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Impact of COVID-19 on Remittance-Poverty Dynamics in Nepal

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Abstract

This paper estimates the potential short-term economic impact of remittance shocks created by the COVID-19 on poverty dynamics of Nepal. The estimates are based on a number of scenarios: contractions in remittance flows by 5 to 40 percent depending on the severity of the crisis. It has explored the geo-spatial differences in the impact of such shocks and estimated the impact of shocks in domestic as well as international remittances. The results show that decline in remittances could increase the poverty rate measured at national poverty line by 0.87 to 2.65 percentage points under moderate shocks and by 3.62 to 7.53 percentage points under the pessimistic scenario. In case the lower quintile groups face larger shocks in remittances, poverty rate could increase by an additional 0.8 to 2.35 percentage points. Such vulnerability warns that remittance shocks could reverse the progress made in poverty reduction in the past decade. Translating poverty rate into numbers, remittance shocks could push 1.2 to 2.5 million Nepali below the poverty line if further measures are not taken. The results also show that shocks in international remittances are more influential in poverty reduction as such any decline in such remittances could raise poverty rate far higher than the shocks in domestic remittances. These results points towards the challenge created by COVID-19 in alleviating absolute poverty by 2030 and indicate towards the need for increasing social security for the vulnerable groups.

Key words: Poverty, COVID-19, crisis impact

JEL classification: I32

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I. Introduction

COVID-19 crisis is no longer a mere health crisis; it is a major labor market and economic crisis. The great global lockdown has disrupted global economic activities and severely affected the socio-economic lives of people. The IMF has projected that the world will face the greatest economic downturn after the Great Depression of the 1930s. As per the IMF, over 170 member countries will experience a negative per capita income growth in 2020. International Labor Organization has estimated that almost 25 million jobs could be lost worldwide as a result of the pandemic whereas Mahler, Lakner, Aguilar, and Wu (2020) have estimated that about 49 million people could plunge below the poverty line due to the pandemic. COVID-19 is likely to cause the first increase in global poverty since 1998.

The current crisis has put a large share of population at the risk of falling into poverty. Poor households with loss of income and weak coping capacity are expected to face serious consequences in the long run. Many workers employed in informal sector are highly vulnerable to job loss. In addition, the households depending on remittances are also at risk. With the contraction of economic activities in migrant worker destination economies and the resultant fall in transfer income, the share of population below the poverty line is likely to increase in many developing countries.

In case of Nepal, remittances have provide a lifeline for household welfare by providing resources for fulfilling household needs such as consumption, acquiring household assets, financing education and health expenditure, among others. Shocks in remittance are expected to severely affect the households relying on remittances and those working in informal sector. Given that about three fifth of Nepali households receive remittances and about four fifth of the remittances are used for consumption; the

remittance receiving households are highly vulnerable to poverty traps. Fall in remittances along with loss of jobs in the informal market is likely to push millions of Nepali below the poverty line adding an enormous challenge to alleviate poverty by 2030. World Bank estimates show that about 31 percent of Nepal's population, which earns between 1.9 dollar and 3 dollar a day, is at a high risk of falling below the poverty line.

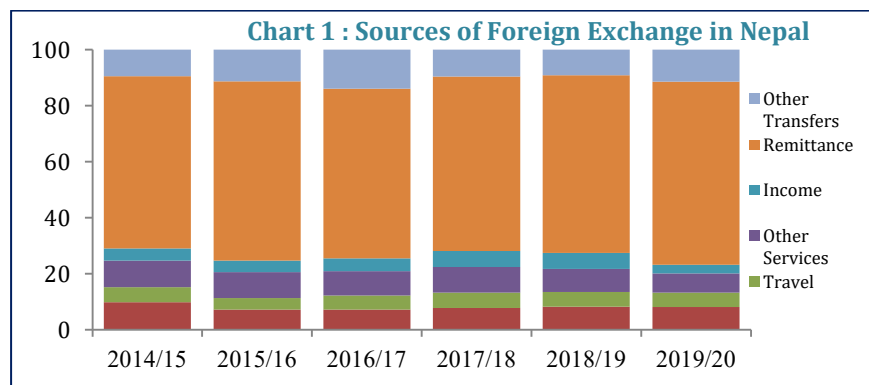
In this backdrop, this paper has estimated the impact of remittance shock on poverty measures by using household survey data from Nepal. It has also analyzed the geo-spatial dimensions of the current remittance-poverty dynamics.

The rest of the paper is organized as follows: section II reviews the remittance-poverty dynamics over the years in Nepal, section III reviews the evidences of some studies, section IV explains methodology used in the study, section V discusses the main results and the last section concludes the study.

II. Remittance-Poverty Dynamics of Nepal

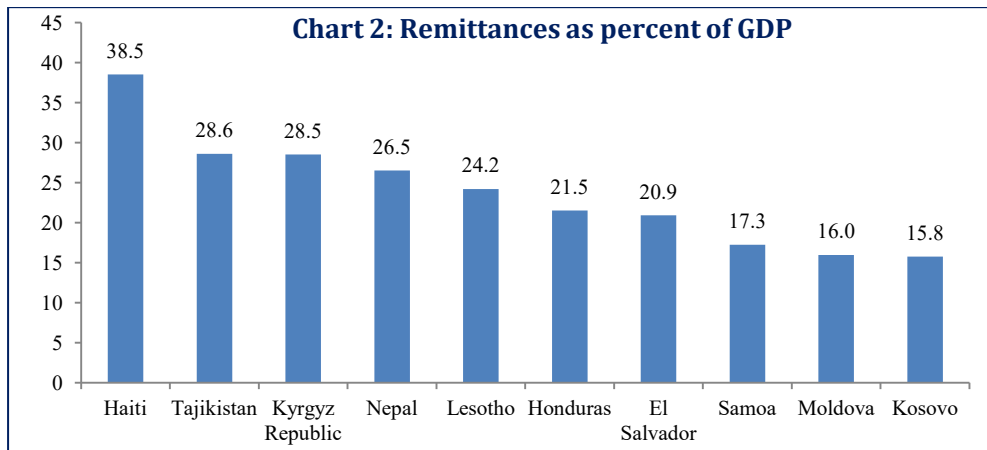
Remittance Dynamics of Nepal

Remittances provide the largest source of foreign currency and the most reliable cushion for financing imports in Nepal. Such transfers contribute almost two thirds of foreign exchange earnings each year. Such receipts are almost eight times the export earnings of the country and almost 12 times the earnings from tourism sector (Chart 1).



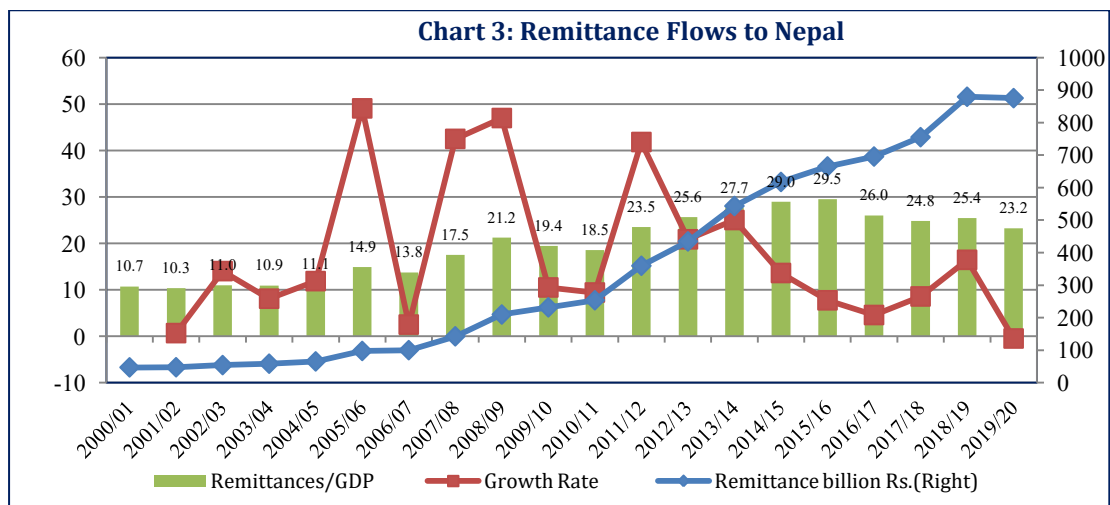
Source: Nepal Rastra Bank

The relative role of remittances in the country can be seen from the amount of remittances as percent of GDP. Nepal occupies fourth position in terms of remittance as percent of GDP and 21st position in terms of remittance amount (World Bank, 2020). Nepal, with its annual 8 billion dollar remittances, occupies fourth position in SAARC region after India, Pakistan and Bangladesh.



Source: World Bank

International remittance flows in Nepal have surged during the last one and half decade. Such flows increased from 10.7 percent of GDP in 2000/01 to almost to 30 percent in 2015/16. During 2005/06 to 2014/15, remittance flows have increased by almost 26 percent.



Source: Nepal Rastra Bank

In per capita terms, remittance flows have increased by 16 percent per annum during the last 20 years. In 2001, per capita remittance in Nepal was Rs.2040 (17 USD) per annum that increased to Rs. 29272 (USD 244) per annum in 2020.

Remittance and Household Welfare

Remittance flows are an important source of household welfare in Nepal. Such flows comprise a significant share of household income and an important source of financing household expenditure. The national level data show that remittance occupies about one-third share in the income of 56 percent households of Nepal that receive remittances. The share of remittance receiving households has more than doubled from 23.4 percent in 1995/96 to 55.8 percent in 2010/11. During this period, the share of international remittances in total remittances has increased from 55 percent to 80 percent which indicate that household welfare is increasingly reliant on international remittances (CBS, 2011).

The connection between remittances and household welfare in Nepal can also be seen in the use of remittances. According to NLSS (2011), most of the remittances is used for consumption (78.9 percent) followed by repaying loans (7.1 percent), acquiring household assets (4.5 percent), education (3.5 percent) and others.

Table 1: Households Receiving Remittances in Nepal

	1995/96	2003/04	2010/11
Percent of households receiving remittances	23.4	31.9	55.8
Share of remittances Received from within Nepal	44.7	23.5	19.6
Share of remittances received from outside Nepal	55.3	76.5	80.4
Share of remittances in total household income of the recipients	26.6	35.4	30.9

Source: Nepal Living Standard Survey, 2010/11

Remittance and Poverty

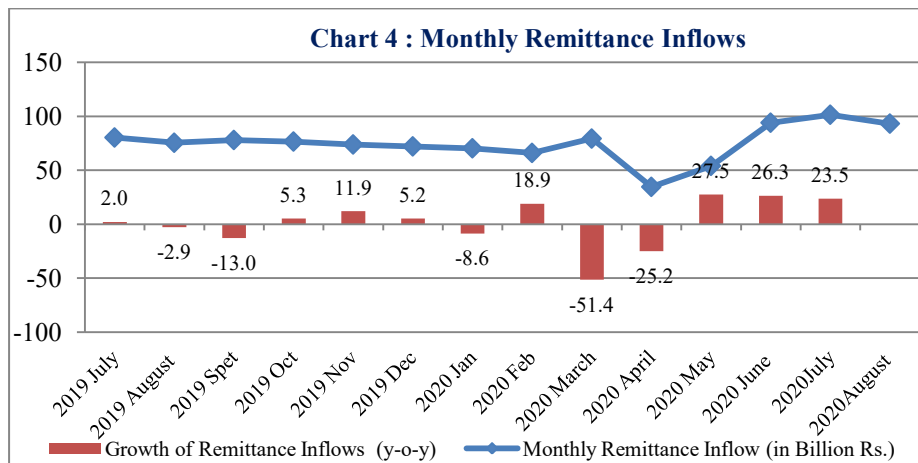
Empirical evidences show that remittance flows to Nepal is one of the main drivers for the decline in poverty during the last two decades. Absolute poverty during 1995/96 to 2010/11 fell from 42 percent to 25.16 percent and further to 18.6 percent in 2018. During the period, Nepali economy grew by just a 4.37 percent. Such dramatic decline in absolute poverty was achieved due to the remittance flows that increase rapidly during the period. A study by World Bank shows that one-fifth of the poverty reduction in Nepal occurring between 1995 and 2004 can be attributed to higher levels of work-related migration and remittances sent home (Lokshin, Bontch-Osmolovski, & Glinskaya, 2007). It is in line with the experience of many developing economies as pointed out by (Adams & Page, 2005). In case of Nepal, there are several other evidences such as (Achrya & Leon-Gonzalez, 2013), (Devkota J. , 2014), and (Devkota & Upadhayay, 2014) that assess the role of remittances in poverty reduction.

COVID Crisis and Remittance Flows to Nepal

COVID crisis has created a severe blow to remittance flows worldwide. The World Bank has projected a 20 percent decline in remittances globally in 2020. Remittance flows are expected to fall by 27.5 percent in Europe and Central Asia, followed by Sub-Saharan Africa (23.1 percent) and South Asia (22.1 percent). In case of Nepal, the World Bank has predicted a fall in remittances by 14 percent in 2020. Such estimates vary across institutions: the Asian Development Bank has predicted that international remittance flows to Nepal are likely to fall by 28.7 percent, the IMF has predicted a fall by 22 percent, Nepal Policy Institute by 40 percent and UNDP Nepal has projected it to fall by 15 to 20 percent.

Following the trend of international remittances, internal remittances have also been expected to decline sharply mainly due to the job losses and slump in business activities in the country. Since about 62 percent of the workers in Nepal work in informal sector, they are the most affected by this crisis. International Labor Organization has projected that 1.6 to 2.0 million workers in Nepal are at a high risk of losing jobs, which is about one-third of the employed labor force (ILO, 2020). The potential addition to labor market and the returnee migrants are likely to make affect the labor market in the coming days contributing to a further fall in internal remittances.

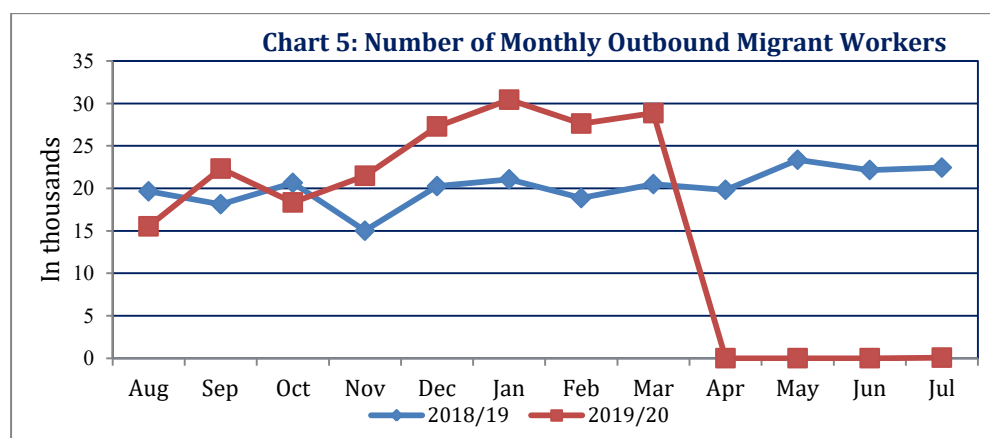
Monthly remittance flows to Nepal declined by as high as 51.38 percent in March 2020 compared to March 2019, followed by 25 percent decline in April. Remittance flows seem to have recovered thereafter. However, remittances through formal channel are predicted to decline once economic activity comes to normal thereby resuming the informal transfer of remittances in informal trades and other transactions. Increasing number of returnee migrants as well as decline in outmigration during the recent months is further expected to exacerbate the growth of remittances in 2020 and 2021.



Source: Nepal Rastra Bank

Looking at the recent trend of migrant returnees and fall in migrant workers, further fall in remittances can be expected. In 2019/20, outbound migrant workers fell by 20.5 percent from 243,868 a year ago (Nepal Rastra Bank, 2020). Such decline was experienced in case

of all major worker destination economies such as UAE (-17.5 percent), Saudi Arabia (-14.8 percent), Qatar (-60.2 percent) and Kuwait (-43.9 percent). Around 80 percent of Nepal's outbound migrant workers work in these countries. As the destination economies are projected to contract in 2020, Nepali workers working in those economies are at the risk of losing jobs resulting into a further loss of remittances. As per the estimates of Nepal Association of Foreign Employment Agencies, at least 500,000 Nepali migrant workers want to return home either due to job loss or due to the expiry of work tenure. This is almost 14 percent of Nepal's estimated 4 million labor force working abroad. In addition, an estimate made by ACAPS, about 600 thousands workers are predicted to return to Nepal (ACAPS, 2020). The situation will be worse if we add returnee migrants from India which is not included in the formal records as approval of the government of Nepal is not required to work in India. These developments in the labor markets are highly likely to create pressure in international remittance flows to Nepal.



Source: Nepal Rastra Bank, 2020

III: Impact of COVID Crisis in Poverty Incidence

COVID crisis has created a great challenge in the target of reducing poverty around the globe. The recent World Bank estimates show that the current crisis could push 71 to 100 million of the world's population below the poverty line (World Bank, 2020).

This would be a first increase in the world poverty after 1998 and could reverse the progress made since 2017. The estimates show that much of the new poor population will be concentrated in the regions that have already more poor residing and struggling with the poverty trap. Almost half of the projected new poor will be in South Asia, and more than a third in Sub-Saharan Africa (World Bank, 2020).

(Mahler, Lakner, Aguilar, & Wu, 2020) have analyzed the impact of the pandemic on global poverty using household survey data and growth projections for 166 countries. The results show that the world population living on less than \$ 1.90 per day will increase by 40 to 60 million due to the pandemic. Out of the total incidence, 23 million people will be pushed below the poverty line in sub-Saharan Africa and 16 million in South Asia. At the country level, 12 million people could be pushed into poverty in India followed by 5 million in China. These estimates are in line with the estimates of Brookings Institution which has estimated that the number of extremely poor people in the world could rise by 50 million in 2020 (Brookings Institutions, 2020).

The study by (Sumner, Hoy, & Ortiz-Juarez, 2020) has estimated the impact of COVID-19 through contractions in per capita household income or consumption on global poverty at the international poverty lines of US\$1.90, US\$ 3.20, and US\$5.50 per day. They conclude that the number of people living below the poverty line could increase by 420-580 million in case of the most extreme scenario of a 20 percent contraction in income or consumption.

Food and Agriculture Organization has assessed the impact of COVID-19 on rural poverty. The rural area is more vulnerable to COVID crisis as 80 percent of the world's poor people live in rural areas. It has warned that COVID-19 will create a huge shock on informal rural households as over 40 percent of global remittances are sent to rural areas,

and COVID crisis is likely to cause a severe drop in remittance inflow. Such income shock will affect food security and nutrition of the poorest (FAO, 2020).

In case of Ghana, (Chei, Gloria, Millicent Abigail, & Isaac Christopher, 2020) have shown that COVID-19 has significantly raised poverty while deteriorating life standards. The crisis has disproportionate impact on poverty incidence whereby females and rural dwellers are more severely affected.

In case of India, the Brookings Institution has projected that about 10 million people in India are likely to fall below the poverty line due to the pandemic. This estimate is consistent with that of (Mahler, Lakner, Aguilar, & Wu, 2020) for India which projects an additional 12 million poor in India as a result of the current crisis. However, ILO has projected that about 400 million workers from India's informal sector are likely to be pushed deeper into poverty due to Covid-19 (ILO, 2020). This is in line with the estimates made by (Saini, 2020) which argues that India's poverty rate could double to 46.3 percent adding an additional 354 million poor. By using the household survey data of 2011-12, the study has shown that with the 25 percent shock to incomes across all fractiles, the overall poverty rate of India could reach to 46.3 percent, higher than the 1993-94 levels.

In case of Pakistan, while the poverty rate declined by 40 percent over the last two decades to 24.3 percent in 2015, the IMF projects a sharp reversal, with up to 40 percent of Pakistanis living below the poverty line (UNDP, 2020).

In case of Indonesia, (Asep, Ridho, & Daniel, 2020) have estimated that poverty rate in Indonesia could increase from 9.2 percent in 2019 to 9.7 percent in 2020, pushing 1.3 million more people into poverty. Under the worst-case scenario, poverty rate could increase to 16.6 percent, close to the level seen in 2004, pushing 19.7 million more people into poverty.

In case of Myanmar, (IFRI, 2020) have shown that declines in remittance income have affected remittance-receiving households heterogeneously. With a 50 percent decline in international remittances and a 30 percent decline in domestic remittances, poverty rate among remittance-receiving households could rise by 7.5 percentage points, adding another 200,000 households below the poverty line. Rural households account for most of the vulnerable remittance-receiving households—88 percent of already poor and newly poor households nationwide.

South Asian Network on Economic Modeling has estimated the poverty impacts of the COVID-19 pandemic in Bangladesh. The estimates from household income and expenditure survey show that with negative income shock of 25 percent, another 20.4 percent population could fall below the poverty line (SANEM, 2020).

Simulations conducted within the framework of UNESCAP-SANEM suggest that as many as 132 million people could be pushed into extreme (\$1.9/day) poverty in South Asia, bulk of them being in India followed by Bangladesh, Pakistan, Nepal and Sri Lanka. This means a reversal of gains in poverty reduction of a whole decade. The new poor will be 108 million in India, 11.7 million in Bangladesh, 10 million in Pakistan, 2.15 million in Nepal and 0.26 million in Sri-lanka (UNESCAP, 2020).

IV. Methodology, Data and Assumptions

This paper is based on the simulations on household survey data from Nepal. The Nepal Living Standard Survey data-NLSS 2010/11 collected by Central Bureau of Nepal (CBS) have been used for the simulation. Since the recent household surveys focusing on the measurement of poverty are not available, I extrapolated the income of the households by quintiles in the NLSS data by using the series of annual household budget surveys conducted by CBS, Nepal. Also, the poverty line has been rescaled with the help of

consumer price index. The new poverty line, thus derived, is Rs. 39,000 compared to Rs. 19,261 used in NLSS 2010/11. In addition, remittances received by households have been extrapolated by the growth of per capita remittances in the country during the period 2010/11 to 2018/19.

The NLSS III data is a nationally representative dataset of 5988 households that has sufficient information regarding household income, consumption and remittance receipts.

The assumptions of remittance shocks are broadly based on the estimates made by various national and international agencies: 5 percent (optimistic scenario), 10 percent, 15 percent (closer to World Bank and UN estimates), 20 percent (closer to IMF estimates) and 40 percent (close to the estimate by Nepal Policy Institute. For the purpose of analyzing remittance shocks, 5-percent shock has been considered as optimistic scenario, 10 and 15 percent shock as moderate scenarios, and 20 and 40 percent shock as pessimistic scenarios.

V. Results

Table 2 shows the results from the simulation under the uniform remittance shocks to remittance-receiving households. Under the remittance shock of 5, 10 and 15 percent, poverty rate is expected to increase by 0.87 to 2.65 percentage points. However, under a pessimistic scenario, if per capita remittance slides by 20 and 40 percent, Nepal could face an increase in poverty rate by 3.62 and 7.53 percentage points respectively. The last two scenarios will translate to an additional poor of 1.9 and 2.25 million respectively.

Remittance shock is expected to increase all measures of poverty. However, the increase in FGT (2.0) index and Sen index that measure the severity of poverty is quite large

implying that decline in remittances are expected to increase depth and severity of poverty a lot.

Table 2: Impact of Remittance Shock on Poverty

Poverty Measures	2010/11	Baseline	5 Pc	10 pc	15pc	20 pc	40 pc
Headcount ratio	25.18	17.99	18.86	19.57	20.64	21.61	25.52
Poverty gap ratio	5.46	3.69	4.40	5.52	6.89	8.43	16.17
Watts index	6.79	4.57	4.82	5.27	5.62	6.05	8.48
Index FGT(0.5)	10.83	7.43	7.97	8.60	9.35	10.16	14.03
Index FGT(1.5)	3.04	2.04	4.19	9.99	18.21	28.44	85.64
Index FGT(2.0)	1.83	1.21	9.80	49.47	82.17	128.36	391.72
Sen index	7.68	5.28	6.56	8.59	11.09	13.92	28.03
Thon index	10.10	7.0	8.39	10.57	13.22	16.23	31.24
Takayama index	4.91	3.44	4.17	5.34	6.80	8.51	17.98

Source: Author's computation from NLSS III data.

Secondly, the uniform remittance shock across the households is expected to increase poverty rate in all the three ecological belts by 0.8 to 3 percentage points in the moderate scenario and by 2.8 to 8.2 percentage points under the pessimistic scenario. Province wise, remittance shock of 10 and 15 percent are expected to increase poverty rate by 0.8 to 3.8 percentage points across the provinces whereas such shocks of 20 and 40 percent are expected to raise poverty by 1.8 to 10 percent across provinces.

Table 3: Impact of Remittance Shock on Poverty by Ecological Belts and Province

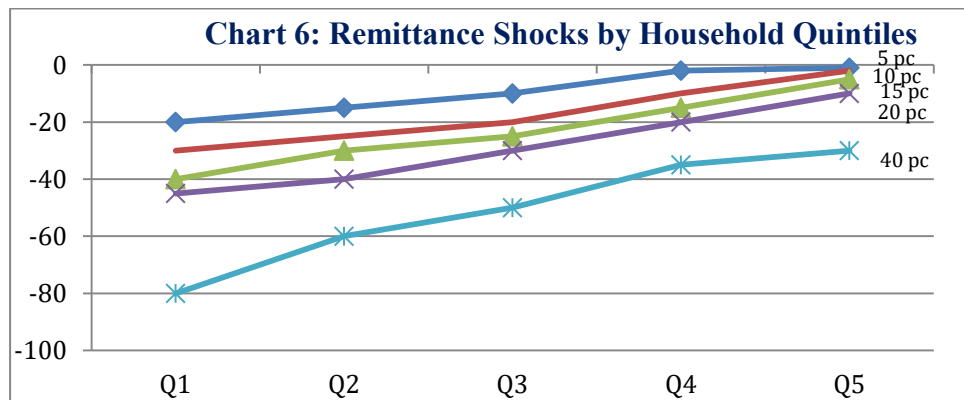
	2010/11	Baseline	5 pc	10 pc	15pc	20 pc	40 pc
Mountains	42.27	29.90	30.47	30.7	32.21	33.06	36.31
Hills	24.32	17.79	18.53	19.21	20.07	21.03	24.79
Terai	23.44	16.46	17.48	18.29	19.47	20.49	24.62
Province I	16.74	10.39	10.81	11.72	12.4	13.25	15.5
Province II	26.69	19.43	20.72	21.33	23.34	24.28	28.11
Province III	20.59	14.75	15.24	15.69	16.63	17.48	21.23
Province IV	22.90	15.33	15.77	16.86	17.38	18.83	25.45
Province V	23.58	16.59	17.40	18.38	19.43	20.69	25.48
Province VI	37.65	30.74	31.88	32.10	32.21	32.55	35.62
Province VII	45.64	33.99	35.99	36.57	37.75	38.76	42.52
National	25.16	17.99	18.86	19.57	20.64	21.61	25.52

Source: Author's computation from NLSS III data.

Disproportionate Remittance Shock on Households

The structure of foreign employment, trend of returnee migrants as well informal employment pattern in Nepal indicates that assuming a uniform remittance shock for all tiers of households is less realistic. In general, remittance shocks seem to be larger for those who work in informal sector of the economy and have migrated to India and Arabian countries which have lower level of social security than developed countries. So it has been further assumed that remittance shocks are larger for lower quintile households and smaller for upper quintile in the income stratum.

To simulate the impact of such disproportionate shocks in remittance, the following shocks for various quartile households was used under the scenarios so that the weighted average of the shocks is equal to the shocks used in the uniform shock scenario.



The results from the disproportionate shocks show that poverty rate will increase by an additional 0.8 to 2.35 percentage points than the uniform shocks scenario. In this case, the number of additional poor will be 1.2 to 1.4 million under moderate shocks and 1.8 to 2.5 million under the pessimistic scenario. More importantly, under disproportionate shocks in remittances, the severity of poverty could rise faster as shown by the FGT (2.0) index.

Table 4: Impact of Remittance shock on Poverty under Disproportionate Shocks

Poverty Measures	2010/11	Baseline	5 pc	10 pc	15pc	20 pc	40 pc
Headcount ratio	25.18	17.99	20.20	21.92	22.63	23.9	26.31
Poverty gap ratio	5.46	3.69	4.62	5.80	7.07	8.82	16.24
Watts index	6.79	4.57	5.59	6.56	7.31	8.09	10.77
Index FGT(0.5)	10.83	7.43	8.85	10.11	10.95	12.05	15.41
Index FGT(1.5)	3.04	2.04	2.72	4.09	7.16	14.08	60.4
Index FGT(2.0)	1.83	1.21	1.78	3.68	14.11	56.42	554.92
Sen index	7.68	5.28	6.58	8.51	10.74	13.87	27.34
Thon index	10.10	7.0	8.70	10.93	13.38	16.74	31.13
Takayama index	4.91	3.44	4.28	5.44	6.78	8.69	17.77

Source: Author's computation from NLSS III data.

In this case too, poverty will increase across all ecological regions and provinces. However the incidence of poverty from the remittance shocks will be higher.

Table 5: Impact of Remittance Shock on Poverty by Ecological Belts under Disproportionate Shocks

	2010/11	Baseline	5 pc	10 pc	15pc	20 pc	40 pc
Mountains	42.27	29.90	31.74	33.97	34.99	35.55	37.68
Hills	24.32	17.79	19.49	21.01	21.85	22.74	25.09
Terai	23.44	16.46	19.18	21.01	21.55	23.27	25.77
Province I	16.74	10.39	12.16	13.04	13.37	14.26	16.32
Province II	26.69	19.43	22.84	24.59	25.30	27.02	29.60
Province III	20.59	14.75	15.78	17.18	17.87	18.57	20.65
Province IV	22.90	15.33	16.83	19.16	20.68	21.98	25.44
Province V	23.58	16.59	19.21	21.43	21.87	24.32	27.59
Province VI	37.65	30.74	32.21	33.50	34.55	34.94	36.25
Province VII	45.64	33.99	37.48	40.24	41.12	41.82	43.30
Overall	25.16	17.99	20.20	21.92	22.63	23.9	26.31

Source: Author's computation from NLSS III data

Shocks in Domestic and International Remittances

The simulations on shocks of domestic and international remittances show that decline in international remittances could lead to a larger increase in poverty compared to the decline

in domestic remittances. Results in table 6 show that shocks in international remittances will have a larger impact on poverty rate. And this is true whether the shocks are uniform across all households or disproportionate. This results in not surprising since the share of international remittances in total remittances is 80 percent (CBS, 2011).

Table 6: Impact of Domestic and International Remittance Shocks

		Baseline	5 pc	10 pc	15pc	20 pc	40 pc
Uniform Shocks	International	17.99	18.71	19.37	20.30	22.93	24.48
	Domestic	17.99	18.15	18.19	18.83	18.73	19.03
Disproportionate Shock	International	17.99	19.20	20.17	21.59	22.34	24.91
	Domestic	17.99	18.21	18.33	18.55	18.74	19.15

Source: Author's computation from NLSS III data

VI. Conclusions

This paper has estimated the impact of remittance shocks emerged from the COVID crisis on poverty rate of Nepal. The results show that decline in remittances could increase the poverty rate measured at national poverty line by 0.87 to 2.65 percentage points under moderate shocks and by 3.62 to 7.53 percentage points under the pessimistic scenario. In case the lower quintile groups face larger shocks in remittances, poverty rate could increase by an additional 0.8 to 2.35 percentage points. Such shocks in remittances could reverse the progress made in poverty reduction in the past decade. Translating poverty rate into numbers, remittance shocks could push 1.2 to 2.5 million Nepali below the poverty line if further measures are not taken. Secondly, the results also indicate that remittance shocks could increase the depth and severity of poverty creating additional challenges in the goal of poverty reduction. And lastly, the simulation results also highlight the fact that

shocks in international remittances would increase the poverty rate faster than the shocks in domestic remittances.

A key policy implication from this paper is that Nepal needs to extend its social protection programs to vulnerable groups including the workers in the informal sectors and households who are at the risk of losing remittance income. It also demands a need to reformulate the poverty reduction strategies in SDGs in order to address the issues created by the COVID crisis.

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