POLICY BRIEF

ISSUE 10

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Facilitating Local Nepali Investment Opportunities Using Remittance

Based on the peer-reviewed publication Bohra-Mishra 2013 in the *Journal of Population Research*[1]

In an economy with high investment returns, remittance promotes investments in productive farming assets by providing poor households with extra income. In 2005, remittances to Nepal equaled 32% of the national GDP. Some scholars claim that migration causes economic dependency by depleting the local workforce, thereby slowing the development of industry and damaging local employment opportunities. However, new research from ISER-N shows that in an economy that guarantees high profit from investment, the remaining household members of migrant families invest remittances in productive farming assets. Thus, programs that increase return from investment, such as rural economic development programs, help capitalize on remittances and spur the growth of the Nepali economy.

> "The results therefore suggest that if there are opportunities for productive investments with high returns, then people may choose to channel their additional income towards such investments rather than non-productive activities."
>
> *- Dr. Pratikshya Bohra-Mishra*

Research Context

- This size of migration and the inflow of remittance in Nepal is growing at an unprecedented rate. The percentage of migrating workers reached around 8% of the entire Nepali population in 2013 to 2014.[2]
- In a nationally representative survey, 56% of the households responded that they had received remittances in 2010.[3]
- Remittances allow poor households to make investments in productive farming assets and create sustainable income.
- Economic infrastructure programs in the local economy play a significant role in investment of remittances.

Data Source

This policy brief is based on a peer-reviewed publication[1] that analyzes data from the Chitwan Valley Family Study (CVFS) — a comprehensive mixed-method panel study of individuals, families, and communities in the Western Chitwan Valley of Nepal.

The CVFS investigates the relationships between changing social contexts, environmental factors, land use, and population processes. CVFS data include full life histories for more than 10,000 individuals, tracking and interviews with all migrants, continuous measurement of community change, 21 years of demographic event registry, and data linking human and natural systems.

Findings: Conditions to Induce More Investment in Productive Assets

While there is no consensus on whether households invest remittances in productive assets, the answer should depend on several factors surrounding migrant households. The new ISER-N research from Chitwan demonstrates that migrant households spend more money on agricultural investment than non-migrant households.[1] The findings illustrate an optimistic view of migration, especially in regions with a good local economic infrastructure like Chitwan.

Migration Increases Investment in Productive Assets

The new ISER-N empirical research using data collected from Chitwan, Nepal demonstrates that households with migrants spend more income on agricultural investment assets compared to households without migrants. In this study, the researcher found that remittances relax the household credit constraint. They allow households to invest in farming (captured by increase in the ownership of farming assets such as farmland, tractors, pump sets for irrigation, etc.) and potentially own livestock and poultry.

Local Market Condition with High Investment Return

The study emphasizes that the findings result from favorable local economic conditions for agricultural investment in Chitwan. Following simple economic theory, when the economy provides a higher return than an investment costs, the household spends money on investment. Chitwan produces cash crops and vegetables situated in a good geographical location. Farmers export products to major cities such as Kathmandu and Pokhara after processing in Bharatpur.

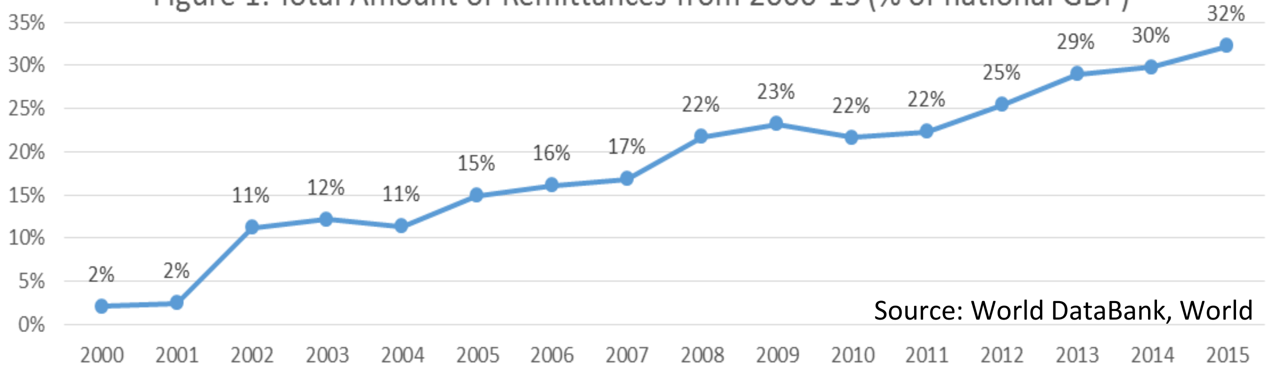
Good local economic conditions induce investments from remittance in Chitwan. This should be replicated in other regions. Programs to improve local economic conditions are vital to improving the future economic conditions of Nepal.

There have been no large-scale government programs in Nepal to encourage migrant households to spend remittances on productive investment. However, the International Fund for Agriculture (IFAD) launched a 68 million USD project in Eastern and Central Development Regions in 2015 (see Case Study).[4]

Remittances in Nepal

Figure 1 shows amount of remittance received (presented as the percentage of national GDP) from 2000 to 2015. Due to the level of international migration, the amount of remittance sent to Nepal was equivalent to 32% of the national GDP in 2015.[5]

Figure 1: Total Amount of Remittances from 2000-15 (% of national GDP)



Policy Implications

Future Investment in Nepal

Given the enormous remittance flow into Nepal at present, it is important for development programs to motivate migrant households to invest remittances in productive assets.

Improvement of local economic conditions is one of the key challenges for the Nepali economy. Economic development programs in rural areas should support each stage of the investment process to induce more investment from remittance sources. This support should extend from initial financial planning to the final export of commodities so that farmers can create a sustainable income source.

Financial Planning: Encourage Investment

Not all migrant households have the ability to make long-range financial plans about how to use remittances. Programs such as financial consultation or agricultural loan targeted to migrant households would encourage use of remittances for investment assets.

Cash Crops: Create Food Surplus

Most crop production in Nepal is for subsistence use. The production of cash crops and vegetables should be promoted, especially among small-scale farmers. Agricultural training programs about new cash crops (vegetables, fruits, tea, coffee, and spices) should be widely implemented.

Better Access to Market: Export Commodity

Access to markets with consumers with purchasing power is important. Road conditions should be improved, and farmers should be provided with market price information, which will be crucial for farmers to receive fair return from their investment.

Conclusion

In an economy with high return, remittances relax household credit constraints and induce investment in productive farming assets. More economic development programs should support comprehensive investment in migrant households, starting from financial planning through export of commodities.

Case Study: Samriddhi—Rural Enterprises and Remittances Project

Photo: Akito Kamei

The "Samriddhi - Rural Enterprises and Remittances Project" is the first rural development IFAD project targeting migrant households in Nepal.

The program promotes self-employment, small businesses, and microenterprises both on- and off-farm. The program targets 179,000 beneficiaries, especially from migrant households. The project aims to assist the best possible use of remittance for migrant households and returnees by creating a sustainable income source.


Photo: Akito Kamei

The project supports a range of economic activities. Together with vocational training to enhance people's internal capacity, it also provides financial education and financial counseling to beneficiaries. The comprehensive support of business enterprises is essential, especially in a country where people face economic obstacles in various stages of business startup.

Footnotes and References

1) Bohra-Mishra, P. (2013). Labour migration and investments by remaining households in rural Nepal. *Journal of Population Research*, *30*(2), 171-192.

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3) Government of Nepal. (2011). Nepal living standards survey—III (NLSS-III). Press Release (8 August 2011): Main Findings. Kathmandu: National Planning Commission Secretariat, Central Bureau of Statistics.

4) Samriddhi – Rural Enterprises and Remittances Project. Rome Italy: International Fund for Agricultural Development (IFAD), 2016. http://operations.ifad.org/web/ifad/operations/country/project/tags/nepal/1724/project_overview

5) World DataBank. World Bank staff estimates based on IMF balance of payments data, and World Bank and OECD GDP estimates.

Suggested Citation: Kamei, Akito & Chaudhary, Indra. (2017). Facilitating Local Nepali Investment Opportunities using Remittance, Policy Brief 10. Institute for Social and Environmental Research-Nepal.

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Funding for the research reported in Bohra-Mishra 2013, upon which this policy brief is based, was supported by grants from the National Institute of Child Health and Human Development, including a center grant to the Population Studies Center at the University of Michigan.

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