

# Economic analysis of nepal



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## CHAPTER I

### INTRODUCTION

#### 1. 1 ackground of the study

Nepal is a small landlocked country situated between China and India (area 147, 181 square kilometers) with three primary ecological zones (Terai, Hilly and Mountain). The Terai region is the bread basket region of the country, but it is densely populated. The lower part of the Hilly region has climatic advantages for growing fruits and vegetables, and the higher part of the Hill to the Mountain regions have environmental suitability for livestock production. However, the lack of infrastructure and proper agricultural commodity promotion has made the Hill and Mountain regions economically less viable. These regions also have a disproportionate number of malnourished people. Lack of economic opportunities in the country has forced many people of the working class to look outside of the country for employment and source of income to sustain their livelihoods.

From an economic viewpoint, Nepal can be characterized as a low income, densely populated, agriculturally dominant economy (IFAD, 2013). A quarter of Nepal's population lives on less than US\$1/day, and many Nepali lack the needed human capital and economic environment for income generation within the country .

British Gurkhas Nepal (BGN) most important function is the annualrecruitment process. Every year, a total of 186 men are selected following the rigorous selection process that is run from the camp at

Pokhara. Of these, 126 join the British Army, while the remaining 60 join the Gurkha Contingent of the Singapore Police Force. BGN also facilitates transit, both to and from Nepal, of recruits, serving soldiers on leave and their families. Under the Gurkha Married Accompanied Service (GMAS) policy, all married serving Gurkha soldiers with three years or more service can be accompanied by their families to their posting, whether in the UK or Brunei. BGN has responsibility for arranging the call forward of Gurkha families under this scheme, and for organising flights to and from a posting.

[N1]

BGN has responsibility for organising the payment of pensions, while welfare for serving soldiers is run centrally from Kathmandu, with a number of Area Welfare Centres in other locations. Welfare for ex-servicemen is the responsibility of the Gurkha Welfare Service (GWS), an arm of the UK based Gurkha Welfare Trust, which is based at Pokhara. The GWS is responsible for the distribution of both individual welfare through distribution of pensions and grants to ex-servicemen and widows, and communal welfare through provision of infrastructure projects which helps to increase the remittance of our country.

Currently there are 39 battalions serving in 7 Gurkha regiments in the Indian Army. For thousands of brave Gurkha those who are in service, ex-serviceman, their widows, and their families, the Welfare Pension is the difference between destitution and a life lived with dignity. The pension is enough to provide life's essentials, including food, fuel, oil for cooking and clothes. By sponsoring a pensioner for £20 a month, your gift will directly help to pay for a Welfare Pension that enables ex-Gurkhas and their families

to live out their lives in dignity which has direct impact on Nepalese economy.

According to Central Bureau of Statistics (CBS) 2011, among the total population of 28 million, the total labor force was 21.84 million and agricultural employment was 13.98 million (64 percent of the work force). The growth of agricultural gross domestic product (GDP) had been only 3 percent during the 15 years period (from 1995/96 to 2010/11), in comparison to the growth of population by 2 percent over the same period (CBS, 2011). Therefore, the increase in agricultural GDP is not yet sufficient to lift a large number of people engaged in agriculture out of poverty, reduce malnutrition, and assure food security of the nation, 2012). [N2] Despite the fact that agriculture is vital for the livelihood and economy of the country, food imports grew from \$125 million to \$373 million over the period from 1995/1996 to 2010/2011 (ADB, 2013). [N3] The 2013 United Nations Human Development Report (HDR) has shown that Nepal remains one of the poorest countries in the second world with a Human Development Index (HDI) of 0.463, and is positioned at 157 out of 187 countries. In 2011, about 25 percent of the total population was below the poverty level, which was mainly due to concentration of the poor in the agriculture based rural economy (CBS, 2011; MOF 2012).

One of the major impacts of this economic situation is malnutrition, which is evident as 42 percent of children younger than five years old suffered from stunting (CBS, 2011). In the year 2012, the country ranked 60th in the Global Hunger Index 1 (IFPRI, 2012) and the prevalence of overall undernourished among residents of Nepal was 18 percent of the total population (FAO, 2012).

The lack of economic opportunities due to weak performance of the agricultural sector, high population growth, and unstable political situations has prompted many of the most productive members of rural households to migrate in recent years (ADB, 2013). Both internal and international migrations are common in Nepal (Gurung, 2001). [N4]

Nepal has experienced a substantial exodus of working adults to international destinations. According to the Nepal Institute of Developmental Studies (NIDS, 2010), India hosts the largest number of Nepali workers anywhere in the world, but accurate information on the number of migrants to India is not available as these two countries share open borders. However, it was estimated that approximately 1.3 million male and 153,000 female Nepali migrants work in India (NIDS, 2010). Among countries that require a visa/work permit to work, the largest number of Nepalese migrant workers had chosen to migrate/work in Malaysia (361,464) followed by Qatar (351,544), Saudi Arabia (246,448), United Arab Emirates (178,535) and Bahrain (20,303) during the period 2006-2013.

Nepalese migrants working in these countries are the source of a large amount of remittance, officially estimated at over US\$ 5.1 billion in 2012 (IFAD, 2013). During fiscal year 2013, Nepal's economic growth fell to 3.6 percent because of political uncertainty, shortfalls in public expenditures and low agricultural output. Despite the lower growth rate and instability, the country has been able to fund its trade deficit through the robust remittance in flow (World Bank, 2013). According to CBS (2011), the percentage of households receiving remittances increased from 23.4 percent in 1995/1996 to about 55.8 percent in 2010/2011 and the share of remittances in

household income increased from about 26. 6 percent to 30. 9 percent during the same period. Thus, remittance income has been playing a crucial role for sustaining the livelihood of people residing in the country.

The general objective of my thesis is to understand labor migration, impact of army personnel serving at British and India, tourism and its impact in Nepal and to establish a link between remittance and Nepalese economy. Specifically, the research will determine the pertinent variables that affect the migration, providing an understanding on the economy generated by remittance and identify the factors associated with internal and international migration along with the impact that remittance pushes toward the national economy.

### 1. Statement of Problem

Nepal being traditionally agrarian economy (i. e. the economy which relies primarily on the agriculture sector) also generates huge number of employment though most of them are unpaid. Moreover, the family depends upon the agriculture sector have been practicing this as a means to sustain rather than in a commercial way which seems to be main hurdles behind the lack of adequate employment generation in the country.

Similarly, industrial sector growth has also been limited in the country on back of political interference, acute power shortage and lack of investment friendly environment in the country. This also is creating a problem in the foreign as well as domestic investment in the county ultimately affecting employment market in the country as well.

Therefore, some of these questions are relevant in terms of remittances challenges in Nepal.

- What is the current status of remittance in Nepal?
- Which all are the factors that are affecting the economic sector?
- What are challenges and opportunities behind the remittances and the focus areas for the government to overcome it?

### 3. Objective of the study

In general the study will target towards analyzing the major factor that are limiting the growth of agriculture and industrial sector which employs large sector of the population and has potentiality to generate large number of employment in the country. More specifically however, the study will focus upon the following areas:

1. To study economy situation of Nepal in general.
1. 3. 2 To study foreign employment sector in Nepal in reference to its contribution on employment generation in Nepal.
3. To study factors affecting the growth of remittances in Nepal.
4. To study the impact of remittances on economic insecurity.
5. To study the impact of remittances on economic growth and poverty reduction.

[N5]

### 4. Justification of the study

Migration refers to the movements of a person or group of people from one place to another place, which is generally understood as a permanent or

semi-permanent change of residence. Migrants selectively choose to move across an international border or within a domestic boundary. Migration is an important issue in many countries around the world. Benefits and drawbacks of migration can be described in terms of “ brain drain,” “ brain gain,” “ flow of remittances,” and “ flow of skill.”(1996, Karan)[N6]. Migration is a concern of both source and sinks countries. One of the major problem being faced by the Nepali economy or the country as a whole is the unemployment which is creating lot of political and social problem in the country. Meanwhile, the research being conducted about the challenges on employment generation in Nepal is being researched on limited manner which created the void sector for the research[N7]. At the same time, we can also learn about the current status of employment market and its challenges in creating the job. Therefore, this research paper helps students, academicians, policy maker, reader and scholar to know about the factor which is affecting the growth of the remittance of Nepalese economy.

#### 5. Limitation of the study

The required information to carry out the research has been collected from secondary sources. The field research is difficult due to vast areas for the research topic and the limited timeframe. There are materials being available in the internet i. e. numerical and analytical data which is used as basic materials for the research.[N8]

#### 1. 6 Review of Literature

Report on *Nepal Labour Force Survey 2008* which was prepared by Central Bureau of statistics, National Planning commission secretariat under



Government of Nepal has in-depth research material about the Nepal employment market, Time-related under employment and labour under utilization, unemployment, sub-national indicators of employment, informal sector and informal employment, seasonal variation in employment among others. This report have incorporated all the statics and analytical aspect related to Nepali labour market.

In his research paper, *Promoting Employment: Challenges and Opportunities in Nepal* presented on July 9-11, 2012, Dr. Jagadish C Pokharel, Former Vice Chairman National Planning Commission, explains about the employment scenario, cause of unemployment, potential sector for an employment in Nepal. He has mentioned about the importance of demographic composition in the employment market in Nepal.

In the research report, *Growth with employment for inclusive and sustainable development* prepared by the United Nations Conference on Trade and Development tells about the problem being faced by the least developed countries including Nepal in terms of employment. This research paper have focused upon the ineffective economic growth, need of employment creation in order to come out of poverty and focus areas for creation of sufficient quality jobs [N9].

## 1. 7 Research Methodology

The research work has used qualitative method using secondary data. It is written analytically and in a descriptive way. Secondary data are attempted to collect from different website article, publication and research paper. It is

great concern to make the research work as a more reflective of Nepalese economy and society.

## 8. Chapter Organization

The chapters of the research are organized as follows:

- Chapter 1. Introduction
- Chapter 2. To Migrate Or Not To Migrate: Decision Of Nepalese Adults
- Chapter 3. Remittance Economy Of Nepal And Migration Destination Choices
- Chapter 4. Food Security Of Households, Adults And Children In Nepal: The Role Of Remittance
- Chapter 5. Foreign Employment Causing Brain Drain
- Chapter 6. Conclusions, Recommendation And Suggestion

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