

REMITTANCES AND THE ECONOMY OF NEPAL: THE IMPACT ON EMIGRATION

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ABSTRACT

For a small landlocked economy, Nepal is the nineteenth largest remittance receiver in the world. With the growing remittance income, Nepal is progressing in its economic and social and demographic aspects, however, this phenomenon might have adverse effects on the country's economy and its development. With an increase in remittances, Nepal has been able to reduce its poverty with its illiteracy rate along with the living condition. Despite such progress, Nepal is in the verge of suffering from too much dependency in its remittances where the economy is unable to export but import substantial number of commodities. In addition, brain drain, lack of labour supply, threat to the food security, increase in conspicuous consumption patterns (drinking and partying), inability to develop a culture of saving and a sharp increase in the prices of domestic products can damage Nepal's economy in the long run. These factors can further effect Nepalese intentions to emigrate directly. This study will try to proclaim the good and the bad impacts of remittances in the case of Nepal.

Keywords: Remittance; economic growth; emigration; consumption pattern; savings; Nepal.

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Introduction

Nepal is a low-income country with one quarter of all people living below the nation's poverty line. For a poor small land-locked economy, Nepal has suffered greatly from a decade-long Maoist insurgency (1996–2006) that prolonged political instability which led to inefficient bureaucratic governance, slow economic growth rate, open corruption, high unemployment rate, and lack of youth (talent) exposure. In addition, devastating natural disaster of 2015 earthquake, has further led to over pollution, health insecurity and underdevelopment of the country. Presently, it is one of the least developed country of the world, with a population of around 27 million and a per capita GDP of US\$707 (World Bank, 2017)

Due to such circumstances, Nepalese population are compelled to consider international migration as a livelihood strategy, particularly for remittance (Kunwar, 2015).

The nation of 27% million population has sent more than 10 percent of its people to work abroad, who are of productive age group, that is, from 20 to 40 years of age. An official figure shows that a total of 4.8 million Nepali men and women left the country in the fiscal year 2017-2018 (Department of Foreign employment, 2018). It can be concluded that the numbers of Nepalese emigrants are more than the official data recorded by the Government of Nepal (Kunwar, 2015). Nepali migrant worker departures plunged 39.2 percent in the first seven months of the fiscal year, compared to a 4.9 percent drop during the same period last year. (Nepal Central Bank, 2017)

With more than 3 out of every household member working abroad (Taguchi and Lama, 2011). Nepal is among the nineteenth largest country to receive remittances. (World Bank, 2018). Remittance income in Nepal has become a lifeline for economic development. By remittance we mean sending income in terms of money or goods in home by the migrants or workers who have their earnings outside their home country. Now-a-days, this source of foreign income has been growing rapidly in each year with \$8.1 billion in 2018 (Nepal Rastra Bank, 2018). Since long time in Nepal, many migrants have been transferring their income through the unofficial channels. Today due to the establishment of different agencies like Western Union, International Money Express (IME) etc. in several district headquarters of the country, the remittance flows have become popular for transferring cash or money in time to the recipients.

The Remittance accounts for an astounding 30.1% of the total GDP, which is higher than all the tax earnings combined at 23.8%. Inward remittance has helped Nepal rebuild itself from the devastating earthquake of 2015. Nepal received approximately US \$8.210 Million as Foreign Inward Remittance from around the world in 2018. (Asian Development Bank, 2018)

However, it is difficult to calculate the exact size of remittance flows in Nepal due to the emergence of unofficial channels even though it has recorded in balance of payments account. In this regard, it is estimated that unrecorded flows through informal channels are believed to be more than 50 percent of the recorded flows in developing countries (Ratha, 2005).

1. Significance of Remittance

1.1. Remittances and Economic Growth

According to the World Bank, remittances are personal transfers or compensation of workers. Remittances constitute an important source of savings and capital for investment in health, education, and entrepreneurship thereby enhancing productivity and employment, which culminate into economic growth. Remittances can also help in enhancing the growth of the

financial sector on the notion that some of the remittances are converted and deposited with banks thus making the funds available for lending to the private sector and this, in turn, facilitate economic growth (Aggarwal et al., 2011; Misati and Nyamongo, 2011).

If remittances are large, the recipient country could face an appreciation of the real exchange rate that may make its economy less competitive internationally. In case of Nepal, it is the top five recipient smaller economies, along with Tonga, Kyrgyz Republic, Tajikistan and Haiti. (Kathmandu post, 2017). The economic growth rates of some SAARC countries in 2006, found the highest growth rate (8.2 percent) of India and the lowest growth rate (1.9 percent) of Nepal. Sri Lanka has received the second position (7.0 percent) then Bangladesh (6.7 percent) and Pakistan (6.6 percent) (Gaudel, 2006). In such a circumstance, Nepal has reached the insignificant growth rate because of prevalence of the political conflict, unfavourable climate for agriculture and reduction in export of readymade garments and the aftermath impact of the devastating events of the earthquake.

Despite the enormous benefits of remittances on the performance of developing countries, the impact of remittances on economic growth is still ambiguous (Kumar et al., 2018). Some literature noted that remittances exert a positive influence on economic growth (Catrinescu et al., 2009; Jawaid and Raza, 2012; Kumar et al., 2018; Meyer and Shera, 2017; Nyamongo et al., 2012; Pradhan, Upadhyay and Upadhyaya, 2008), other strands of literature emphasized on a negative or zero relationship between remittances and growth (Barajas et al., 2009; Chami, Fullenkamp and Jahjah, 2005; Feeny, Iamsiraroj and McGillivray, 2014; Lim and Simmons, 2015).

1.2. Remittances on Poverty alleviations

Poverty is defined by the World Bank as “encompassing not only material deprivation (measured by an appropriate concept of income or consumption) but also low achievements in education and health” (World Bank, 2000, p. 15; Moser and Ichida, 2001, p. 6). Remittances are typically helpful to meet specific needs of the respondents' family members and thus tend to increase their standard of living. In lower class or poor households, they may finance their remittances to fulfil their basic needs, such as in consumption, housing, children education and health care and to pay for loan. In middle class or rich households, they may provide either loan for individuals going abroad or capital for businesses and entrepreneurial activities. Remittances provide support for the welfare of the relatives left behind thus contributing to the eradication of poverty in the recipient country (Adams and Page, 2005; Gupta, Pattillo and Wagh, 2009).

In a study, Ratha (2013) has shown that migration can have both positive and negative economic, social, and cultural implications for countries of origin. Apart from money benefit, remittances are also associated with more human development outcomes across several areas including education, health and gender equality. Therefore, remittances are a lifeline for the poor people, thus increasing the income for individual and families. It is sensible to assume that the money transfer by the migrants to their family members back home have certain some inclusive effect on poverty alleviation because the poor people directly receives remittances. (Azam, M., Haseeb, M., Samsudin, S 2016). Majority of the international migrants; around 69.7% send their money to meet “the basic needs of the family” (Uruci and Gedeshi, 2003).

Migration and remittances have an overall positive impact on long-run economic performance in the origin countries. (Rapoport and Docquier, 2005). Adams and Page (2005) provide evidence of the positive role played by the international remittances in poverty reduction developing country. Some similar studies include Acosta et al. (2006) in 10 Latin American countries,

Adams et al. (2008) in Ghana, and Lokshin et al. (2010) in Nepal found that international remittances diminish poverty. Pant (2008) reveals the remittances have an encouraging effect on the economy including poverty and income distribution. The study of Waheed et al. (2013) shows that remittances play a positive role in poverty reduction in the case of Nigeria. Hongbo, states that migration, if governed honestly, can make an effective contribution to the economic and social development and play a crucial role in alleviating poverty. The World Bank (2013) reveals that remittances are increasingly contributing to foreign exchange earnings, economic growth and poverty reduction throughout the Europe and Central Asia.

The poverty reducing and income distribution effect of remittances is also significant (Barham and Boucher (1998). Most of 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 labour markets in richer countries. Again, remittances assist in alleviating poverty of the family of migrants in the home country by supporting their income through transfers.

2. Literature Review

2.1. Remittance income in Nepal

Initially, remittance in Nepal was introduced with Gurkha remittances. 'The Gurkhas' were renowned for good qualities of soldiers. That is why British India formally recruited Nepalese youth as a regular army, which later divided into British and Indian army. Now-a-days, Nepalese going abroad are not only for armies but also spread all over the world for work and mostly they are concentrated in Gulf areas in civilian front (Kshetry, 2003). Any Nepali to go for work legally, he/she needs to get permission from the Department of Labour under the Ministry of Labor and Transport of the Government of Nepal (International Labour Organisation, 2017). From the official report of the Labor Department it is known that 107 countries are at the government list where Nepalese can go for work. But still some people are found going abroad without permission and working in the government restricted areas too. Because of this trend, data on foreign employed workers are not available in exact form. Majority of those who have left home for overseas job are eager to earn foreign currency by hard working to support their families.

About the delivery of remittances, the World Bank has expressed the view that the procedure of receiving remittance in Nepal is the best one in compare to others. Remittance Transaction Company cannot receive cash directly from the Nepalese workers remaining outside. The workers must deposit their remittances in foreign commercial banks account and the transaction company through its account delivers the remittance services to the recipients at the cheapest cost (about 1 percent of remittance income) (Gaudel, 2006). Moreover, the Hundi system is almost closed due to the establishment of Remittance Company in Malaysian and Gulf countries. However, the system of Hundi is still working in Japan and Korea where most Nepali workers are living even if their visa date is expired. Over the past 15 years from 1991, international migrants' remittances have become increasingly prominent in our country. The amount of remittances reflects only transfer record in the balance of payments. Unrecorded flows through informal channels are believed to be more than the recorded flows. Regarding the transfer of remittances in Nepal, the record of banking sector showed that Rs.15.9 billion was received in FY.2000/01. However, Hundi operators or money transferring agencies handled the bulk part of remittances. Considering the increasing number of workers, assuming four lakh per year going outside the country in this perspective, remittance received was estimated at Rs.50 billion in FY. 2001/02, (Kshetry 2003). In this regard, it is also estimated that more

than 500 people per day are going abroad for foreign employment. From such migrants, about Rs.100 billion per year is expected to enter the country through remittance income only (Annapurna Post, Oct.28, 2006).

To provide access for transferring remittances, Western Union, IME and Prabhu Money Transfers are found active in Nepal. Of these agencies, more than 200 sub-agents of single Hulas remittance including banks, finance companies, trading concerns, enterprises etc. under the province of Western Union, have been opened in five Development Regions of Nepal. These agents deliver remittances to the recipients of local areas within a short span of time.

2.2. Shift from Agricultural economy to Remittance economy

The increasing trend of out-migration and youth reluctance towards farming have caused gradual shifting of the agriculture-based economy of the country to an economy that is based on other sources of income including remittances which ultimately threatening food security and agricultural sector (Gartaula et al., 2012). Nepalese economy is, and has always been an agricultural economy. Being an agrarian economy, Nepal still receives 32% of GDP from the agricultural sector. Although agriculture is the major source of livelihood of around two-thirds of people, its nature is still subsistence type (MoF, 2018). About 21.6 percent of the population is still surviving under the poverty line (NPC, 2016).

This has lead many Nepalese to choose employment in areas other than agriculture and emigration to other countries for remittance. The increasing trend of Nepalese population to emigrate for cash in other rich countries and decreasing number of people willing to farm has led Nepal's economy to gradually shift to remittance economy which ultimately can threaten the agriculture sector for food security (Gartaula et al., 2012)

2.3. Political and natural disaster in Nepal (1995-2015)

Since the radical leftist group Nepal communist party (Maoist), began insurrection in rural areas aiming to abolish monarch and establish people's republic, sparking conflict in 1995 (that would drag on for over a decade) to the massacre of the entire Royal family (alleged shooting) in June 1st 2001 and a long civil war till 2006, Nepalese population have suffered long and troubling armed conflicts and insecurities.

Even long after the end of the civil war, no constitution was ever able to be amended due to instable governance and violent ethnic protests.

For a long period of time Nepal had obstacles to finish drafting its constitutions until recently in 2015 after devastating events of the earthquake.

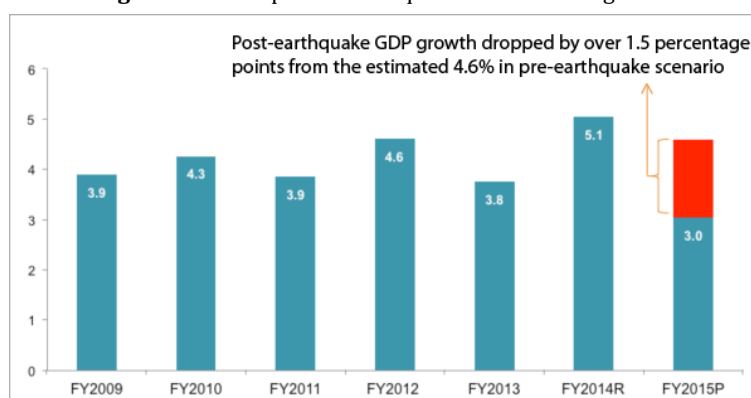
However, the present government has shown lack of interest in its people's livelihood rather than their own and their family. This has led to rampant open corruption even in high governmental jobs. The inefficiency and ineffective bureaucratic government structure have lost the peoples hope on the country to make any efforts. This has further led to unemployment and job insecurity since the officials only recruit their relatives.

The earthquake (2015) further left the country in devastation dragging back Nepal's development progress 30 years back to 1975. (See figure 1)

3. Methodology

This section will present the research design and method to be used in conducting this study. It will briefly explain how the data is collected and analysed to ensure the reliability and validity of the research under the study.

Figure 1: The impact of earthquake on economic growth



Source: Asian Development Bank (2016)

According to Bryman and Bell (2007), the nature of the deductive approach is to a hypothesis testing. This study approaches a deductive approach to find out how remittance has affected Nepal and how has that impacted the Nepalese citizens. With a deductive stance, research starts with collecting theories, followed by building hypothesis and testing them through gathered theories. The research process starts with finding the research focus, followed by examining existing theories and collecting data.

For enhancing the quality of this research, focus has been given on secondary data, collected through articles, journals and books that are related to Nepalese remittances through databases such as Science-direct, Research gate, Google scholar, social science research network (SSRN).

Citation is also another important criterion to consider. All the annual reports used to gather the data from the Nepal department of foreign employment, International labour migration, Nepal department of health services, Nepal Ministry of health and population and World bank have been derived from each of their websites.

To determine the nature and scope of social information, most of the researchers use the content analysis method. Along with the content analysis method, others also used correlation and regression analysis. In this study, content analysis is used in analysing the data collected. Sweeney and Coughlan (2008) define content analysis as a research technique used to indicate the presence or absence of certain words and concepts in the text. Our analysis will be based on the case of patterns of remittance.

The gathered information is secondary data found in the literature. The reports are considered as a reliable source of information, primarily because the information has been analysed, reviewed and published by the scientific publishing agents such as Research gate, Science direct etc.

4. Research Findings

4.1. Positive impacts

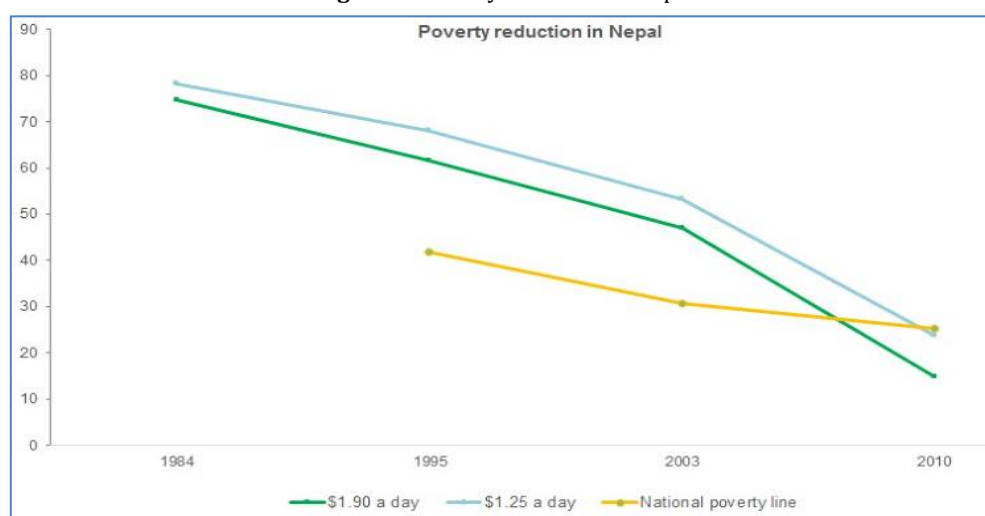
Decrease in Poverty

The growing number of remittances have helped in the reduction of Poverty in Nepal. Remittances have helped keep current account and BoP in surplus in most of the years since 2000/01 (World Bank, 2006). Most of the emigrants are from a low income family belonging to lower class society, therefore the remittance sent home are used to finance the family's

basic needs for consumption, housing and education. The headcount poverty ratio has declined by 30 percentage points in the 15-year period 1995/96- 2010/11, or by an average of 2 percentage points per year — Increased worked-related migration (internal and international) and remittances sent home are estimated to have directly accounted for 20 percent of the reduction in poverty between 1995/96 and 2003/04, with international migration contributing about 14.5 percent (Lokshin et al., 2007).

The World Bank recently updated its global poverty line, which is now re-estimated at \$1.90 a day, up from \$1.25 a day earlier. Accordingly, poverty estimates for all countries have been revised, mostly downward.

Figure 2: Poverty reduction in Nepal



Source: World development Bank

Nepal's absolute poverty at \$1.90 a day stood at 14.9% in 2010, a sharp decrease from 47.1% in 2003 and 61.7% in 1995. Compare this with the estimate based on \$1.25 a day (2005 PPP): in 2010 absolute poverty stood at 23.7%, also sharply down from 53.1% in 2003 and 68.0% in 1995. The new poverty benchmark shows a marginal acceleration in absolute poverty reduction, but overall not much difference in rate of decrease over the last two decades.

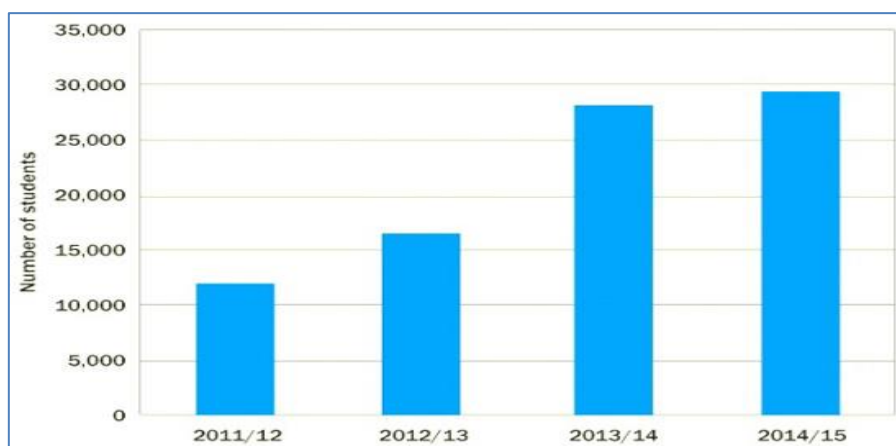
Increased literacy rate

Education is a key determinant of earning potential; educated workers have skills that are more in demand and thus command a higher wage. The study found that only 16 per cent of migrant workers had a high school (i.e. school-leaving certificate) education, while more than half, at 55 per cent, had a lower to secondary level of education (grades 6–10). About 14 per cent of the migrant workers said they were illiterate. (International Labour Migration, 2017)

Gautam (1999) concludes that the literacy and educational status is improving. The social status of the village people has changed. Low caste and lower class people reported that they have now good treatment from the higher caste and class people. It is because they have cash money with an improved living standards.

The households of emigrant workers were also found to be allocating a significant amount of their income in educational expenses. Consistent with that, study hours at home of their children were also positively affected. This outcome was in contrary with the results some prior studies had revealed that educational efforts of the children of migrant-sending households had adversely affected (Siddhiqi, 2005).

Figure 3: Ratio of Nepalese students abroad



Source: ICEF Monitor 2015

Although the emigrants are mostly illiterate, their remittance is being used for educating their children abroad. There are almost 1,500 students leaving Nepal for education. The number of Nepali students going abroad for higher education has increased unprecedentedly in recent years, especially in Japan and Australia. In Australia, the number of Nepali students grew by just over 50% last year compared to the previous year. Surprisingly, students from Nepal, which has a total population of just 30 million, are now the third largest group of foreign students after the students from India and China, which have huge populations of 1 billion plus. The number of students from Nepal has overtaken the number from Brazil, which was previously the third-largest source for Australia. (Sapkota, 2018)

Increase in Living standards

The income of migrants from the foreign employment has not only increased their personal income but also their social prestige. The rural people lying below the poverty level have succeeded to uplift their economic standard receiving the opportunity of foreign employment.

People working abroad sending remittances to their families have allowed their families to buy certain luxurious items. Even in poor families, they were able to increase a certain amount of their living standards in their day to day lives. (ICEF, 2015)

Economic Impact

Remittance as major component of current account plays a vital role in increasing current transfers in balance of payments. The basic factors of determining current transfers are grants, workers remittances, pensions and others including excise refund also.

Initially, the share of remittance to GNP was found 1.74 percent in mid-July 1991. This share increased sharply (9.38 percent) after the period of mid-July 1999 and eventually reached to 12.03 percent in mid-July 2005. On average, the share of remittance to GNP was 11.03 percent during the review period from mid-July 2000 to 2005. Under the transfer category of BOP, remittance income increased by 11.65 percent totaling Rs.65.42 billion in 2005 due to the increasing trend of Nepali workers going to Malaysia and Gulf countries for employment (MOF 2006). During that period, the grants and pension also increased by 7.72 percent and 58.06 percent respectively. Thus, from this analysis it is clear that the remittance income has become an important contributor (64.72 percent) to the current transfers in balance of payments of Nepal.

Table 1. Share of Remittance to GNP (Rs. in Million)

Year		Workers'		GNP at		Share of	
Mid-July	Grants	Remittance	Pensions	Others	Total	Current Price	Remittance to GNP
2000	12874.8	36818.1	5941.0	1318.9	56952.8	392613	9.38
2001	12046.4	47216.1	6309.1	1456.1	67027.7	427447	11.05
2002	12650.5	47536.3	8269.6	1700.9	70157.3	441182	10.77
2003	13842.2	54203.3	7327.3	2392.3	77765.1	472869	11.46
2004	19557.8	58587.6	7906.2	3110.2	89161.8	509700	11.49
2005	21067.2	65416.0	12496.4	2104.8	101084.4	543903	12.03

Sources: Economic Survey (various issues), Ministry of Finance, Government of Nepal.

Main Economic Indicators (May-July), 2005, Monthly Report, NRB: Research Department

4.2. Negative Impact

Possibility of dutch disease

Taguchi and Lama (2015) research has concluded that Nepal's economy is suffering from Dutch disease; a condition where the economy is too dependent on remittances, lowering the labor force participation, decreasing the competitiveness in the world market, brain drain and slowing economic growth. To a certain extent, remittances have reduced poverty and increased the living standards of people in the rural areas, but there are adverse effects of remittances in Nepal. Nepalese citizens are already suffering from moral hazard problems like increase in conspicuous consumption patterns (drinking and partying), inability to develop a culture of saving, sharp increase in the domestic products, and increase in imports than exports.

The money is being spent on unnecessary consumption, and on unproductive culture that does not help for Nepal's development in any way. A better understanding of their impacts is needed in order to formulate specific policy measures that will enable Nepal to get the greatest benefit from these monetary inflows.

The figure 4 suggests that out of 141 Nepalese working citizens receiving remittances, 43.3% Nepalese cannot save any amount of money. This pattern suggests that the remittance income has not been spent productively.

Another common phenomena in Nepal is the excessive drinking and gambling habit from an early age that is deemed as modern Nepali culture. This alarming trend has caused the need to spend money on unproductive things rather than to save.

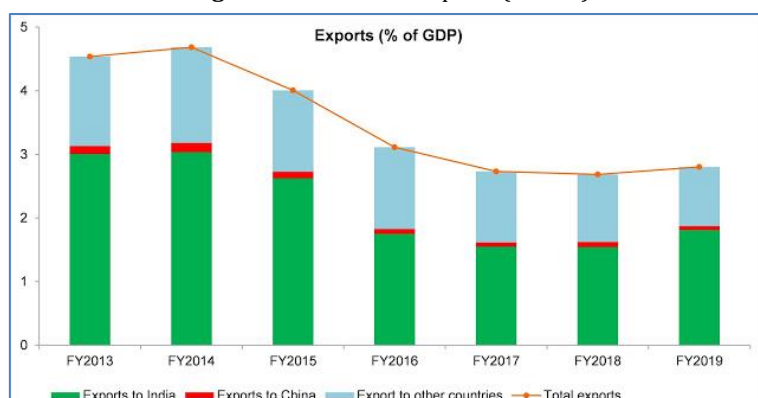
Decrease in Exports and increase in Imports

This might have an adverse effect on the economy as the remittance income is being spent on more imports than exports. According to the data from Department of Customs, in US dollar terms, exports increased by 10.3%, reaching US\$ 862.6 million.

The growth rate of export is lower than last year. Exports to India exports to China and other countries decreased. Meanwhile, imports grew 5.3%, reaching US\$12.6 billion. The growth rate of import is lower than last year, reaching US\$11.7 billion. As a share of GDP, exports, imports, trade deficit and total deficit and total trade were 2.8%, 40.9%, 38.1% and 43.8% of GDP, respectively. Export to import ratio was 6.8.

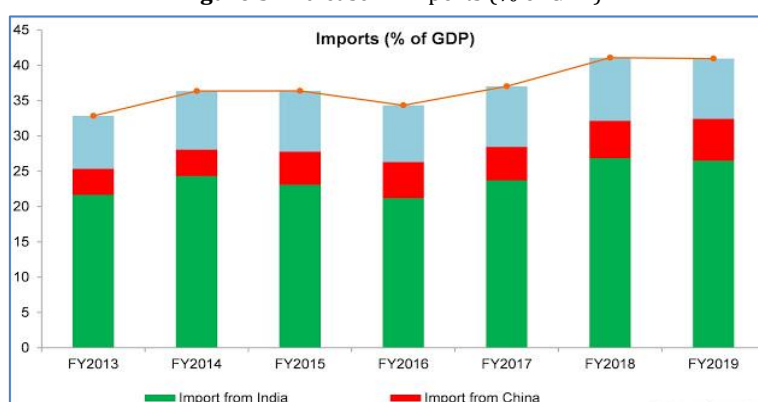
It implies that half of the additional amount of remittance received by Nepali economy from foreign countries were spent on importing goods. Nepal should reduce import dependency to mobilize remittance in productive sectors that can help to boost economic growth. Its domestic production level needs to be increased through establishment of import substitution industry. At the same time it requires to attract much more remittance. Both policies are vital for achieving desired growth in country's GDP

Figure 4: Decrease in exports (% GDP)



Source: Nepal foreign trade (2018)

Figure 5: Increase in Imports (% of GDP)



Source: Nepal Foreign Trade (2018)

Brain Drain

Nepal's education ministry data shows that barely 16,504 students had a 'No Objection Certification' letter or NOC, which is required to study abroad, in fiscal year 2013-14. This increased fivefold up to the past fiscal year, 2017-18, with 62,800 students acquiring the certificate to study in 72 different countries. With a lack of specific government records on the number who actually leave the country to study abroad, the NOC is the main reference for statistics. Education consultancies that counsel the students say around 75% who get the NOC actually leave the country. The prospect of a better education and prosperous future is the major reason to leave, the consultancy operators say. But Nepalis also see study abroad as a gateway to working overseas and the consultancies are facilitating this (Ghimire, 2019).

All the young students aged 20-30 leaving the country can cause serious brain drain in the country. Followed by less supply in labour, the country's economy can be seriously affected.

Conclusion and policy recommendations

Through this study, it is clear that Nepal will further increase its remittance income every year. So far, the advantages of remittances are progressive for the country's economy, however, the adverse effects are equally dangerous for the country in the long run.

The study shows strong improvements in the living standards of the poor family along with the progress in the eradication of poverty in the country. The remittance plays a huge role in the balance of payments and settling the international credits of the country.

At the same time, it is dangerous for the country's labour supply leading to a slow economic growth. In addition, Nepalese citizens are wasting the remittance income on unnecessary consumption like drinking and partying. There should be a better pattern for the usage of the remittances such as productive investments that can have a positive implication on the country's economy.

If unable to treat the situation, this can further lead citizens to emigrate more. These factors can directly affect the intentions of Nepalese to emigrate.

Without addressing some of the major development challenges facing Nepal, efforts to "channel" remittances or mobilize diasporas will have limited to no impact if the general environment is not considered. While migration offers development potential, it is important that attention to migration and development does not come at the expense of broader development goals and complements replaces these efforts. Thus, government efforts to develop physical infrastructure (such as roads and electricity), combined with the development of education (for example, through an improved technical education and vocational training system) should underpin the more specific recommendations offered here: Develop banking infrastructure, especially in rural areas of Nepal; build confidence in banking systems by offering deposit insurance; pilot incentives to encourage savings.

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