

Impact of remittance on poverty and inequality in Nepal: Evidence from three rounds of the NLSS survey

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The inflow of international remittance in Nepal has increased dramatically since 1990s, increasing from Rs. 0.55 billion in 1990/91 to Rs. 333.37 billion in 2010/11 (Quarterly Economic Bulletin, Nepal Rastra Bank, Mid-January 2014). The annual work-related emigration to countries other than India has increased 30-fold from about 10 thousand in early 1990s to about 300 thousand in 2010 (Department of Foreign Employment, 2011). The number would be much larger if we included migrants working in India, a country with whom a reciprocal agreement allows workers of Nepal to enter India and vice versa, without obtaining a visa. The large emigration of Nepali workers has increased remittance-GDP ratio sharply from 1.23 percent in early 1990s to 22.05 percent in 2011 which puts Nepal among the top five remittance receiving countries in the world (World Bank, 2011). Furthermore, due to a shortage of opportunities in the domestic labor market with at least 30 percent of the workforce being ‘under-utilized’ (Central Bureau of Statistics, 2009), foreign migration provides an important avenue of employment for Nepali workers.

Poverty in Nepal declined remarkably from 42 percent around 1995 to 33 percent in 2004. It further declined to 25 percent by 2011 on the heels of a reasonable economic growth despite political turbulence (WDI, World Bank, 2014). On the other hand, income inequality measured by Gini coefficient increased substantially from 0.34 to 0.41 during the period of 1995 to 2004 and decreased dramatically to 0.32 during 2004 to 2011 period. Given these developments, this research paper addresses the question: How much of a role has the increase in migration and remittance played in the reduction of poverty and in the rise and subsequent fall in income inequality in Nepal?

Data and Method: We use three rounds of the Nepal Living Standards Survey (NLSS) conducted by the Central Bureau of Statistics (CBS) of Nepal. The first round (NLSS I) was conducted in 1995/96

(hereafter 1996), while the second and third rounds (NLSS II & III) were respectively carried out in 2004 and 2011.

We estimate a household consumption function using data from the nationally representative NLSS rounds. The determinants of household consumption function are then used to analyze changes in poverty and income inequality. In particular, we decompose poverty and inequality changes into factors affecting household consumption in Nepal. Finally, a comparative static analysis yields the impact of remittance on poverty and consumption inequality. The statistical significance of this impact can be judged through a bootstrapping procedure. We study how migration, remittances and their impacts vary across regions of Nepal and across broad geographic areas to which labor from Nepal migrates. For regional impact of remittances, we study all five development regions in Nepal and the Kathmandu Valley. The source regions of remittances are classified into three categories: (1) India, (2) Malaysia and countries around the Persian Gulf, and (3) Others includes high-income countries.