

Remittances in Nepal during COVID-19, *resilient or slow crash?*



Background

Migrant workers are people who move to another area from the area of origin for employment. In case of Nepal, though there is large scale internal migration for work, migrant workers refer to people who leave Nepal for other countries for work. While migrant workers referred to people who went to work to India till 1990, the quick access to passports opened the world for work in additional countries. The Department of Foreign Employment (DoFE) has approved labour migration to 110 countries but Nepalis are estimated to work in as many as 172 countries.

These migrant workers send money home through formal and informal channels which is called remittances. The remittances are of two types, formal ones come to Nepal through official channels, and the informal remittances come through unofficial sources often referred to as hundi. Additionally, there are cases when the earnings of the labour migrants do not reach Nepal as it is used to pay for goods that are imported to Nepal through under-invoicing. For instance, some workers bring gold and other electronic items within legal limits to sell it and make some profits or carry these goods on behalf of the traders. In such cases, they not only save the remittance fee but in addition make some money as carrying charges.

There is no statistics on informal remittances, and it differs from country to country. For instance, in Kuwait, it is observed that all remittances are mostly made through formal channels but in case of Australia, they remit through informal channels as the exchange rate provided by informal channels is much higher than the formal exchange rate and they also save on the remittance fee.

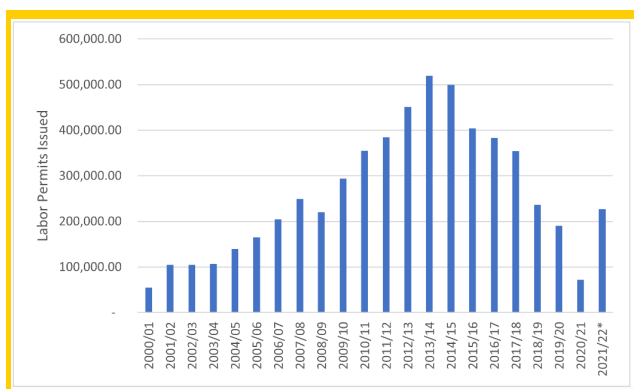
The person receiving remittances in a village is not concerned about the channel it comes through. They prefer to receive the money at their doorsteps and not travel to the collection centre; it saves their time and money. Cash payment is their first choice whether it is brought by a relative, friend or an agent of a money transfer company. Given the nature of treatment that a migrant worker receives from the government agencies prior to his/her departure, the trust is low in the government and have fear about the collapse of banks and imposition of taxes and impediments. Further, misinformation spread on social media regarding the failure of banks, allegations on Chairperson of various banks, questions on the credibility of money transfer companies make people weary of formal channels.

Remittances buoyant during pandemic

Due to the COVID-19 led restrictions, including international travel bans, lockdowns, border closures and suspension of mobility, migration across the globe was severely impacted. Predictions concerning the future of international migration and related volume of remittances were pessimistic to say the least. The World Bank predicted Nepal's

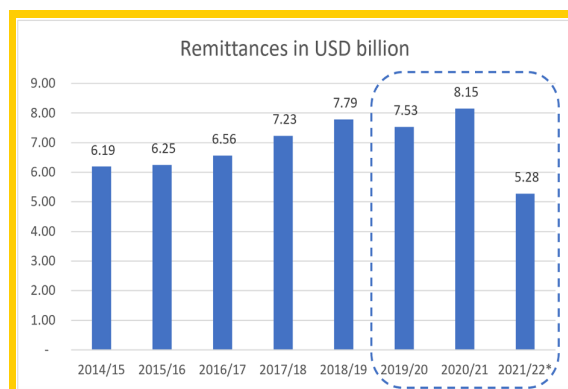
remittance to decline by 14%, while the Nepal Rastra Bank (NRB) projected remittance would decline by 15% in 2020. However, defying all the predictions, the drop in remittances to Nepal was much lower than anticipated. Remittances remained strong despite the suspension of issuance of work permits, and the fall of number of outbound migrant workers. In FY 2019/20, remittances to Nepal in USD meagerly declined by 3.3%, while in FY 2020/21, it increased by a whopping 8.2% to USD 8.15 billion, crossing USD 8 billion mark for the first time.

Fig. 1. Migration trend over the years



Source – DOFE

Fig. 2. Remittance trend over the years



Source – Nepal Rastra Bank

Defying all the predictions of a sharp downfall, remittances in Nepal post the onset of COVID-19 has mostly remained resilient. The impact of COVID-19 was lower than expected primarily due to two reasons: (i) The majority of migrant workers continued to send remittances despite the impact on their earnings, and (ii) Shift in the modes of remittance transfer.

Why remittances were resilient during COVID-19

Three factors are instrumental in understanding the current resiliency in remittances. **First, the presence of a large population of migrant workers and Nepali diaspora outside Nepal.** As per the National Planning Commission (NPC) study conducted in 2020, there were over 3.2 million Nepalis living outside Nepal. i) While lesser labour permits were issued since FY 2014/15, the average wage earned by Nepali workers has increased with more skilled workers going abroad, and existing workers have been promoted to higher paying positions. ii) Due to COVID-19 induced restrictions, employers were unable to hire new workers leading to shortage of workers which resulted in an increase in wages. 14% of migrant workers indicated an increase in their salary, wages, or bonus since the onset of COVID-19. iii) While the small number of migrant workers, who lost their jobs, returned to Nepal, a significant number of Nepali migrant workers, including women, continued to travel abroad via various mediums (for example, on tourist visas). As a result, the total number of Nepali migrant workers' population remained strong, causing minimal impact on formal remittances. iv) The findings clearly indicated that there was limited impact on jobs. 93% of migrant workers continued to work in the same job after the onset of COVID-19, while 6.11% migrant workers joined new jobs,

and only 0.52% lost their jobs. v) The average span of time without work was 1.41 months, and partial work was 2.59 months during the peak of lockdown.

Second, motivation amongst migrant workers to remit has played a key role to

boost remittances. i) According to the study findings, almost 56% of migrant workers sent the same amount or more money since the onset of COVID-19. Drawing onto their savings at the destination country was found to be one of the key reasons for the surge; 93% of the remittance receiving households and 72% of returnee migrants reported that they were able to send more money due to their savings at the destination country. ii) They were also able to send more money due to decreased consumption during COVID-19 restrictions. iii) The depreciation of the NPR against the USD pushed higher remittance transfers. iv) A significant number of migrant workers and diaspora sent more money to Nepal to invest in the bullish stock market and real estate transactions that bloated after the onset of COVID-19. v) During times of crisis, both Nepali migrant workers and diaspora communities tend to increase the amount of money they send, a phenomenon known as counter-cyclical of remittances. vi) Study findings indicate that 84% of remittance receiving households and 78% of returnee migrants reported that they sent more money to support their families during the crisis.

Third, the lack of informal channels push people to send money through formal

channels. i) Remittance inflows to Nepal via formal channels saw a surge after the onset of COVID-19 as informal channels such as Hundi and other informal agents were less active due to movement restrictions. ii) The rise in formal remittances during COVID-19 may not have been an actual surge but rather the result of a change in mode of remitting money. The study findings indicate that the average frequency of formal remittances decreased post COVID-19 to 63% from 83% amongst returnee migrants and it decreased to 72% from 96% amongst remittance receiving household, indicating the impact on their earnings. iii) The restrictions on international flights resulted in a significant decrease of remittances in the form of cash and cash-in-kind (electrical appliances, mobile phones, televisions, gold, etc.), iv) The gradual uptake of digital mediums to remit amongst Nepali migrant workers and diaspora have also increased since the onset of COVID-19. v) Another key reason for the surge in the use of formal channels is the lower demand for cash by the informal agents due to the decrease in imports over the past two years since the COVID-19 outbreak. As consumption decreased during COVID-19, the overall import, which is usually under-invoiced, fell, removing the need for informal payment of the remaining amount via informal remittance collection.

Why remittances dropped in recent months

After showing strong resilience for the first two years after the onset of COVID-19, remittance growth has slowed down since the beginning of FY 2021/22. This has had a massive macroeconomic impact, particularly on the country's Balance of Payment (BoP) and foreign exchange reserves. The main reasons behind the decrease in remittance were i) it is said to be a 'lag effect' caused by the decreased labour migration outflow

during the past two years. While thousands of migrant workers returned to Nepal, the Nepali migrant population in destination countries could not be replenished as labour permit issuance was halted, and international flights were grounded. ii) With the easing of lockdown measures, the informal channels resumed to be active. They have started pulling back the remittance inflows that came through formal channels during COVID-19 restrictions by offering migrant workers with attractive exchange rates. iii) With the normalcy in operation of international flights, returnee migrant workers bringing remittances in the form of cash and cash-in-kind has also increased. iv) With the increasing number of imports from Nepal, demand for foreign currency in destination countries to make informal payments for under-invoiced imports has also increased significantly.

Why migration will continue, and remittance will rebound

Despite the current downfall in remittances, it is expected to rebound in the near future as migration of Nepali workers will continue until adequate employment is created in the country. i) 80% of aspiring migrant workers revealed unemployment in Nepal as a major reason for their decision to migrate. ii) Migration is not only an economic phenomenon; peer pressure, societal circumstances and the search for individual space continues to push people to explore all possible opportunities. iii) The demand for Nepali labour is unlikely to reduce in major destination countries. iv) Along with strong population of Nepali international students who send remittances, the number of Nepalis settling in different countries have increased dramatically in different parts of the world. Extrapolation of the data of three countries - US, UK and Australia – indicates that the total population of Nepalis in these three countries would grow to around 1.5 million by 2030. v) Remittances will continue to flow to Nepal as it is used for additional social protection expenses, especially health and education for extended family members.

Recommendation and action

Informal to formal

The government needs to undertake various measures and policies that encourage and reward the usage of formal channels that build trust, and foresee value and confidence among migrant workers, and curb informal remittances as much as possible as eliminating it completely is not possible as it is linked to trade practices.

First, the government should introduce financial and non-financial incentives to reward remitters using formal channels. Opening a bank account should be a mandatory requirement with a provision of cash incentive or higher interest rates along with accidental and health insurance benefits. Second, special recognition and benefits should be provided to migrant workers on services offered by all three tiers of the government; it will aid in minimizing the prevailing trust issues. Third, a clear policy should be adopted for strict monitoring and regulation of domestic remittance transactions; this will aid

in curbing informal remittances. Fourth, to enhance the level of financial literacy amongst migrant workers, a mandatory short and effectiveⁱⁱ orientation class on financial products and services should be introduced in partnership with financial institutions, foreign employment agencies and the Foreign Employment Promotion Board (welfare fund). Fifth, there is a need to create simple, clear, and effective digital content that explain the procedures of using formal remittance channels, its benefits, and various risks associated with using informal channels. Lastly, the Central Bank should create a robust system to regularly capture and disclose the amount of remittances received from each country/region to analyze and forecast remittance trends to aid in conversion of informal remittances to formal.

Table 1: Recommendation policy actions

<p>A. Informal to formal channels</p>	<p>B. Facilitating long-term savings and Investments</p>
<p>i. Government measures and policies:</p>	<p>i. For migrants workers</p>
<ul style="list-style-type: none"> • Introduce financial and non-financial incentives to reward remitters using formal channels. • Introduce a mechanism for strong monitoring and regulation of domestic remittance transactions. • Introduce clear policy that discourages informal agents mobilising returnee migrants workers' to bring in high value goods. • Expedite existing measures to control informal channels and operators mobilising remittances inside and outside the country. • Effective management, disclosures and analysis of remittance data. 	<ul style="list-style-type: none"> • Introduce long-term savings-retirement fund and social security scheme targeting migrant workers. • Introduce long-term government or municipal bonds which are linked with a national or provincial government priority or pride projects. Such bonds could also be issued in USD to attract investment of diaspora and NRNs. • Encourage and support Banks and Financial institutions (BFIs) to introduce various long-term savings and credit products catering to the needs of remittance receiving households or returnees. • Allow investment in USD in Nepal fund (foreign currency retail investment fund) with returns in USD.
<p>ii. Promote financial literacy</p>	<p>ii. For NRNs/Diaspora</p>
<ul style="list-style-type: none"> • Practice mandatory short and effective orientation class on financial products and services. • Launch effective campaigns to enhance financial literacy targeting migrant workers. 	<ul style="list-style-type: none"> • Facilitation of FDIs and business registration to attract investments from the Nepali diaspora. • Provide clarity in policies around taxes and repatriation applicable for returns on investment made by Nepali diaspora. • Make clear provisions with easy route to allow Nepali diaspora to invest in available investment avenues in Nepal. • Capitalise on current policies that allow NRNs to open foreign currency accounts.
	<p>iii. For NRNs/Diaspora</p>
	<ul style="list-style-type: none"> • Allow formal investment outside Nepal - in designated fund.

Facilitating long-term savings and investments

Targeted activities and financial products should be developed to facilitate remittance towards long-term savings and productive investments. i) For migrant workers, the government, in collaboration with various long-term funds, needs to develop long-term savings-retirement funds and social security schemes. ii) To mobilise formal remittances, long-term government or municipal bonds which are linked with national or provincial government priority/pride projects should be introduced. iii) Financial institutions need to introduce various customised long-term savings and credit products catering to the needs of migrant workers and their family members. iv) Instruments such as foreign currency retail investment funds should be introduced to allow migrant workers to invest in foreign currency in Nepali funds. v) In terms of facilitating formal remittances and investments from the Nepali diaspora, there is a need for more clarity in policies around taxes and repatriation applicable to returns on investment made by the Nepali diaspora. vi) Provisions under the current policy that allow NRNs to open foreign currency accounts should be revisited for its greater uptake. vii) To promote long-term investments and counter informal investments of Nepalis outside Nepal, the government should allow Nepalis to formally invest outside Nepal. Circumventing the law, these investments are already happening, it needs to be made legal in order to earn dividends and make capital gains income and bring it to Nepal.



Endnotes –

- i. National Planning Commission. The Effects of COVID-19 Pandemic on Foreign Employment and its Impact on the Economy of Nepal. Government of Nepal. https://npc.gov.np/images/category/The_Effect_of_COVID-19_Pandemic_on_Foreign_Employment,_and_its_Impact_on_the_Economy_of_Nepal_.pdf (2020).
- ii. Shakya, S. Unleashing the Vajra. <https://penguin.co.in/book/unleashing-the-vajra/> (2021).