



## Can remittances support development in Nepal?

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### Key messages

- Policy measures are needed to help non-farm self-employment become a vocation of enthusiastic entrepreneurs rather than the occupation of reluctant ones.
- Receiving remittances prompts women to work less, particularly in non-farm self-employment.
- Higher remittances lead to lower revenues for household (non-farm) businesses due to the reduced labour supply.

### Are high levels of out-migration hampering development?

Out-migration from Nepal—a landlocked, least-developed country—has surged in the last two decades. Now, a third of households has at least one member abroad and Nepal has one of the largest remittances-to-GDP ratios (24% in 2018). In fact, international remittance inflows are greater than foreign aid, foreign direct investment and export earnings combined. Over the same period, the proportion of households with enterprises increased significantly (from 24.2 percent in 1995/96 to 34.6 percent in 2010/11).

While international remittances can provide an important source of foreign exchange and contribute to reducing poverty, Nepal's policy-makers recognise that relying on labour exports is not a viable strategy for sustainable development. Dependence on remittances can significantly slow the pace of structural transformation, needed for economic development, and leave the economy vulnerable to external shocks (such as more restrictive immigration policies in destination countries). The Government of Nepal's 2018/19 budget prioritizes job creation and proposes measures to

encourage self-employment and the productive use of remittances. There is limited and mixed (global) evidence on how receiving remittances affects left-behind family members' entrepreneurial activities, or at least their engagement in non-farm self-employment. When the left-behind labour force turns to non-farm self-employment:

- Those returning from foreign-employment may integrate more easily into the economy via a family business,
- The employment opportunities for migrants' children may improve thanks to the family business,
- The long-term employment opportunities for non-migrants in the neighbourhood may improve through potential spill-overs.

A team of local PEP researchers sought to assess the impact of international remittances on the left-behind labour force in Nepal. Specifically, they looked at the effect on hours worked and revenues.



Photo: Pragati Koirala

### The analysis

The research team analysed data from a nationally representative household survey in Nepal for 2010/11. Looking at the left-behind, working-age (15-64 years old, inclusive), economically active population, the team estimated the impact of international remittances on hours worked in non-agricultural self-employment. The team also measured the impact of remittances on the gross revenues of non-farm household-level enterprises operated by this population.

## Key findings

The results of the team's analysis show that higher remittance amounts are linked to left-behind women working fewer hours and lower revenues for household enterprises:

- **Left-behind women reduce their labour supply** to non-farm self-employment and other economic activities outside of home, the effect on men is not significant.
  - Doubling the amount of remittances leads to:
    - 3.6 fewer hours (on average) worked in non-farm self-employment, per week.
    - 1.6 fewer hours worked in agricultural self-employment and 3.4 fewer hours in wage employment (on average).
  - Although hours spent on household chores (collecting firewood, fetching water, etc) increase slightly, there is a reduction in total hours worked.
- **Revenues of enterprises operated by the left-behind labour force decrease**
  - A 10 percent increase in remittances leads to a 0.5 percent decrease in gross revenues.



Photo: Dikshya Singh

## Conclusions and policy implications

The finding that women reduce their labour supply indicates that the lowest wage the worker is willing to accept (reservation wage) increases with remittance inflows.

Social mores—such as the expectation that women spend more time at home—may explain why, when the amount of remittances received increases, women's reservation wages increase more than men's, affecting their labour supply.

The effect on women's hours is strong enough to reduce the overall labour supply despite no statistically significant reduction in hours being found for men.

While remittances would be expected to relax credit constraints—important for encouraging self-employment—the finding that higher remittances lead to lower revenues for non-farm enterprises suggests that if this is the case, it is not enough to counteract the reduction in labour supply. It also suggests there are other (unidentified) obstacles to enterprise growth.

**Policy measures are needed to create conditions that make non-farm self-employment a vocation of enthusiastic entrepreneurs rather than the occupation of reluctant ones.** In particular, measures that help develop a conducive entrepreneurial ecosystem—including capacity building and market intelligence—may encourage and nurture entrepreneurs.