COVID-19 and Remittance Flows in Nepal: Potential Turning Point for Development

ASIA’S PATH FORWARD

By Posh Raj Pandey | 4 September 2020
INTRODUCTION

The Nepali economy shows an atypical structural change over the past one and half decades - the movement of labor out of agriculture was not triggered by new jobs in industries or in high skilled professional services, but by foreign employment opportunities. The remittances sent by such migrant workers back home are estimated to constitute a quarter of the income of all households and almost two-thirds of the income for those receiving money from abroad. In addition, the remittances have contributed to reduction in poverty and human development by increasing household investment in education and health. At a macro level, remittances are a major stabilizer for the current account of balance of payments and foreign employment has acted as a safety-valve for the labor market by absorbing large share of new entrants into employment. The spread of Covid-19 has changed the scenario. Most of the destination countries for Nepali migrant workers have adopted non-pharmaceutical measures to contain the spread of virus such as lockdown and workplace closure which has significantly disrupted economic activities and hurt wellbeing and jobs. Furthermore, the covid-19 crisis has suppressed global demand for oil and resulted in collapse in the price of oil, key income sources of many destination countries of migrant workers. This has had a devastating economic impact both in the destination and source countries of migrant workers. This article assesses the potential impact of COVID-19 on remittance flows in Nepal.

Historically, foreign employment and remittances have played a defining role in the livelihoods of many people in Nepal. For migrant workers, both push and pull factors are in operation. Lack of adequate domestic employment opportunities and social and peer pressures are pushing uneducated and unemployed youths for overseas jobs. On the other hand, jobs with wage differentials and better amenities, social networks and opportunities for upward social mobility and family linkages are some of the pull factors, e.g., employment in the British or Indian army or in the Middle East or Malaysia. In addition, foreign employment has also been an instrument to diversify income sources and mitigate volatility of agriculture and other informal incomes of the household.\(^2\)

---


The Department of Foreign Employment (DOFE) of the Government of Nepal has issued approval for Nepali workers to migrate to 127 countries for employment in fiscal year 2019/20.\(^3\) However, it is difficult to assess the exact number of Nepalis working overseas, as different sources provide different numbers. The International Organization for Migration (IOM) estimates that 2.365 million Nepalis are working in foreign countries\(^4\) whereas the Foreign Employment Board provides the number as 1.487 million.\(^5\) The Nepal Labor Force Survey (NLFS) of 2017/18 provides that approximately 2.8 million Nepalis left Nepal for work during that year.\(^6\) The Nepal Association of Foreign Employment Agencies reckons that more than 2.6 million Nepalis are currently working in foreign countries.\(^7\) Even if we take the most conservative estimate, the stock of Nepali migrant workers overseas is at least 5% of the total population. It is difficult to keep records of migrant workers in India due to the open border between the two countries, and the aforementioned estimates exclude migrant workers in India.

![Figure 1: Labour Permit Issued 2019/20](image)
Nonetheless, India remains the most popular destination for Nepali migrants, particularly for residents of western regions and border areas. Most of these migrants are engaged in the service sector. Although there is no official record of the number of Nepali migrant workers residing in India for employment, it is estimated that nearly 40% of the total Nepali emigrant population is in India. In recent years, there has been a significant increase in the number of migrant workers heading towards Gulf Cooperation Council Countries (GCC) and Malaysia. The data on the number of permits issued in 2019/20 shows that about 79% permits were issued to Nepali migrant workers to go to just four countries: Malaysia, Qatar, the United Arab Emirates (UAE) and Saudi Arabia (Figure 1). Such high concentration in a few destination countries indicates high vulnerability of Nepali migrant workers to socio-economic shocks as well as policy changes in these countries. From the gender perspective, labor migration from Nepal is predominantly male, with females constituting 9.5% of migrant workers in 2019/20.9

The composition of skill categories of migrant workers shows that work related migration is dominated by unskilled or low skilled workers (59%)10 who mostly work in construction (21.1%), manufacturing (17.3%), hotel (9.3%) security services (7.0%) and as housemaids and cleaners (16.6%).11 A large proportion of women migrant workers are engaged in unskilled work such as housemaids and helpers.12 Country-wise composition of migrant workers shows that a large proportion of migrant workers in Saudi Arabia, UAE, Qatar and Kuwait work in construction whereas manufacturing and security services are the major occupations of Nepali migrant workers in Malaysia.13

---

9 Government of Nepal, Department of Foreign Employment. op.cit.
10 Ministry of Labour Employment and Social Security. op.cit
11 Nepal Association of Foreign Employment Agencies (NAFEA). op.cit
REMITTANCES: A PIVOTAL ELEMENT IN THE ECONOMY

Figure 2: Migrant workers and remittances

Figure 3: Country-wise sources of remittances

---

Nepal Rastra Bank and Department of Foreign Employment

Nepal Rastra Bank
An analysis of the trend in the remittance flows exhibits that it has increased with an average annual growth rate of 11% during the last ten years—from US$ 3.1 billion in 2009/10 to US$ 7.8 billion in 2018/19, but the growth rate has slowed down since 2011/12 (Figure 2). Despite a reduction in the outflows of migrant workers, the reason for the continued rise in remittance could be the large stock of migrant workers abroad and the more stringent monitoring efforts to control informal cross-border financial flows. Nepal is the fifth highest recipient of remittances measured in relation to GDP after Tonga, Haiti, Tajakistan and Kyrgyz Republic with a remittance/GDP ratio of 25.4% in 2018/19. A recent study by Nepal Rastra Bank, the central bank of Nepal, shows that Gulf countries are the source of more than 50% of the total remittance inflows. Among the Gulf countries, the highest contributor is Qatar followed by UAE and Saudi Arabia. About one-fifth of the remittances comes from OECD countries and 14.2% from India (Figure 3).

Figure 4: Sources of foreign exchange earnings in relation to GDP (%)
Remittances play a pivotal role in the Nepali economy. They are a major source of foreign exchange earnings and a key stabilizer of current account despite ever-increasing trade deficits. They were 10 times larger than foreign aid, 9 times larger than total exports, and 67 times the foreign direct investment (FDI) in 2018/19 (Figure 4). They have also contributed significantly to government revenue. At the household level, 56% of the households in Nepal receive remittances from within the country or abroad, with the share of remittances in total household income averaging 31%\(^2\). These remittances have allowed families to increase incomes, consumption, savings, and asset formation, greatly improving overall economic activities and well-being\(^2\). In fact, some of the studies have shown that remittances account for between one-third and one-half of the reduction in income poverty in Nepal.\(^2\)\(^2\)

In addition, remittances have contributed strongly to human development via household investment in education and health.

### COVID-19 AND REMITTANCES

<table>
<thead>
<tr>
<th>Country</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Qatar</td>
<td>-3.5</td>
<td>3.6</td>
</tr>
<tr>
<td>India</td>
<td>-3.2</td>
<td>3.1</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>-4.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>-3.8</td>
<td>2.5</td>
</tr>
<tr>
<td>Malaysia</td>
<td>-3.1</td>
<td>6.9</td>
</tr>
<tr>
<td>United States of America</td>
<td>-6.1</td>
<td>4.0</td>
</tr>
<tr>
<td>Japan</td>
<td>-6.1</td>
<td>2.5</td>
</tr>
<tr>
<td>Kuwait</td>
<td>-5.4</td>
<td>1.1</td>
</tr>
</tbody>
</table>

*Table 1: Growth projection in key destination countries\(^2\)*


The fast-spreading COVID-19 contagion, high case fatality rate, inadequate medical facilities, and a lack of vaccine have prompted countries to lockdown, reduce business hours and observe social distancing. These measures have brought global economic activities to a near standstill causing lay off of workers. All multilateral organizations univocally project contraction in global output in 2020. United Nations estimates world economy to shrink by 3.2%; the World Bank forecasts 5.2% contraction in global output and International Monetary Fund (IMF) projects negative global growth by 4.9%. In addition, the economies of major destination countries for migrant workers are projected to shrink in 2020. When viewed through the migration lens, the economic crisis induced by COVID-19 could be even longer, deeper, and more pervasive than the headline numbers of growth statistics. The crisis has disproportionately impacted food and hospitality, retail and wholesale, tourism, transport, construction, personal service, and manufacturing sectors, the major occupations of Nepali migrant workers. In addition, it has negatively impacted the cross-sectoral mobility of unskilled migrant workers, as happened during financial crisis of 2009 when workers moved from construction to retail and agriculture due to economy-wide crisis. Often, the terms of visas prevent migrant workers from finding new jobs. Resulting in salary cuts, unpaid leave, or job losses.

Thus, besides the health crisis and disruption in domestic economic activities the three most-visible and immediate impacts of the ongoing COVID-19 pandemic in Nepal, all related to migrant workers. First, migrant workers with valid permits and visas have not been able to report to work because of travel and entry bans; second, the layoff and return of Nepali migrant workers from key destination countries and third, as a result, a decline in remittances to Nepal.

The Nepal Association of Foreign Employment Agencies reports that 115,000 workers who have completed all the process including government permit and visa from the employer have not been able to report to work. Similarly, the foreign employment process has been stalled for 328,681 workers who already obtained permission for foreign employment.
The Foreign Employment Board (FEB) estimates that about 20% of migrant workers will lose their jobs due to the spread of COVID-19 and be forced to return to Nepal. The highest number of workers losing jobs would be in Saudi Arabia followed by Qatar and United Arab Emirates (UAE) (Table 2). In addition, it is expected that about 500,000 workers will return from India.29

The joint impact of reduction in the outflow and job losses of migrant workers would be a decline in remittance flows. The National Accounts Statistics, published by the Central Bureau of Statistics (CBS), estimated that the share of remittances in Nepal's GDP would fall sharply to 19.01% in the fiscal year 2019/20.31 However, Nepal Rastra Bank reports that the actual flows of remittances for the first nine months of the fiscal year 2019/20 declined only by 4.0%.32 On comparing the remittance flows in the month immediately after the outbreak of COVID, i.e. the Nepali calendar month of Chait 2076 (i.e., mid-March to mid-April 2020) with the corresponding period in the previous year, it registers a 51% reduction in remittances. The World Bank's preliminary estimate projects remittances to Nepal to fall by 14% in 2020.33 The ADB projects that remittances could fall by 28.7% in Nepal, the highest decline among the developing Asian countries. Similarly, a report of the United Nations Development Programme (UNDP), Nepal projects remittances to fall by 40%.34

### Table 2: Number of migrant workers in risk of losing job

<table>
<thead>
<tr>
<th>Country</th>
<th>Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>30,000</td>
</tr>
<tr>
<td>Qatar</td>
<td>70,000</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>100,000</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>55,000</td>
</tr>
<tr>
<td>Kuwait</td>
<td>15,000</td>
</tr>
<tr>
<td>Bahrain</td>
<td>7,000</td>
</tr>
<tr>
<td>Oman</td>
<td>3,000</td>
</tr>
<tr>
<td>Total</td>
<td>280,000</td>
</tr>
</tbody>
</table>

29 Foreign Employment Board op. cit.
30 Authors personal communication with the officials of Nepal Association of Foreign Employment Agencies.
As alluded to, remittance inflows are critical in uplifting the lives and welfare of poor people. Empirical studies of migrant-sending Asian countries estimate that a 1% increase in the share of GDP of remittance inflow is associated with a reduction in the poverty gap ratio by 22.6% and poverty severity ratio by 16%. A 10% increase in remittance inflows leads to a 3-4% rise in real GDP per capita. In fact, the loss of remittance means various social and health issues for migrant workers and their dependents such as unemployment, difficulty in getting credits, food and nutrition insecurity, inability to pay for their dependents’ education, lack of health facilities, depression, child labor, broken families, social disparity and even an increase in suicide.

The Nepal Rastra Bank also acknowledges the adverse impact of decline in remittance on external balance, liquidity of the banking sector and poverty.

**OPPORTUNITY FOR REFORM**

In the economic literature, “counter-cyclability of remittances,” defined as an increase in flow of remittances during the times of crisis and hardship, has been highly appreciated. But this time, remittances defy such resilience as economic activities, jobs and worker welfare are severely affected globally by the COVID-19 and the resulting economic crisis. Nepal would be facing twin challenges of hundreds of thousands of stranded or returning migrants out of work and falling remittances. It is imperative that distress migrant workers be protected in countries of origin, at transit and destination by expanding social security programs such as cash or in-kind transfers, social insurance, and employment promotion programs.

The Government of Nepal has extended support for the return of migrant workers and a special relief program, though inadequate, for distressed migrant workers. Nepal Rastra Bank, through directives and monetary policy, has instructed banks and financial institutions to grant soft loans to migrant

---

workers who were not able to go to their destination countries despite having received labor permits.\textsuperscript{40} In addition, the budget for the fiscal year 2020/21 announced the creation of job opportunities for such prospective migrant workers as well as for returnee migrant workers under the Prime Minister Employment Program.\textsuperscript{41}

These could be the immediate relief measures, but Nepal cannot rely forever exporting overseas productive youth in their prime to work and send remittance. In fact, theoretically, the impact of labor outflow in the development process is equivalent to capital flights. Nepal should use this unprecedented crisis to create opportunities to build productive capacity and utilize available human assets for long term and sustainable development. However, it is desirable that the government takes the following reform initiative with regard to migrant workers and remittances as short to medium term strategy.

- Influence the remittance behavior of migrant workers by encouraging and supporting digital remittance service providers and popularizing the digital platform of online money transfer and banking services. However, this requires improved access to finance as well as better digital literacy and infrastructure in the recipient community.

- Mobilize diplomatic capital to ensure that migrant workers are treated without distinction or discrimination in the host country. The government should also work with the host country government to facilitate re-entry of migrant workers.

- Take initiatives to reduce the cost of sending money by migrant workers to their family and also to make it easier to send and receive. This would also support the implementation of Sustainable Development Goals (SDGs) 10.c.1 which aims to reduce the cost to US$6 on average by 2030.

- Work towards establishing real-time data base on migrant workers such as education and skill level, family information, country of work, their occupation, their income, and remit amount etc. Such data base not only helps formulate an informed migration related policy making but also facilitates swift and appropriate response in a time of crisis.

\textsuperscript{40} Rastra Bank’s 19 Directions: From Interest Discounts to Free Digital Transactions (in Nepali), https://www.onlinekhabar.com/2020/03/849100.

CONCLUSIONS

The COVID-19 pandemic has exposed the vulnerability of development model dependent on remittances largely contributed by migrant workers engaged in low-skilled, unsafe, and low pay sectors. Outflows of migrant workers and remittances could be a short-term necessary evil for Nepal that contributes as a transitional source of employment for youth and foreign exchange needed for developing productive capacity. In the medium-to-long run, Nepal must adopt a development strategy that contributes to structural transformation and absorbs national human capital.

This Asia’s Path Forward paper addresses Restarting Economies. Visit CIPE.org for further Asia’s Path Forward papers on the six essential themes for an economic recovery roadmap:

- Restarting Economies
- Diversifying Supply Chains
- Combating Corruption
- Authoritarianism and Challenges to Democracies
- Economic Challenges for Women and Marginalized Groups
- Chamber and Association Responses and Strategies

AUTHOR

Posh Raj Pandey, Ph.D.

Dr. Pandey has more than 25 years of experiences working on issues of trade, economy and development. Currently, he is the Chairman at South Asia Watch on Trade Economics and Environment (SAWTEE), a think tank working to build capacity of concerned stakeholders in the context of liberalization and globalization and which also works as a consortium of South Asian NGOs. He holds a PhD in Economics, and Master’s Degrees in Business Management and in Economics. Dr. Pandey has served as a Member of the UN Secretary General High-Level Panel on Technology Bank, New York.
listed in the Indicative Panelist of the Dispute Settlement Body of the World Trade Organization (WTO), Geneva. He is a Member in various high-level committees of the Government of Nepal, including, High-Level Foreign Policy Review Task Force, Board of Trade and Nepal Business Forum. Dr Pandey has also served as an Economic Expert in Prime Minister’s Advisory Board and was a Member of the National Planning Commission, an apex policy making body of the Government of Nepal. **He was one of the negotiators for Nepal’s accession to the WTO.** Dr Pandey has worked for the UNDP in Nepal on the issues of multilateral trade integration and trade related capacity building. He has also worked as a consultant to UNDESA, New York; Asian Development Bank, Manila; UNESCAP, Bangkok; FAO, Bangkok; ODI, London among others. He was a faculty at the Central Department of Economics, Tribhuvan University, Kathmandu. Dr. Pandey has extensively published on the issues of international trade, macroeconomics and development and presented papers in various international seminars.