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Impact of Remittance on Income Inequality and Poverty Reduction in Nepal

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Abstract:

Labor migration is the international phenomena. From the economic perspective, it is very good source of remittance which has significant contribution in the development and change of Nation. Nepal has also trend of youth migration. The remittances to GDP ratio increased from 10.7 percent in 2001 to 13.8 percent in 2007 and further to 29.1 percent (\$6.6bn) in 2015, putting Nepal among the top five recipients in terms of size of the economy. Regarding the importance of remittance, the study aim is to measure the impact of remittance on income inequality and poverty reduction in Nepal. The study was done in three districts covering the 385 remittance receiving household through purposive sampling. The result shows that the remittance has contributed 35.6% in total expenses of remittance receiving household whereas there was only 2.3% contribution made by non-remittance. So, it can be claimed that there is significant contribution of remittance in poverty reduction. The main contribution of remittance is to enable the access of poor to health and education through the improvement their economic status.

Keywords: Income inequality, Migration, poverty reduction, remittance

1. Introduction

Labour migration is the source of remittance in Nepal. There is increasing trend of labour migration in different gulf countries from Nepal for the job. Employment crisis of Nepal compelled youth to migrate in different countries. While the total number of workers going for foreign employment was only 3,605 in 1994, it reached 35,543 in 2000. Such figure rose by 16.5 percent to 528,232 in 2014 from 453, 543 in 2013 (Nepal Government). Since 2000, the annual average growth of workers going overseas for employment was 22.0 percent. Primarily, the destination of Nepalese migrants includes India, Saudi Arabia, Qatar, and UAE, among others (World Bank, 2016a). However, the data shows that Nepalese migrants are working in more than 70 countries (World Bank, 2016b). The remittances to GDP ratio increased from 10.7 percent in 2001 to 13.8 percent in 2007 and further to 29.1 percent (\$6.6bn) in 2015, putting Nepal among the top five recipients in terms of size of the economy (Pant & Budha, 2016, p. 6). Remittance is one of the more effective sources of income for the rural communities. Remittances can generate a positive effect on the economy through various channels such as savings, investment, growth, consumption, and poverty and income distribution. Workers' remittances flow in as a component of foreign savings and as such complements national savings by increasing the total pool of resources available for investment. Remittances constitute an integral part of household livelihood strategies.

The poverty reducing and income distribution effect of remittances is also significant. It is observed on the fact that the recipients of remittances are often low-income families whose offspring left the country to work abroad. In this situation, migration is taken as a response to escape poverty at home and improve the income-earning capacity of the migrant by attempting to enter foreign labor markets in richer countries.

Various organizations are working in the field of poverty reduction through the implementation of different types of income generating activities. In Nepalese context, World Bank is supporting the poor people through microfinance activities. The World Bank's stated goal is reducing poverty (Clemens & Kremer, 2016, p. 53). Remittance is emerging as a development tool and spreading it broadly across the world, has significant contribution in social change and development. The links between remittances and development are 'complex and are among the least researched and understood topics in the social sciences' (Taylor & Fletcher, 2001). There has been relatively little research undertaken, or indeed attention given, by social scientists, governments, or development agencies (Eversole, 2004). However, with the dramatic global growth in the relative and absolute size of remittances over the past decade, these issues are now receiving greater scrutiny (Mahler, 2000).

While observing the poverty in Nepal, it is almost found discussing in two ways that was on the basis on per capita income and on the basis of fundamental needs of the people. Defining poverty with the per capita income approach, Nepal's per capita was US\$ 311 as Fiscal Year (FY), 2005/06 (CBS, 2006). According to the National Planning Commission (NPC) survey (1978), the minimum subsistence level of income was NRS 2 per day at 1976/77, price as the absolute poverty line. This clearly shows that poverty is in large intensity in Nepal. While observing poverty being close to fundamental needs of the people, poverty is defined as the unavailability of basic requirements like food, clothes, health, education and shelter. Basically, a person needs average daily intake of

2220 calories and value of the lowest actual daily consumption of other basic necessities as indicated by the Nepal Living Standard Survey (NLLSS III, 2010/2011).

Generally the recipients of the remittance in the poor countries are often from the low-income households. It permits the households to increase their consumption level, enables better health care, nutrition, housing and education (World Bank, 2005). The utilization of remittances for the improvement of the living standard is documented by several studies (Department of Women Development, 2003; Seddon, David, Jagannath, & Gurung, 1999; Wahidin, 1989). Remittance are typically spent on land and housing. These are safe investment for the households, but in macroeconomic terms, they are non-productive assets. Only the small proportion of the migrants uses the remittance directly for productive investment like agriculture, manufacturing and trade. The major forms of investments are on education of the children, reinvestment of the remittance for further migration and for lending money (Shrestha, 2008, p. 9). Health and education are the basic need of all household whereas these both needs are so expensive in Nepalese context so that household's head has pressure to manage the basic expenditure. Some of the socio-economic factors created the situation of migration which becomes the source of remittance in country. The main aim of this study is to identify the impact of remittance in income inequality and poverty reduction.

2. Material and Method

The study was conducted in Magyadi, Rolpa and Dhanusha districts of Nepal. The study area has covered the different geographical zone of Nepal. There was total 385 household selected for this study from these selected districts. The purposive sampling technique was adopted to select the household. The study is based on quantitative research design so close ended structured questionnaire was used to collect the data. Statistical models were used to analyze the data. Lorenz Curve was used to see the income inequality and Regression was used to see the effect of income on expenditure.

3. Result and Discussion

The main objective of this study was to see the impact of remittance on income inequality and contribute in poverty reduction. The study draws the Lorenz Curve and found out the Gini Coefficient to know the income inequality.

3.1. Lorenz Curve of Income from Remittance

Gini coefficient is the most commonly used for any kind of inequality measure. The coefficient varies from 0 which reflects complete equality and 1; the complete inequality.

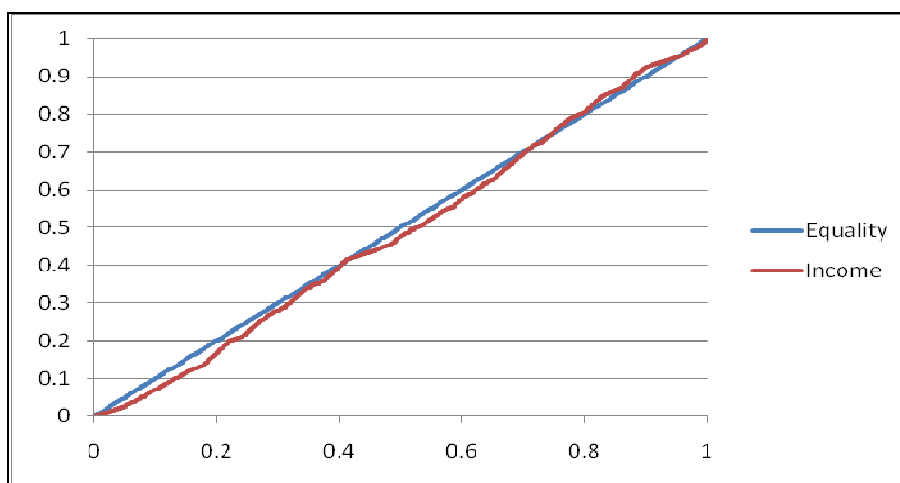


Figure 1: Lorenz Curve of income from remittance

Gini coefficient = 0.0049222 which shows the complete equality in income distribution among the surveyed household of study area.

3.2. Regression Analysis between Income Source and Total Expenses

The study runs the regression analysis to identify the effect of income of remittance and non-remittance on total expenses. The model was run by using the Step by step method to know the effect of individual variable.

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
a. Income from remittance	.598 ^a	.358	.356	17360.25799
b. Income from remittance and non-remittance	.618 ^b	.382	.379	17055.81093

Table 1: Regression analysis between income source and total expenses

Source: Field Survey, 2016

The model summary of analysis showed that the R^2 value of income of remittance is .358 which means that income of remittance alone can explain 35.80% of the variation in the level of total expenses. The adjusted R^2 value is .356 which means that the income of remittance contributed 35.60% on total expenditure.

Similarly, when the non-remittance income also added with the income of remittance then the analysis showed that the R^2 value of both remittance and non-remittance is .38.2 which means that both can explain 38.20% of the variation in the level of total expenses. The adjusted R^2 value is .379 which means that the both sources of income jointly contributed 37.90% on level of total expenses. The value of R^2 and adjusted R^2 was not so strong (less than 50%) to effect on total expenditure though it can be said that there was contribution of remittance in poverty reduction. The level of expenditure determines the level of saving. High level of expenditure may have negative impact in saving because if expenditure cannot be managed from own sources then it compel to borrow the loan which might effect on saving status. In this study, the remittance receiving households were able to manage their household expenditure very easily and were able to save money for the other purpose also.

The impact of remittances on economic development processes can be examined using information on the recipient households' income, expenditures, wealth, savings, entrepreneurial activities, and investments; including their investments in health, education, agriculture, and other business activities (Brown, Connell, Jimenez, & Leeves, 2006). Increasingly, we are seeing scholars investigate the impact of remittances on the general well-being of recipient households. For example, Sen (1999), Moser (1998), and others have argued that a holistic approach to well-being would take factors in addition to income into account (Loschmann & Siegel, 2014; Brown & Jimenez, 2011).

3.3. Analysis of Variance between Income Source and Total Expenses

The study used the F-test to know the effect of income of remittance and non-remittance on total expenditure. The two models were run through the liner regression analysis by using the step by step model.

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
Remittance	Regression	60537108321.832	1	60537108321.832	200.867	.000 ^b
	Residual	108496280738.941	360	301378557.608		
	Total	169033389060.773	361			
Non-remittance	Regression	64600042660.015	2	32300021330.008	111.035	.000 ^c
	Residual	104433346400.758	359	290900686.353		
	Total	169033389060.773	361			

a. Dependent Variable: Total Expenses

Table 2: Analysis of Variance between income source and total expenses

Source: Field Survey, 2016

The data presented in the table no. 2 showed that there was significant difference between income of remittance and total expenses with $F = 200.867$ and $P = .000$. Similarly, the joint income of remittance and non-remittance was significantly difference with total expenses with $F = 111.035$ and $P = .000$. The p value is less than 0.05 significant levels at 95% confidence interval.

It is the international phenomena that youth are migrating from one country to another country for the education and service. Remittance is generated from the trend of labour migration. Remittance has, through various empirical studies, been found to be instrumental in reducing poverty. According to some researchers who have undertaken such studies, remittance has resulted in economic growth and poverty reduction in various ways. Gubert, F; Lassourd, T; Mesple-Somps, S (2010) did study in Mali which found remittances reducing poverty rates by 5 % to 11%. Similarly, the study of Koechlin and Leon (2006) study found that in the first stages of migration history, there is an inequality-increasing effect of remittances on income inequality. As the opportunity cost of migrating is lowered due to these effects, remittances sent to those households have a negative impact on inequality. The study also explains how education and the development of the financial sector can help countries to reach the in-equality –decreasing curve more quickly. The finding of this study as well as other previous study is supported by the study of Gyimah-Brempons and Asiedu (2009), study made in Ghana finds: international remittances decreases the probability of a family being poor or chronically poor. It explains the effect of international remittances in reducing poverty is far higher than the effect of domestic remittances in reducing poverty. The study also states international remittances increase human capital formation; remittances make more children of families go to school.

The main contribution of remittance is to enable the access of poor to health and education through the improvement their economic status.

3.4. Coefficient of Income Source and Total Expenses

The coefficient shows that there was significant contribution of income of remittance on level of total expenses. The P value is .000 with $t = 14.173$. The standardized coefficients of Beta is .598 whereas standardized coefficient of Beta of remittance and non-remittance income is .618 with $t = 14.784$. There was significant contribution of both remittance and non-remittance income on total expenses.

Coefficients								
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B		
	B	Std. Error	Beta			Lower Bound	Upper Bound	
1	(Constant)	19794.291	2359.775		8.388	.000	15153.615	24434.966
	Income Source of your family-remittance	.681	.048	.598	14.173	.000	.586	.775
2	(Constant)	17694.756	2385.487		7.418	.000	13003.471	22386.041
	Income Source of your family-remittance	.704	.048	.618	14.784	.000	.610	.797
	non remittance	.943	.252	.156	3.737	.000	.447	1.440

a. Dependent Variable: Total Expenses

Table 3: Coefficient of income source and total expenses

Source: Field Survey, 2016

There was significant effect of non-remittance also on total expenses because the $P = .000$ which is less than .05 significant levels. The Beta value of standardized coefficient of non-remittance is .156 which is very smaller than the Beta value of remittance. It also indicates the higher level of contribution of remittance on total expenses.

4. Conclusion

Remittance makes a direct contribution to raising household to increase their consumption of local goods and services. At the community level, remittances create multiplier effects in the income and expenditure capacity of individual household, producing employment opportunities and spurring new economic and social infrastructure and services. The study was conducted in three different geographical locations which found that remittances can bring significant change in socio-economic status of rural community where state resources are not adequate. It is found that the remittance has contributed 35.6% in total expenses of remittance receiving household whereas there was only 2.3% contribution made by non-remittance. So, it can be claimed that there is significant contribution of remittance in poverty reduction. Remittance households are able to manage their daily expenditure along with the improved access on health and education of their children. Individual level to government level should be conscious about the required skill for labor migration as well as effective utilization of remittance.

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