

Work-Related Migration and Poverty Reduction

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Migration and remittances are key factors in reducing poverty in Nepal—and are likely to remain so

Work-related migration and remittances are among the key factors in the decline in poverty in Nepal since 1996. Indeed, more than a million prime-age men from Nepal are working outside the country today. Remittances from Nepalese expatriates grew by 30 percent a year in 1995–2004, from less than 3 percent of GDP to about 15 percent, exceeding the combined shares of tourism, foreign aid, and exports. About \$1 billion comes into Nepal as remittances each year, and inflows through private and unofficial channels could be even larger.

Remittances sent home are the most tangible benefit of work-related migration for Nepalese households. Remittances enable households to overcome the constraints of credit and risk and help them move into modern and more productive activities. Remittances are typically spent on housing and schooling, and a significant share directly supports households' consumption.

But remittances are only one consequence of migration. When a young, productive male leaves home, multiple adjustments need to be made in the labor supply of those left behind. Migration changes the relative productivity of the remaining household members; it affects households' preferences in risk aversion and in dealing with uncertainty; and it provides access to new, superior technologies (such as entrepreneurship and hygiene). Migration also has implications for investments in the health and education of the migrant's children. The cumulative effects of these changes determine the observed poverty status of a household receiving remittances.

In a recent paper Lokshin, Bontch-Osmolovski, and Glinskaya investigate

the effects of work-related migration and remittances on rates of poverty and inequality in Nepal. Relying on data from a 2004 national survey, the authors estimate a model of household migration decisions jointly with consumption equations instrumenting for the endogeneity of the migration decision. They compare the observed rates of poverty and inequality in Nepal with those simulated under counterfactual scenarios.

The results show that almost 20 percent of the decline in the headcount poverty rate in Nepal between 1995 and 2004 can be attributed to the increase in work-related migration and the resulting remittances. Without migration, the aggregate poverty rate in Nepal would have been 33.6 percent rather than the 30.0 percent observed in 2004, and mean per capita spending 14,000 Nepalese rupees rather than 15,000. More than half the increase in poverty would have been due to a higher number of would-be poor among households with a migrant living abroad. Migration and remittances had only a marginal impact on income inequality in Nepal.

Migration and remittances have a strong impact on the living conditions of households with a migrant. Among households with a member who migrates within Nepal, the poverty rate would be twice as high as the present level if the migrant had stayed home. Among households with a member working abroad, the poverty rate would also be substantially higher if that member had not migrated.

One important conclusion emerging from the analysis is that the elasticity of poverty reduction in Nepal over the past decade is higher for domestic migration than it is for international migration. One plausible explanation for the difference is that remittances derived from work in foreign countries are more likely to be invested in productive assets and real estate. This is often attributed to the preferences of the sender and also to the notion that households tend to treat international remittances as transitory income that should be in-

vested. Local remittances are treated as a mix of transitory and permanent income and are more often used for both investment and consumption.

The findings on the role of work-related migration and remittances in Nepal have important implications for public policy. They suggest that strategies for promoting economic growth should take into account both domestic and international migration. While no panacea for the development challenges in Nepal, such policies could have an important effect on poverty reduction. Since Nepal has a plentiful supply of labor, migration for work could provide employment and higher earnings for a significant segment of the labor force.

Indeed, unless local labor markets and the global economic environment change dramatically, growing numbers of Nepalese men and women will seek job opportunities outside Nepal. Migration and remittances are therefore likely to remain important contributors to poverty reduction in the country.

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