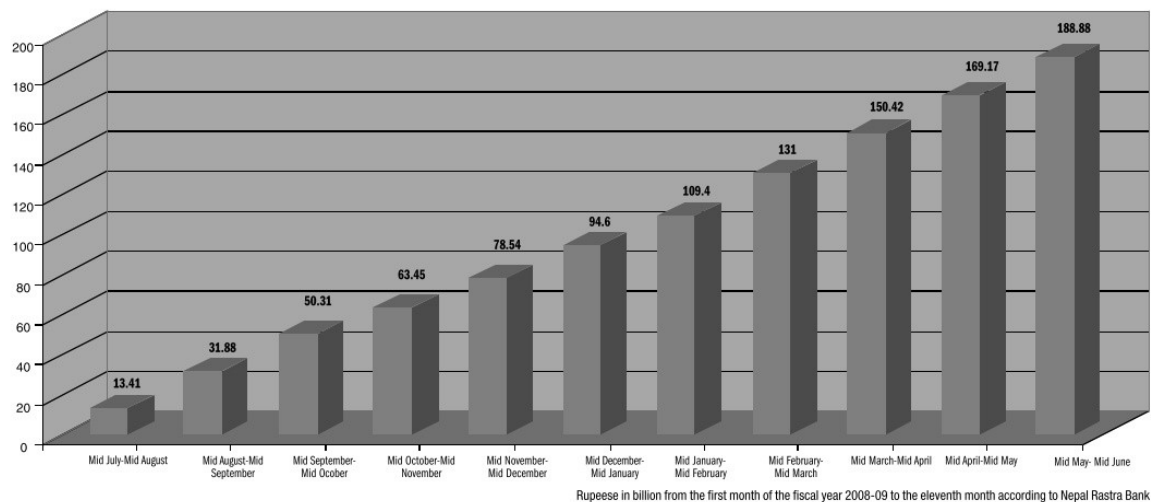
Figures for FY 2008-09 are provisional.

Source: Ministry of Finance, July 2009.

<sup>14</sup> Nepal Institute of Development Studies, 2006.

The flow of remittance has not been uniform throughout the year, as shown in the figure below for the year 2008. It has been increasing steadily from mid July reaching its height in mid May.

**Figure 6: Flow of remittance by months**



Source: Nepal Rastra Bank

There are a number of reasons why remittances have continued to grow as shown in the figures and tables above. First, remittance began to grow when the exchange rate for dollar strengthened and the real value of the Nepali currency weakened. In the beginning of 2009, the value of one US dollar went as high as Rs. 80. This meant more rupees for per dollar. Secondly, the flow of remittance is in fact distress remittance as a result of the global economic crisis. Uncertain job prospects forced many Nepali migrant workers to send their income home. The third important reason is the growing reliance of migrant workers on formal channels to send their income home. The increased flow through the banking sector is now reflected in the growing graph of remittance inflow. This is also partly due to the policy of the central bank to encourage private sector financial sector involved in remitting income. Entry of new remittance agencies has encouraged Nepalis working in 76 countries around the world to send home money through banking channels.

In real volume term, the remittance income could decline if the present trend in foreign employment continues under a prolonged slowdown. There has already been a 12% decline in the remittance as a result of the economic slowdown. If the number of migrant workers declines, and if those already overseas return, this will have significant impact on the inflow of remittance in the coming months. This will have significant impact on household income and poverty reduction.

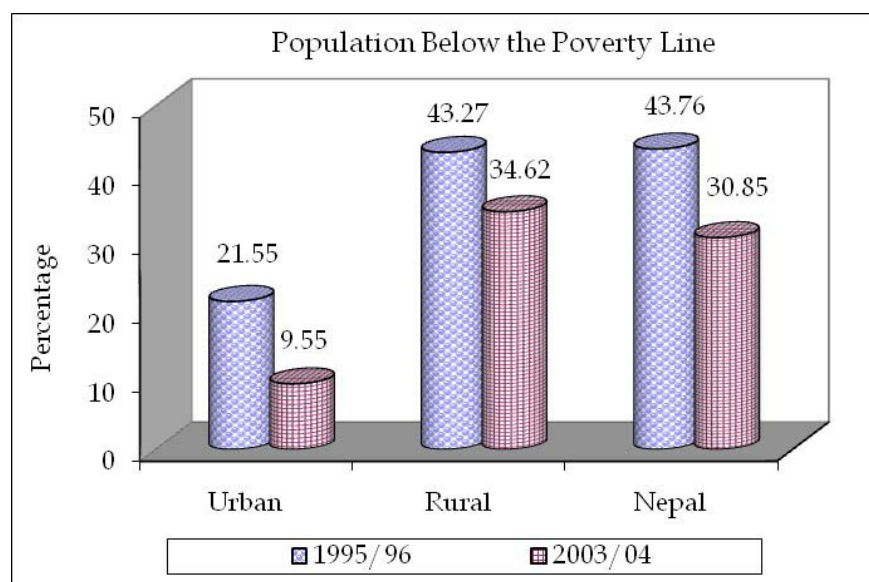
## 5. Remittance and Poverty Reduction

The impact will be severe if the present trend continues as remittance contributes significantly to the household income. According to the Second Nepal Labor Force Survey,

every household received remittance income of Rs 65,755 in 2008. This reality is reflected in the data that show that the incidence of poverty has declined from 42% in 1995-96 to 31% in 2003-04, a decline of almost 11 percentage points.<sup>15</sup> This decline is largely attributed to foreign employment and remittance income, which makes nearly 20% of the GDP. Other factors responsible for the decline in poverty rate are, in addition to remittance, fast growing urbanization, increase in average wage in the agriculture sector, and increase in the number of economically active population.

During 1995-96, percentage of urban population below poverty line was 21.6% which fell relatively sharply to 9.6% by 2003-04, as shown in the figure 7 below. The population below poverty line in rural areas decreased to 34.4% from 43.3%. In addition, poverty gap in Nepal is estimated to be 7.6% and squared poverty gap as 2.7%.

**Figure 7: Population below poverty line**



*Source: Ministry of Finance, 2009.*

A study in 2002 by the Nepal Rastra Bank on the impact of remittance was undertaken in 10 districts across the country with a total of 160 households. The study found that the remittance income went invested mainly on household purposes purchase of land, purchase and maintenance of new houses, paying off loans, deposit cash in bank and finally invest for business purposes. Some returnee migrants have also invested their savings in business ventures. For example, some hotels and industries in operation in Pokhara valley has been possible as a result of the remittance income.

<sup>15</sup> Nepal Government (2005) *Nepal Living Standard Survey II*. Kathmandu: Central Bureau of Statistics.

As a result of this study, the central bank began formulating and implementing policies focused on remittance. Since 29 March 2009, it has been issuing licenses to private sector organizations for remittance transfer business. It was agreed that the private firms will be allowed to charge 15 paisa per US dollar thus transmitted. It was also provided that the commercial banks would provide a loan of up to Rs. 100,000 to the prospective migrant workers. The flow of remittance is voluminous in small economies of some districts with high volume of remittance. According to a news report, people in Myagdi district in western Nepal have problems getting their cash payments on the eve of the Dasain festival. The daily cash demand in the district exceeds Rs. 50 million but the banks have been able to pay only Rs. 500,000 a day. It is estimated that nearly 80% of the household depend on remittance income. Myagdi district receives Rs. 80 million in monthly remittances sent by migrant workers from the district.<sup>16</sup> In another instance, Gulmi district received Rs. 12.5 million in daily remittance during the Hindu festival of Dashain in September 2009.<sup>17</sup>

Another study revealed the manifold impact of migration on the assets of the migrant and his household. The main outcomes of the migration were identified as increased financial capital, migration specific knowledge and increased social capital. These changes in asset endowment facilitated subsequent migration. They particularly enable the migrant workers to circumvent intermediaries and organize and finance their own migration more independently. This lowers both investment costs and risks involved in migration, thereby increasing potential net return.<sup>18</sup>

On the basis of the above, it may be concluded that Nepal's economy may not have been integrated into the global economy to have serious direct impact but is nevertheless vulnerable to the major trends because of the dependence on foreign labor markets and the remittance inflows. There are initial reports that the global economy is on the road to recovery, which is good news for countries like Nepal depending on employment and income opportunities overseas. Remittance is a primary source of foreign exchange, which has been growing very rapidly. If the demand for Nepali migrant labor declines, remittance will be negatively impacted.<sup>19</sup> If the demand for Nepali labor starts to climb, remittance inflows will have positive trends. What lessons has Nepal learnt from the global financial crisis? Or has it learnt a lesson at all?

## 6. Coping Mechanism

Nepal Government is in the process of formulating a three year National Development Strategy Paper to address, among other things, the economic impact of the global economic slowdown. The Three-Year Interim Plan, which ends in fiscal year 2009-10 but is to be extended to 2011-12, focuses mainly on the poverty reduction goals. It aims at an annual average economic growth rate of 5.5% in order to reduce the population below poverty from 31% at present to 24%. It will also have to deal with the impact of global meltdown on employment and remittance income. There are already measures in place although they may not be adequate.

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<sup>16</sup> *Kantipur*, Kathmandu, 15 September 2009.

<sup>17</sup> *Kantipur*, Kathmandu, 24 September 2009.

<sup>18</sup> Simon Wyss. 2004. *Organization and Finance of International Labour Migration in Nepal*. Kathmandu: Nepal Institute of Development Studies.

<sup>19</sup> Statement made by Brian J. Aitken, deputy division chief, Asia and Pacific Department of the International Monetary Fund in Kathmandu on 23 November 2008. See nepalnews.com.

In the short-term, the government has announced that it will reimburse 40% of the cost incurred in seeking the job overseas in case of returnees who have spent less than six months and 25% of such cost in case of returnees who have spent more than six months and less than a year. However, they need to produce evidence that they lost the job due to global economic meltdown. This is difficult because many of those who are returning have been asked by their employers to return home for “long vacation.” This could mean they may probably never return. The cost recovery for such a scheme is the Foreign Employment Promotion Board which has created the Laborer’ Welfare Fund. The has a total of Rs. 190 million collected from among migrant workers at the rate of Rs. 1,000 per migrant workers going overseas. In the medium and long term, there is no policy yet.

The impact of remittance on poverty reduction is the least studied area in Nepal. Currently, the Nepal Institute of Development Studies (NIDS) is undertaking a study beginning in September 2009. However, the results are unlikely before the year end. There is therefore not much data to analyze the impact of remittance on poverty.

Before concluding, it would be appropriate to sum up the challenges and opportunities in the area of poverty reduction and foreign employment.

1. Political stability and economic growth is critical for Nepal in order to increase employment and income opportunities, especially to people in remote areas and living below the poverty line, through programs designed to enhance their competitive capacity and skills.
2. Economic strategy needs to focus on promoting non-agricultural sector. Agricultural sector remains the largest sector of the economy. However, it has not been able to absorb new labor market entrants because of failure to commercialize the agricultural sector. Non-agricultural sector has the potential to grow provided there is security to life and property.
3. Since foreign employment is the only realistic option in view of the present realities, there is no alternative. Even political groups that once claimed to use the talents going overseas seem to have realized the hollowness of their developmental thinking. What is not being done very much is in the area of skill training and language enhancement. Present training programs are either ineffective or have limited access to those mired in poverty.
4. ‘Secure and organized’ foreign employment remains a promise. Nepal has labor agreements with only United Arab Emirates, Qatar, and South Korea. Most of the countries with a large concentration of Nepali migrants until recently had no diplomatic representation. The government had pledged in 2007 to appoint labor attaches in countries with more than 5,000 Nepali migrant workers. The appointment of labor attaches at the section officer level in Malaysia, Saudi Arabia, Qatar and United Arab Emirates announced in September 2009 is expected to ease the problems Nepali migrant workers are facing in the countries of employment. A key challenge will remain the arrangements for the return of illegal Nepali migrant workers, estimated currently at 70,000 in Saudi Arabia alone. It has also been reported that Nepal receives three dead bodies of migrant

workers daily from overseas, and at least 1,000 Nepali migrant workers die every year.<sup>20</sup>

5. Nepal also needs to look for new markets for those in need of or with interest in foreign employment as well as new specialized jobs like security instead of unskilled labor as is the case at present. New destinations being explored at present include Australia, Canada as well as Eastern European countries like Romania, Ukraine and Poland, among others.
6. Last but not the least, there should be more serious efforts at compilation of data relating to foreign employment, including new market, to promote research and documentation. Such research findings and data will provide very valuable policy inputs for policy formulation on foreign employment in relation to its position in the national economy.

## 7. Conclusion

Given the political and economic realities in Nepal and the limited space for expanding employment and income opportunities, foreign employment will remain a major attraction for new entrants in the Nepali labor market for a long time to come. While the attractions are strong and realistic, the foreign labor market remains fragile subject to different factors, including local demands and global economic situation. Since the bulk of the Nepali migrant workers consist of unskilled labor, youths are exposed to insecure and low-paid jobs. In the short and medium term, Nepal should look for niche market as well as improved conditions for promoting safe labor migration. Investment needs to be focused especially by giving priority on education and capacity enhancement, in order to look for new markets in semi skilled and skilled areas. Secondly, the private sector should take the initiative to make the most productive use of remittance income, which is now largely invested in land, housing and bullion. In the long term, it would be not sustainable for promoting foreign employment. Employment and income opportunities should be created in the country. This may be an unrealistic proposition in the present political context, which has continued to dampen prospects of any significant investment in economic growth and prosperity. This task is not insurmountable in the future when Nepal will be blessed with a clean and honest political leadership with a vision and a mission for a stable and prosperous Nepal.

## Biographical Notes on Authors:

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<sup>20</sup> *The Himalayan Times*, Kathmandu, 23 September 2009.

Ganesh Gurung, a sociologist by training, is presently the Chairperson of Nepal National Network on Migration. He has been involved in migration issues since 1990. He is also one of the three co-authors of the book on Nepal migration, *The New Lahures: Foreign Employment and Remittance Economy of Nepal*, published in 2001.

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