Socio-economic Problems of Remittance Economy: The Case of Nepal

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Abstract—Nepal is one of the poorest but top remittance recipient countries in the world. Remittance has stood out as one of the key factors in reducing poverty, improving human capital and financing imports. However, remittance has also led to moral hazard and the Dutch disease phenomena through hollowing out of adult, productive household members and creating inefficiency in farm production due to shortage of labour and income substitution effect. Furthermore, it has contributed to increasing imports for luxury and semi-luxury goods, resulting in trade deficit. It has eroded competitive advantage of the country by weakening the export sector of the economy. At the micro-level, remittances have been responsible for family breakdowns, erosion of family values, exploitation and inhuman treatment of migrant workers by employers, and problems of reintegration of migrants upon return. This paper examines these issues so as to inform policymakers and researchers.

Index Terms—remittance, Nepal, socio-economic problems, brain drain, Dutch disease.

I. INTRODUCTION

Remittances are, of course, a result of migrants’ remittance decisions. There are theories explaining this aspect of remittance phenomena in the literature [1]-[3]. However, our focus in this paper is on the impact of remittance in the Nepalese economy and society. Looking at remittance as a percentage of gross domestic product (GDP), Nepal is the 3rd largest recipient of remittances in the world. It accounted for 29% of the GDP in 2015. Over 3 million Nepalese (approximately 10% of the total population and 22% of the workforce) work as migrants around the world, and send money home--remittance.

However, remittance is also a mixed baggage. Provided other good economic policies are in place, it can become a part of a solution to problems such as poverty alleviation and human capital formation through investment in education and health. However, lacking such policies, there is a danger that remittances will push the country into further economic and social problems. There is a gap in the literature insofar as addressing this issue is concerned. This paper aims to provide a comprehensive analysis of these problems in Nepal resulting from over dependence on remittance and the policy mistakes on the way.

The paper is divided into four sections. In section two, some statistical artifacts are presented so as to situate the discussion and analysis of the issues at hand in the proper context. In section three, important socio-economic problems arising from increasing level of remittances inflows are examined. These problems span over such issues as health, safety, employment, and income protection of migrant workers in destination countries. Conclusions and policy recommendations are presented in the last section of the paper.

II. SOME STATISTICAL ARTIFACTS

Globally, 250 million people lived outside their countries of birth in 2015, representing 3.4 percent of the world population. Most of these migrants were from developing countries, and they sent home $432 billion dollars in 2015 alone. As stated above, Nepal’s share of this migrant population was 3 million—about 10 percent of the total population of the country. Remittances sent home by them amounted to $6.6 billion dollars, which amounted to 29 percent of the gross domestic product of the country in 2015. And 56 percent of the households in Nepal received remittance [4]. Remittances are thus a very significant part of the national economy and family incomes in Nepal. This is more so for families living in rural areas under poverty.

Nepal has a long history of global migration. It started in two streams. First, beginning over 200 years ago the British armed forces began to recruit soldiers from Nepal, called Gorkhas, to deploy them in wars fought by Britain in different parts of the world [5]. Secondly and more importantly, there have been cross-border flows of Nepalese to India for employment and other opportunities for centuries [6]. While the British army recruitment of Gurkhas is a fading phenomenon now, the cross-border migration to India has remained a living experience for Nepalese migrants. In fact, many Nepalese joined the Indian Army and many sought employment in private sector in India in the 1950s and 1960s. However, the scale as well as scope of migration has undergone a major transformation in the last two decades. India is no longer the only destination country for Nepalese migrants. The Gulf countries (Saudi Arabia, Qatar, UAE, Oman and Kuwait), South Korea and Malaysia have appeared as other close competitors for their destination. The scale has become so vast that about 1,500 Nepalese workers on average fly out from Kathmandu Airport to Gulf countries and Malaysia every day [7]. And the scope has grown so much that Nepalese migrant workers are
allowed to work in over one hundred countries around the world [8].

Formal migration requires possession of a labour permit issued by the Government of Nepal. The permit can be obtained individually or via recruitment agencies. Data on such labour permits issued by the Government of Nepal are presented in Table I below [9].

TABLE I. NUMBER OF LABOUR PERMITS ISSUED (2008/09 TO 2013/14)

<table>
<thead>
<tr>
<th>Year</th>
<th>Via Recruitment Agency</th>
<th>Individually Secured</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008/09</td>
<td>163,886</td>
<td>56,079</td>
<td>219,965</td>
</tr>
<tr>
<td>2009/10</td>
<td>225,200</td>
<td>68,894</td>
<td>294,094</td>
</tr>
<tr>
<td>2010/11</td>
<td>240,977</td>
<td>113,739</td>
<td>354,716</td>
</tr>
<tr>
<td>2011/12</td>
<td>260,030</td>
<td>124,635</td>
<td>384,665</td>
</tr>
<tr>
<td>2012/13</td>
<td>395,676</td>
<td>55,158</td>
<td>450,834</td>
</tr>
<tr>
<td>2013/14</td>
<td>443,483</td>
<td>78,395</td>
<td>521,878</td>
</tr>
</tbody>
</table>


As the data show, the number of out-migrants has more than doubled between 2008/09 and 2013/14. The destinations for these migrants were Malaysia (40.9%), Saudi Arabia (22.9%), Qatar (20.3%), U.A.E. (11.2%), and Kuwait (2.1%). Even though the Government of Nepal allows Nepalese to migrate for employment in 108 countries at present, the rest accounted for only 2.6% of the total migrants [9]. As mentioned above, labour permits for foreign employment can be secured via recruitment agencies or individually. According to the data in Table I, huge increases in the permits sought have come via the recruitment agencies. This increase in part can be explained by the current practice of perverse incentives related to fee overcharge and compensation of agents used by recruitment companies. This issue will be discussed further later.

The Foreign Employment Act of 2007 provides for the legal and policy framework for migration. Under the provision of this Act, the Department of Foreign Employment (DFE) was established with a mandate to maintain a database of labour permits issued, to investigate grievances filed by migrants, and to impose penalties to offending parties. Also, cases not resolved at the DFE level are referred to the Foreign Employment Tribunal, also created under the provision of the Act, for adjudication [9]. Thus the Government of Nepal has begun to pay attention to problems faced by migrants in recent years.

The Foreign Employment Promotion Board was established under the provision of section 38 of the Foreign Employment Act. The Board is chaired by the Minister for Labour and Employment, and is tasked to explore new destinations, provide pre-departure orientation training, and provide advice to the government on the fixing of service charges. In addition, the Board is mandated to manage the Migrant Workers’ Welfare Fund, established under the Act. The Act also requires appointment of labour attaches in destination countries with a presence of 5,000 or more Nepali migrant workers. The attaches are given responsibilities for assisting migrant workers in resolving disputes with employers in destination countries, ensuring observance of labour rights by employers, and taking actions to promote overall welfare of the migrant workers in destination countries.

Remittances have begun to play a major role in the transfer of international resources to developing countries. They are now almost three times the size of official development assistance. They are also catching up with FDI fast. In the case of Nepal, there is very little FDI as the existing deficiency in infrastructure and government policies have failed to attract major foreign investors. A prolonged political instability has further exacerbated the situation. Official development aids are modest, amounting to about 7 percent of the GDP in recent years. Remittances have picked up the slack, and their increase over time has been anything but spectacular. Remittance as a percentage of the gross domestic product of Nepal have more than doubled between the years 2002 and 2015. Data presented in Fig. 1 below substantiate this point [10].

![Figure 1. Remittance flows in Nepal, 1995-2015](https://example.com/figure1.png)


Furthermore, foreign exchange earnings from remittances have far exceeded foreign currencies available through tourist income, merchandise exports and foreign aid over the years. Put differently, the share of remittances in total exchange earnings exceeded those from merchandise exports and foreign aid beginning around the year 2001. This trend continued for the next 15 years with the gap becoming wider every year. This is revealed from the data presented in Fig. 2 below [11].

![Figure 2. Share of Remittances in Foreign Exchange Earnings](https://example.com/figure2.png)

Against this backdrop, we now proceed to examine the effects of remittance on aspects of socio-economic landscape of Nepal.

III. SOCIO-ECONOMIC PROBLEMS RESULTING FROM REMITTANCES

While a high level of remittance inflow has helped to maintain macro balances in the economy to some extent, it has also become a reason for delay in policy reform. And this has eroded competitiveness of the economy. Thus the idea of developing a competitive, export sector to exploit growing markets in India and China has become a non-starter [12]. On the contrary, they have contributed to an increase in imports, and thereby creating balance of trade issues. More critically, remittances have given rise to a number of socio-economic problems. In this section, I will examine these pivotal issues, bringing some evidence bearing on them.

A. Dutch Disease, Moral Hazard and Work Incentive

A high level of remittance inflows has created a fertile ground for the existence of Dutch disease in the economy of Nepal. The term ‘Dutch disease’ was coined by the Economist magazine to describe the evolving productivity dynamics after the discovery of natural gas in the Netherlands [13]. It referred to the situation of loss in manufacturing output and exports due to huge revenue growth from natural gas sale and resulting appreciation of currency. The massive inflows of remittances have had a similar effect in the economy of Nepal [14]-[15]. Reference [15] has observed that, as household income and spending capacities increased, aggregate demand and expenditures increased more than the increase in output and productivity would justify. For example, between 2000/01 and 2010/11 consumption expenditure increased on average by 12.5 percent while the real GDP and labour productivity grew on average by just 3.4 per cent and 1.1 per cent, respectively.

A heavy reliance on remittance becomes a foundation for dependency. It has promoted a culture where household members either stop working altogether or reduce working time while waiting for remittances. In some cases, household members may increase their reservation wage as remittances substitute for their wage income. They may thus make themselves voluntarily unemployed by setting reservation wages higher than the market clearing wage rate. Thus remittances have created negative work incentive effect, a form of moral hazard [16].

Agriculture still accounts for one-third of the GDP in Nepal. The effect of migration and remittances has been negative on this sector. First, migration has created labour shortages through supply constraint and operation of moral hazard, and cultivating land has become difficult. One can see patches of land in some places remaining barren in remittance-receiving villages and communities. Secondly, remittance-receiving families do not invest in productivity enhancing machineries and other inputs. As Tuladhar, Sapkota and Adhikari have pointed out, one of the challenges for policy makers is to figure out ways for inducing these households to invest in capital goods and inputs for improving productivity in the agricultural sector [17].

B. Brain Drain

One of the key problems for promoting economic growth in a least developed country like Nepal is development and retention of human capital. In the post-monarchy era, there has been tremendous expansion of educational institutions in Nepal. The percentage of labour force with secondary or higher education has been increasing. However, Nepal has been losing these educated, young, productive workers every day. As mentioned earlier, over 1,400 young migrants fly out from Kathmandu airport every day.

Due to push and pull factors, the number of professionals such as nurses, engineers, doctors and teachers migrating to Middle-East, South Korea, Australia, Canada and the USA has been rising. This has contributed to hollowing out of professionals. Modern economies cannot be fully functional if there is a huge imbalance in demand for and supply of skilled workers. Nepal has been suffering from this hollowing out effect. There is also a problem of self-selection bias. Those migrating looking for better wages and opportunities happen to be the ones who are entrepreneurial, ambitious and willing to take risk. Hence the effect of migration has been rather negative insofar as building human capital and promoting entrepreneurial activities are concerned.

C. Family Relations

Migration is a family decision in most cases. Hence remittances have effect on the spouse and other family members of the migrant. Also, migrants send remittance for either altruistic reason or for maximizing their own self-interest [1]. Whatever the reason may be, it will have effect on spouse and family members left behind. These effects span over the realms of economic, social and psychological wellbeing of family members.

Wong [18] studied the impact of remittance on family relationship using a paired sample of migrants and non-migrants from Chitwan district of Nepal. The study found that remittance contributed to improve spousal relationship but made no difference as to parental relationship. However, the positive income effect led spouses and children to increase their reservation wage, which led to low labour force participation rate among them. For parents, even though the relationship remained unaffected, absence of migrant children led to feeling of isolation and mental health problems. Also, the school attendance of children declined due to absence of fathers at home.

Even though remittances have empowered females, there have been several cases of family breakdowns. Upon return from the employment country, some married women migrants find their marriages falling apart. One study found that 14 percent of returning women migrants found their marriages falling apart. One of the key problems for promoting economic growth in a least developed country like Nepal is development and retention of human capital. In the post-monarchy era, there has been tremendous expansion of educational institutions in Nepal. The percentage of labour force with secondary or higher education has been increasing. However, Nepal has been losing these educated, young, productive workers every day. As mentioned earlier, over 1,400 young migrants fly out from Kathmandu airport every day.

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problems. Increases in the number of young people as drug addicts, school dropouts, and social misfits are the results of such problems.

D. Exploitation of Migrants

Migrants are exploited at home as well as in destination countries in a variety of ways. In the home country, the exploitation begins even before their departure by recruitment agencies and their sub-agents called “dalals”. Recruitment agencies are registered companies. They hire dalals to find job seekers and to bring them to the formal recruitment channel. These dalals go to various communities and villages to recruit potential migrants. They provide them information related to potential earnings in destination country, migration process and the cost of migration. However, they exaggerate facts or lie about job prospects and income potential in destination countries. There is asymmetric information problem as the potential migrants, who are desperate to seek gainful employment in foreign countries in the hope of uplifting their economic situation, have very little capability and resources to verify the information provided by the dalals.

The dalals also charge atrociously high fees to the potential migrants, promising them to acquire passports, prepare travel documents and purchase airlines tickets together with making employment contracts ready for them. The potential migrants then have to borrow money to meet these migration-related expenses. Since most of them are poor with no assets and credit history, banks will not loan them money. They are compelled to go to the money sharks, who use the usury system, charging up to 40 percent annual interest on the loan.

In the destination country, the employers and the governments exploit them by using employment and working conditions different for migrant workers from the ones for their own citizens. Migrants’ working conditions in the employment countries are reported to be so bad that they become health hazard in many cases and causes of eventual death in some. Most of the migrants are recruited for dirty, difficult and dangerous jobs available mainly in construction, manufacturing and agriculture sectors. Many female migrants are recruited for domestic work. Working conditions in most cases are dismal and safety standards almost non-existent for the migrant workers, leading to health problems and sometimes death.

Of nearly two million migrant workers from Nepal working in the Gulf countries and Malaysia in 2015, 1,002 died. The following Table II classifies these cases by causes of death [7]:

<table>
<thead>
<tr>
<th>Causes of Death</th>
<th>Number Migrants Dead</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sudden Unexpected Death</td>
<td>268</td>
</tr>
<tr>
<td>Syndrome</td>
<td></td>
</tr>
<tr>
<td>Natural Death</td>
<td>245</td>
</tr>
<tr>
<td>Road Accidents</td>
<td>119</td>
</tr>
<tr>
<td>Suicide</td>
<td>112</td>
</tr>
<tr>
<td>Workplace Death</td>
<td>114</td>
</tr>
<tr>
<td>Cardiac Arrest</td>
<td>89</td>
</tr>
<tr>
<td>Other</td>
<td>55</td>
</tr>
<tr>
<td>Total</td>
<td>1,002</td>
</tr>
</tbody>
</table>

About half of these deaths were classified as sudden unexpected death syndrome (SUDS)—workers go to sleep and never wake up. Health experts have given the opinion that SUDS could be the result of dehydration, poor diet, overwork and stress, or a combination of them. There is hardly any study analyzing and explaining the cases of SUDS. A migrant workers dies of SUDS; after some legal formalities, the body is sent home. The story ends there for the government and the employer. However, the tragedy begins here for the families and children, if any, of the migrant worker.

Back home, parents and spouses of these dead workers are saddled with loans borrowed to finance expenses incurred during the migration process—fees to employment agents/agencies, fees paid to the government, air ticket and food and accommodation expenses in Kathmandu before the departure to destination countries. When the migrant worker is dead, the loan sharks will not leave the family members and spouses alone. Some of the widow spouses are condemned to servitude to pay the debt for a long, long time. As Rai and Awale [7] have stated, “And every day three bodies of dead migrant workers are air freighted back to Nepal.” Thus the human cost of remittance earnings is very high for many of the financially struggling families even though the state coffers are having a great return out of the Nepalese migrants working around the world.

E. Women Migrants

The phenomenon of out-migration in Nepal is largely patriarchal. Until recently, women were not allowed to migrate to Gulf countries. Even today, women under the age of 30 are not allowed to go to these countries to work in domestic employment. Out of three million migrants, there are less than 200,000 women migrants in the official statistics for this reason. However, it is important to note that women migrants are illegally channeled through Indian corridor to Gulf countries. This is possible because of an open border with India, having no requirement of passports for Nepalese to cross the border.

Women in Nepal have difficulties in being able to participate as migrant workers due to social, familial, legal and cultural reasons. Since the Nepalese society is a patriarchal one, women going abroad to work as migrant labour to earn money is often looked down by the society. The first hurdle for women migrants is to get over this social stigma. Secondly, the traditional division of labour discriminates against women as men are considered the breadwinners. Hence women are discouraged from seeking employment in foreign countries. Even the Foreign Employment Law prohibits females under the 30 from taking employment as domestic in Gulf countries [8].

Barriers related to getting initial financial resources required to pay for the recruitment are significant. The certificates of property ownership are generally in male members’ names in Nepal. To use property as collateral for bank loans requires male members’ cooperation and consent. It is often difficult to persuade male members to do so due to the social stigma mentioned above. In
addition, getting a passport is not easy, especially for women residing in villages in remote parts of the country. There are no laws designed to protect women migrants working as domestics. In fact, the laws and costumes both discriminate against them. For example take the case of destination Gulf countries. Domestic workers in Gulf countries are recruited through a system called “kafala” system. Under this system, legal sponsorship of domestic workers is tied to the employment and the residency of a domestic worker to a specific employer. The sponsor is responsible for visa and legal status of the worker. Consequently, the employer is able to keep the worker’s passport. The domestic worker is thus helpless to do anything against the employer as she can’t seek employment with another employer or travel without a passport. The domestic worker becomes like a slave or indentured servant [20].

Now take the case of sending country Nepal. The government has passed legislation that does not allow female migrant workers under the age of 30 to undertake employment as domestics in Gulf countries. The assumption here is that female migrant workers under 30 will be more vulnerable to exploitation by employers. First of all, this assumption is faulty. What makes the government of Nepal think that women migrant workers above the age of 30 are not as vulnerable as those under 30? There is absolutely no scientific evidence to support this assumption. In fact, many female migrant workers have used the open border to India and used illegal channels to migrate to Gulf countries to undertake employment as domestics. In Riyadh, Saudi Arabia alone, there are over 40,000 Nepali women, who came through illegal channel, working as domestics [21]. Abuse and sexual harassment of many women migrants working as domestic helpers, especially in countries like Lebanon, Kuwait and Saudi Arabia, are rampant. But such specific concerns of women migrants are seldom a part of policy dialogues [22].

As stated earlier, remittances have helped to maintain macro balances in the economy. However, they have become a reason for delay in policy reform, giving rise to a lack of competitiveness of the economy. Thus the idea of developing a competitive, export sector to exploit growing markets in India and China has become a non-starter [12]. On the contrary, they have contributed to an increase in imports, and thereby creating balance of trade issues.

IV. CONCLUDING REMARKS

The role of remittance in increasing consumption and contributing to GDP growth in Nepal has been substantial. In fact, the number of people in poverty group has significantly decreased and incomes distribution remarkably improved over the years due partly to remittances. However, remittance has also led to moral hazard and the Dutch disease phenomena through hollowing out of adult, productive household members and creating inefficiency in farm production due to shortage of labour and income substitution effect. Furthermore, it has contributed to increasing imports for luxury and semi-luxury goods, resulting in trade deficit. It has eroded competitive advantage of the country by weakening the export sector of the economy. At the societal level, remittances have contributed to family breakdowns, erosion of family values, exploitation and inhuman treatment of migrant workers by employers in destination countries, and problems of reintegration upon return.

To address the issues raised in this paper, policymakers need to come up with creative policies to motivate recipients of remittance to use it in productive activities while trying to minimize or eliminate negative effects of remittance. Doing so requires removal of obstacles faced by migrants before leaving the country, signing of labour agreements with governments of destination countries to ensure application of international labour standards to migrant workers, and formulation and implementation of economic policies and plans to create meaningful employment opportunities at home for potential migrants. While remittance can become a good stop-gap measure in times of economic turbulence, over-dependence on it could turn out to be a disaster in the long run. It is time to have a comprehensive review of the role remittance can play for the sustainable socio-economic development of Nepal, and develop new policies accordingly.

REFERENCES


