

# CHAPTER 1

## INTRODUCTION

### 1.1 Background Information

Remittance is the portion of migrant workers' earnings sent back from the country of employment to the country of origin (*ILO, 2000*). Remittance is the financial flows associated with migration (*IOM, 2006*). It includes cash or non-cash items, and could arrive in the country through formal and informal channels. According to 5th edition of IMF Balance of Payment Manual (BPM5), "Workers' remittance is defined as an item under current transfers by migrants who are employed in new economies and considered residents there."

Nepal introduced trade and economic liberalization policies in the mid-1980s. With the policies adopted, the international labor market opened to the job-seeking Nepali youths. During the liberalization process, Nepal eased tariff and non-tariff barriers of international goods and services privatized public enterprises and joined the World Trade Organization (WTO). In other words, economic liberalization accessed the international labor market at one side and eased the International trade of goods and services, on the other side. As a result, thousands of young manpower migrating every year to work abroad is also kept on increasing alarmingly. Such an emigration rose remittance inflow sharply in the recent years (*Bhatta, 2012*). However, the income received from remittance is seen mostly spent on consumption with a very little spending on productive sector (*Thagunna & Acharya, 2012*).

Nepal observed significant rise of migration of the young population in the recent years and resulted to a sharp rise in remittance inflow exceeding all other source of foreign currency income. Human capital is the wealth of nation and its importance has tremendously increased in recent years, as unskilled, semiskilled and skilled people have shown keen inclination towards foreign employment resulting in substantial growth of economy (*Karna, 2008*).

Nepal's major exports are labour and most of the rural households now rely on at least one members earning from abroad. An increasing larger share of remittance now comes from countries other than India. The upsurge in remittance had led to a surplus in the current

account of Balance of Payment (BoP), thereby strengthening the overall BoP position. The families of migrant workers should be encouraged and trained to run small business that will pave way to channelize the productive use of remittance. Eventually, this will generate new jobs and help to improve the domestic economy (*Pant, 2011*).

The movement of population has been essential component of economic development, social change and population dynamics. The recent trends in Asian Labour migration are characterized by changing destinations from Middle East to fast growing economies in Asia and Pacific region. There is a trend of temporary migration of labour from underdeveloped to developing and developed countries with a clear domination by outflows of semi-skilled and unskilled workers. The trend also encompasses explosive growth in irregular migration and commercialization of the recruitment businesses. The recent movement of labour from underdeveloped countries on temporary basis, first o the Middle East and later within Asia has certain distinctive features. There is worldwide phenomenon in which millions of people move out from their normal place of residence to alien lands in search of better future, fortune, comprises different patterns depending on the socio-economic factors relevant to the period and places of origin. At present, virtually all developed nations and the rising nations receive immigrants from variety of less developed countries and immigration rapidly transforming the social and economic composition of sending and receiving societies alike.

As the output of migratory movement, foreign employment is the engagement in income generating job in the country of which the worker is not the national. A decent employment in the foreign job market calls for ensuring the rights of migrant workers, advancement in job, social protection and worker-friendly environment, safe return and reintegration. As the strategic dimension, foreign employment expands and diversifies the job markets, develops skilled human resources, uses migration as vehicle for acquiring new skills and know-how, and strengthens the economic diplomacy. In its developmental dimension, it reduces the consequences of unemployment, generates greater foreign exchange earnings through remittances, increases the rate of savings and increases the social returns on investments in human resource development. Underscoring its social dimension, it is more concerned with ensuring the decent employment and healthy social well being.

As a labour exporting country, Nepal is in line to promote labour migration for two basic reasons comprising of domestic unemployment pressures and earning of foreign exchange in the form of remittances. As a major contributing source of remittance, migration for foreign employment in Nepal has been regarded as a safety valve for domestic unemployment and meeting the aspirations of undereducated and educated workers for higher wages. It is estimated that above half a million Nepalese workers are working abroad as documented migrant workers. But the estimated total number of Nepalese workers is more than a million including the undocumented migrant workers.

The realities of foreign employment are worth to assess here. Very little have been talked about the cost of foreign employment within the framework of national economy despite heavy burden of migration costs both in terms of social, economic and psychological costs. In reality, foreign employment is associated with hassles, abuses and exploitation. It is almost trapped into the nexus of migration and human trafficking. Human trafficking and smuggling crime networks are quite effective in comparison to the legal regime of the countries using the opportunities of migration. The cases of social disorders and family breakdowns have been significant while appraising the impact of foreign employment. Reflections of excessive economic and social dependencies towards foreign employment have been experienced due to ever increasing willingness among the youths to enter into foreign job markets beyond the knowledge-based and skill-based capacity. Most of the labour receiving markets desire to use unskilled workers from the developing world due to luring to cutting down the labour costs to be competitive in the markets of goods and services. Too little is known about the remittance behavior of the highly skilled migrant workers than that of semi-skilled and unskilled. Non-professionalism, lack of direct access to employment market, market promotion ability and willingness to have the social accountability among the private recruiting agents are critical realities while assessing the environment of foreign employment in Nepal.

## International Labour Migrants from Nepal

The volume and trend of international labour migration by fiscal year and destination is presented here based on the available government data from 2002/03 to 2008 April. The trend analysis of labour migration is to observe the concentration of migrant workers by both the fiscal years and as per the country of destination.

**Table – 1.1 Outbound Destinations and Number of Employees of Nepal**

S.No.	Country/Region	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	Total
1	Malaysia	43,812.00	45,760.00	66,290.00	302,957.00	378,696.00	79,481.00	916,996.00
2	Qatar	26,850.00	24,128.00	41,952.00	186,266.00	266,094.00	149,927.00	695,217.00
3	Saudi Arabia	17,990.00	16,875.00	13,359.00	114,281.00	190,469.00	81,620.00	434,594.00
4	UAE	12,650.00	12,760.00	12,503.00	52,971.00	105,941.00	70,718.00	267,543.00
5	Kuwait	907.00	3,914.00	1,686.00	4,776.00	11,939.00	3,069.00	26,291.00
6	Bahrain	818.00	606.00	258.00	1,975.00	6,583.00	10,026.00	20,266.00
7	South Korea	712.00	1,324.00	325.00	1,288.00	6,441.00	56.00	10,146.00
8	Hongkong	564.00	672.00	178.00	370.00	3,704.00	245.00	5,733.00
9	Oman	44.00	73.00	305.00	1,075.00	1,344.00	5,348.00	8,189.00
10	Other Countries	708.00	1,263.00	1,263.00	5,531.00	6,914.00	15,666.00	31,345.00
	<b>Total</b>	<b>105,055.00</b>	<b>107,375.00</b>	<b>138,119.00</b>	<b>671,490.00</b>	<b>978,125.00</b>	<b>416,156.00</b>	<b>2,416,320.00</b>

The above table gives an overview of the volume and trend of Nepalese migrants working abroad. Analyzing the data since 2002/03 till 2008 April, it is found that a total of 2,416,320 people are documented foreign labour migrants from Nepal where as the estimated data is greater than the government's one. The above data does not include the Nepali labour migrants to India.

The above data clearly specifies the increasing trend of foreign labour migration in each year. The volume of labour migrant in 2002/03 is 105,055 which is in increasing trend every year. The rapid growth of international labour migrants can be observed each year and the volume has also increased at the similar pattern. The number of people going abroad as labour migrants is more than 978 thousand after 2006/07, which shows the deep attraction of people toward the foreign labour migration. The data of 2007/08 till April, indicates that over 416 thousand people have have migrated as labour migrants and this is expected to be more than double by the end of the fiscal year.

It is observed that the number of labour migrants has begun rapidly only after 1997/98. This signifies that people started to migrate from their usual place of residence after the origination of armed conflict in 1996. And the volume has been larger and larger when the armed conflict made impact in all part of the country, one year after another. The data can also be analyzed that, since the beginning of armed conflict, people lost their usual way of earning in their respective villages; so their option to feed their dependents was very limited and the security of their life was also challenged. At this situation, the people are attracted to go abroad for work, earn some money and send back to their families.

The impact of information and communication all around the country is another factor to justify the increased volume of labour migrants in the past few years. Media are very powerful and scattered all around the country. Even the general people have access to media and they are well known about opportunities in foreign employment through the public information of manpower agencies. People's interest to be engaged in new forms of job in a new environment is another factor for the increasing volume of labour migration from Nepal.

### **1.1.1 Nepalese Migration History**

The history of Nepalese working abroad started from the recruitment of Gorkha soldiers since April 24<sup>th</sup> 1815. On the conclusion of the Anglo-Nepali War (1812 – 1815), the British East India Company, impressed by the extraordinary bravery and fighting qualities of the Nepalese, raised the first Gorkha regiments. After the independence of India in 1947, six Gorkha regiments were allocated to the Indian Army while the remaining four to the British Army. With the Hong Kong handover to China and the overall reduction in the strength of British armed forces, the number of British Gorkhas was gradually reduced from 8,000 in 1997 to approximately 3,500. There are additionally 60 thousand Nepalese currently serving in the Indian Army and other government services of India in various capacities.

An approximately one lakh fifteen thousand ex-servicemen and other Indian Government pensioners reside in Nepal. Their total annual pension is more than Rs.800 crores. The Gorkha soldiers have always played an important role in the country's economy. The cash flow derived from annual pensions, remittances to families, or monies taken home in a lump sum by discharged veterans or by service personnel on leave have represented a major source of the country's foreign exchange.

The categories of manpower available in Nepal are broadly classified into four groups.

- ) Professional
- ) Skilled Technicians
- ) Semi skilled
- ) Unskilled

### **1.1.2 Global Scenario of Remittance Flow**

Remittance has proven to be one of the significant international financial flows in the recent years. The global remittances experienced a dramatic increase over the years, particularly since 1990 wherein the developing world emerged to be the major beneficiary accounting for 60 percent of the total amount. Workers' remittance has overshadowed all traditional sources such as official aid and private capital (Irfan, 2011). This amount is nearly three times of the

amount of official aid and equivalent to foreign direct investment (FDI) flows to developing countries, and remittance income comprises more than 10 percent of GDP in many developing countries (World Bank, 2011). Because of the sheer volume, and magnitude of the remittances, and pre-eminence of these flows compared to the Foreign Direct Investments (FDIs), development assistance and in some cases the trade related transactions, the development practitioners tended to focus and investigate the importance of remittances which are generally regarded as a dependable source for growth, improved welfare and poverty alleviation in the developing world. Given the fact that remittances flows entail wide ranging ramifications both for sending as well as receiving countries, difficult to be generalized, hence empirical evidence has been mounted though lack of consensus is visible (Irfan, 2011).

The increased global integration and the enhancement in information and communication technology have facilitated the movement of labour from one country to another. As a result financial flow from developed country to developing country has been soaring in the recent years. Remittance flows to developing countries have more than quadrupled since 2000. Global remittances, including those to high-income countries, are estimated to have reached \$514 billion in 2012, compared to \$132 billion in 2000 (*World Bank, 2012*). The top recipients of officially recorded remittance in 2012 were India (\$70 billion), China (\$66 billion), Mexico (\$24 billion) and Philippines (\$24 billion), Nigeria (21 billion), Egypt (18 billion), Pakistan and Bangladesh each (14 billion), Vietnam (9 billion) and Lebanon (7 billion). Remittance sent home by migrants to developing countries are three times the size of official development assistance and can have profound implications for development and human welfare (Table 1).

**Table 1: Top 10 Recipients of Remittance in 2012 (in Billion \$)**

Countries	India	China	Mexico	Philippines	Nigeria	Egypt	Pakistan	Bangladesh	Vietnam	Lebanon
Remittance size (In Billion \$)	70	66	24	24	21	18	14	14	9	7

(Source: World Bank 2012)

The large remittance recipient countries as a share of GDP include Tajikistan (47 per cent), Liberia (31 per cent), Kyrgyz Republic (29 per cent), Lesotho (27 per cent), Moldova (23 per cent), Nepal (23 per cent), Samoa (21 per cent) and Tonga (20 per cent) in 2012, according to an estimation of the World Bank (Table 2).

**TABLE 2: Top recipient of remittance in the world in terms of Remittance/GDP ratio**

Countries	Tajikistan	Liberia	Kyrgyz Republic	Lesotho	Moldova	Nepal	Samoa	Tonga
Percent of GDP	47	31	29	27	23	23	21	20

(Source: World Bank 2012)

### 1.1.3 Remittance Flow in Nepal

Remittance has been lifeline Nepalese economy since last couple of years. Nepal stands as the 6<sup>th</sup> largest economy in the world in terms of the nation's remittance- Gross Domestic Production (GDP) ratio as it is estimated to be about 23 percent ratio of GDP and 2<sup>nd</sup> behind Bangladesh amongst Least Development Countries (LDCs) (World Bank, 2012). Nepal has received remittance Rs.259.6 billion through institutional channels for the Fiscal Year 2068/69 (Ministry of Finance 2070). But informal figure could be twice of this. According to Nepal Living Standard Survey Second, about 55.8 percent households receive remittance.

In the recent years, there has been an increasing demand for the Nepalese workers in the international labour markets. In an average, daily about 2000 youths are emigrating to abroad to seek foreign employment. Based on official and unofficial records, more than 3 million, Nepalese citizens have gone abroad for foreign employment (*Economic Survey, 2070*). Consequently, it was soared the amount of remittance flow into Nepalese economy that showed upward trend of the economy for a decade and half. Thus, remittance has been the largest source of foreign currency inflow in Nepal exceeding the prior sources like tourism income, export and foreign aid.

Remittance inflow has grown more than seven times as compared to fiscal year 2060/61 and 2069/70\* data. In the fiscal year 2060/61, it was merely Rs. 58.6 billion and reached to Rs. 430.0 in the first ten months of the fiscal year to 2069/70. Furthermore, remittance-GDP ratio in the fiscal year 2060/61 was 10.9 percent that expected to reach 23 percent in the fiscal year 2069/70. According to remittance- GDP data trend, annually 17.5 percent ratio is contributed by remittance during last ten years (TABLE 3).

**TABLE 1.2 : Remittance inflow to Nepal (FY: 2060/61 - 2070)**

Fiscal Year	Remittance Inflow (In Rs. Billion)	Annual Percent change	Remittance as percent of GDP
2060/61	58.6	8.1	10.9
2061/62	65.5	11.9	11.1
2062/63	97.7	49.0	14.9
2063/64	100.1	2.5	13.8
2064/65	142.7	42.5	17.5
2065/66	209.7	47.0	21.2
2066/67	231.7	10.5	19.4
2067/68	253.6	9.4	18.5
2068/69	359.6	41.8	23.1
2069/70	430.0	19.6	22.4

(Source: *Economic Survey 2070*)

Remittance transfers may be domestic or international. The domestic remittances occur, when there is migration from rural to urban areas within a country. However, the international remittance transfers are defined as cross-border person-to-person payments of relatively low value. There are many different ways that remittance transfers can be made, including, among others, cash payments using individuals who provide this service to their local immigrant communities, services from specialized global money transfer operators and bank-to-bank transfers. The key participants in a remittance transfer are the sender, the receiver and the remittance service provider. These arrangements can be more or less complex and have correspondingly variable speed, depending on the type of remittance service. However, in all cases it is necessary to have some kind of network.

Hundi or Hawala are informal money transfer systems. They are largely based on trust and used mainly by migrant workers to send money back to their family in the home country. No systematic records are maintained for these transfers as official channels do. The attractiveness of the hundi system is both economic and cultural. The hundi or hawala operators generally make money through a minimal service charge or by taking advantage of exchange rate spreads. These operators are generally members of the community and have personal relations. Hundi networks have three major advantages, viz., speed, access and personal service. As hundi systems are entirely dependent on the trust of the labourers and their families, they make exceptional efforts to keep the worker and the worker's family happy. The informal sector in Nepal is developed and flourished due to an ineffective branch networking of the banks and financial institutions. Recent awareness of the value of remittances has increased investment and interest in this sector. As a result, many banks, financial institutions and business houses are entering in the money-transfer business.

The formal sector in Nepal is comprised of banks, postal services and money-transfer companies like **International Money Express (IME) Private Ltd.**, **Prabhu Money Transfer Private Ltd.** etc. Unlike the informal sector, there is an actual transfer of currency between nations and the amount is recorded by the central banks of both countries. In order to develop prudential money transfer markets and services, Nepal Rastra Bank is giving licenses to private

sector organizations since March 2002. The first ever licensed remittance company is International Money Express (IME). Apart from commercial banks, 29 companies are operating money-transfer businesses as at the end of 2008. In addition, 69 companies have been granted letter of intent to begin money-transfer services. To encourage remittance business in the country, the Central Bank i.e. Nepal Rastra is trying to tie up a contract with different countries in order to increase the employment opportunities which may lead to increase the volume of remittance of the country.

#### **1.1.4 Role of Operators & Authorities**

Due to the absence of proper macroeconomic policies, there is a significant remittance leakage in the country. The price difference between the source and the receiving countries of remittances is the main reason for leakage. If the inflation in the receiving country is higher than remittance senders, then the remittances enter into the country in the form of kinds or goods. They can be either for personal use or resale in the informal market. Remittances can generate a beneficial impact on the economy through various channels, such as savings, investment, growth, consumption and income distribution. Remittances have relaxed the foreign-exchange constraints of the country and strengthened its balance of payments position. Bringing more remittance money through formal channels is critical, as there is no actual flow of currency through informal channels. There is, however, more money being circulated in the receiving country without any increase in foreign reserves due to informal channels. Depending on the volume, this increase in cash circulation without an increase in foreign reserves can cause inflation. The remittance money can create real-estate bubbles and tends to support overvalued exchange rates. Furthermore, when the informal sector is utilized, any direct or indirect tax revenues the government would gain from these transactions are lost.

### **1.1.5 Key Issues in Remittance Services**

According to the survey conducted by Nepal Rastra Bank in 2001, the remittances are mostly used for imported consumer goods, services and for the purchase of construction of houses. Apart from investing in the real state, a small share is saved or invested in businesses, mainly in agricultural sector. Therefore, the impact of remittances in creating new jobs has been limited. In this view, attention towards additional structural reforms should be given to enhance their impact in the economy. It is not a coincidence that after reaching the level of 17.4 percent of GDP in the fiscal year 2007/08, the growth rate of remittances has been significantly increasing than foreign directive investments in Nepal. This shows that in the mid-term, there is no difference between the decision of foreign investors and remitters to invest in Nepal. Of course, emigrants may have a better knowledge of domestic markets. They are more connected to their home country and react faster than foreign investors. Nevertheless, they demand guarantees for their investments as much as foreign investors do. Therefore, both the volume of remittances and their effectiveness largely depend on improvements of Nepalese business environment.

The informal sector can never be entirely eliminated. With the majority of those working in India using informal channels or coming home seasonally with their earnings, formalizing money transfers from India will remain extremely difficult. However, considerable provisions can be made to formalize money from other countries; considering their volume, these would lead to a greater impact. Although disrupting the informal channels would have an adverse effect on those who rely on hundi networks for their income, formalizing money transfers will benefit the country in the long run through investments and the multiplier effect.

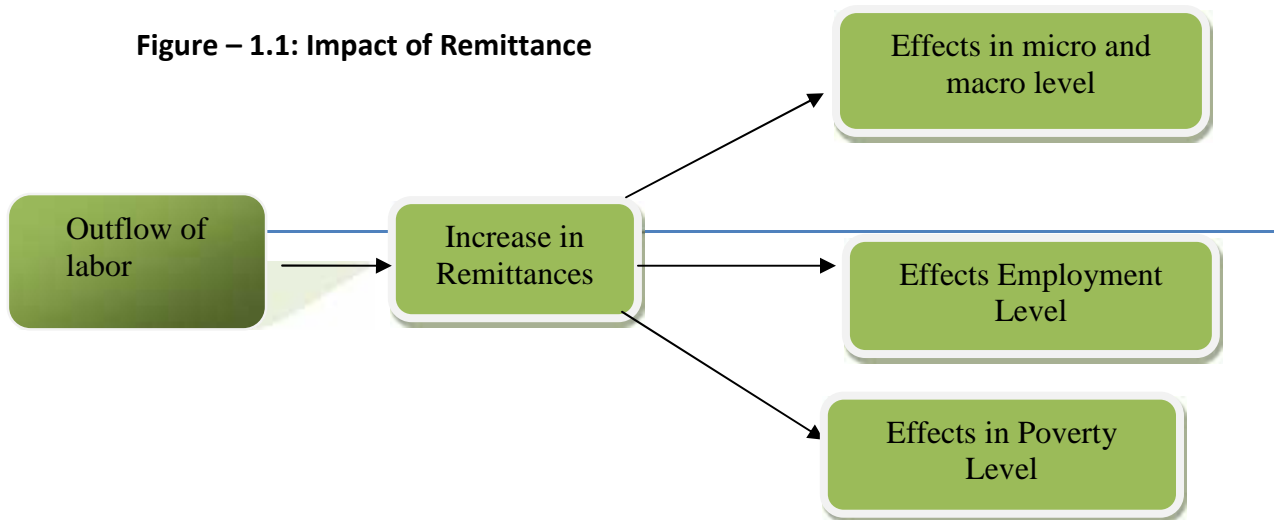
## **1.2 STATEMENT OF THE PROBLEM**

Inward remittance business though seems booming at the current stage in Nepal it has been facing controversies as huge volume of it enter inside the country through improper channels. This on one hand hampers in the process of official data collection for finding out the volume of inward remittance on a yearly basis and on the other hand it involves risk of forgery while sending money through improper channels. Whatever may be the mode of its entrance, the importance of the inward remittance has now been identified. Recognizing the development potential of these flows, the study “Economic Implications of Foreign Employment and Inward Remittance Business In Nepal” explores some key questions that still remains unanswered such as the impact of international migration and remittance on the underdeveloped country like Nepal, its impact on poverty, GDP and many more. remit has more effect on macroeconomic as well as micro economic situation of Nepal ,as how it has affect poverty, balance of payment, trade deficit, foreign currency reserve.

## **1.3 CONCEPTUAL FRAMEWORK**

) Various researches have been conducted on the issue of impact of remittance on economy but in Nepalese context, it is found that very few researches/studies have been conducted to analyze the economic impact that the inward remittance might have due to the international labour migration. Despite of those lacking, this study tries to identify the features, characteristics, levels and trends of the Nepalese international labour migration on one hand whereas on the other hand it tries to explore the impact that the inward remittance sent by these labours have on the overall economy of the country.

**Figure – 1.1: Impact of Remittance**



) This study, on the basis of the survey conducted at various areas where the concentration of people going abroad for foreign employment is higher, tries to explore the above mentioned issues.

#### **1.4 OBJECTIVES OF THE STUDY**

Considering the above given points the main objective of this study is to analyze the economic impact of the foreign employment and inward remittance entering inside the country. Other major objectives of this study are as follows:

- To study the current state of foreign employment in Nepal, major countries of destination and the flow of people going abroad for foreign employment.
- To study the nature, mode and volume of inward remittance generated from the foreign employment and the difficulties faced in obtaining these figures.
- To study the nature and possibility of investment opportunities for families receiving the remittances from abroad and also study about the employment opportunities for Nepalese returning back home from abroad.

- To study both the micro and macro economic implications of the inward remittances and its contribution in our Gross Domestic Products (GDP)
- To identify key problems facing the foreign employment industry in Nepal and make suggestions so as to improve it for the betterment of Nepalese going abroad for foreign employment this in turn would help the economy to prosper.
- TO assess the market impact in consumer behaviors of Nepalese remittance.

## **1.5 Characteristics of Remittances**

The characteristics of Remittances are as follows:

- a. Remittances are one of the least volatile sources of foreign exchange earnings for developing countries. Other kinds of capital flows tend to rise during the period of economic boom and falls in the recession. But experience has showed that remittances tend to be counter-cyclical and showed stability over the period. During the economic downturn in the developing countries workers are encouraged to migrate abroad and begin to transfer funds to families left behind so that the consumption pattern cannot be changed. Those already abroad also increase the money then send to their family at home. During the period of Asian Financial crisis private capital flows and even the FDI also declined, in the crisis hit countries, while the remittances have continued to rise. Sometimes remittances do respond to dramatic changes to economic activities in recipient countries. After the crisis of late 1990's, it brought dramatic changes in the investment climate of the Philippines.
- b. Remittances may remain stable even in the economic downturn in source-developed countries. If the migrant workers are forced to return to their home countries they may bring back their whole savings. This has happened during the Gulf War of 1990's when many Indian workers were forced to leave but remittances income to India did not decline.
- c. If the remittances income is invested by the receiving countries it is not easily withdrawn as the portfolio equity flows from the developed countries. Workers are

more likely to continue to invest in their home countries in spite of economic slowdown because of the 'home bias' in investment.

- d. Remittances constitute a transfer directly from relatively richer to relatively poorer individuals or households and mostly from children to parents. The amount from remittances is higher and or more frequent in certain seasons or periods, when people need more money. However, it may vary by migrant group due to cultural or religious dates such as New Year, Dashain, Deepawali, Christmas, and Ramadan etc.

## **1.6 Importance of Remittances**

Remittances are important to the receiving countries at the micro and macro level. They increase both the income of the recipient and the foreign exchange reserve of the recipient's countries. Remittances generate positive multiplier effects in output if they are consumed, and contribute to output growth in the country if they are invested. Pant further emphasizes on both the micro & macro level implications of inward remittances to its recipients & the nation as a whole.

### **Micro and Macro Implications**

Mostly remittances are used for basic subsistence needs and for daily needs and expenses such as food, clothing and housing. These three components make up a significant portion of the income of the recipients household. They are also used for improving housing, buying land (in urban areas also), buying cattle and buying durable consumer goods. Remittance also is used in social cultural life (birth, wedding, death) and loan repayment of the migrants (often loan to pay for cost of migration) and the family. At an individual level remittances increase the income and reduce the poverty of the recipient's. As the purpose of the remittances is to meet the daily basic needs they tend to be stable over time and may even rise in times of economic difficulties in the recipient countries. Generally in the developing countries only a small percentage of remittances are used for savings and used as 'productive investment' such as income and employment generating activities as buying land or tools, starting a business and

other activities. The biggest contribution of remittances is to the welfare and improved livelihood of the receiving household – be it in terms of basic necessities such as food or clothing or better health or education. However the money spent on better education of the children and health are believed to have a favorable effect on growth, which tends to help in output production. Rural households tend to consume more domestically produced goods and hence generate larger multiplier effects than urban households.

At the macroeconomic level remittances provide significant sources of foreign currency, and contribute to the balance of payments. They are used for financing the imports and increase national income. Remittances also contribute to the expansion of communication services, courier companies as well as money exchange services, which contribute to the expansion of economic activities and increase the employment opportunities. Remittances also have the history of dramatically changing the investment climate of the Philippines after the Asian Financial Crisis of the 1990's.

## **1.7 LIMITATIONS OF STUDY**

This research explains and analyzes the subject matter with the help of published data and surveyed data, therefore as a conclusion oriented research, it doesn't concern with fundamental and decision oriented research. Considering the above matter, following are the limitations of the research Inward remittance business though seems booming at the current stage in Nepal it has been facing controversies as huge volume of it enter inside the country through improper channels. This on one hand hampers in the process of official data collection for finding out the volume of inward remittance on a yearly basis and on the other hand it involves risk of forgery while sending money through improper channels. Whatever may be the mode of its entrance, the importance of the inward remittance has now been identified. Recognizing the development potential of these flows, the study "Economic Implications of Foreign Employment and Inward Remittance Business In Nepal" explores some key questions that still remains unanswered such as the impact of international migration and remittance on the underdeveloped country like Nepal, its impact on poverty, GDP and many more.

- Since very few researches have been done in this area in the context of Nepal, the study depends upon the published data and data gathered from the survey.
- This study is only concern with the economic impact (Micro and Macro Level) of inward remittance to its recipients and ultimately to the country as a whole that has resulted due to the booming foreign employment opportunities.
- Since large volume of inward remittance are entering inside the country through informal channels official data collection excludes these figures. However various efforts were made to cover these data to the extent possible.
- The study is mainly based on the published secondary data and data gathered from the survey conduct at various places i.e. primary data gathered from related sources hence the reliability depends on it.
- This study conduct to fulfill the requirement of the MBS program of Tribhuvan University for a prescribed time, not for generalization purpose.
- As a research student the study is unbiased but resources and time period is limited.
- The truth of the research result is based upon the available data from the survey and other sources.

In this study Nepal Rastra Bank, Central Bureau of Statistics, National Planning Commission, Ministry of Labour and Public Information Centre (PIC) is taken as basic source of secondary data. Primary data are restricted to the ones collected during the survey from certain highly emigrant concentrated locations.

## **1.8 ORGANIZATION OF THE STUDY**

The study is divided into five chapters as follows:

### Chapter 1: Introduction

- Background Information
- Statement of the Problem

- Conceptual Framework
- Objective of Study
- Focus of Study
- Limitation of the Study
- Organization of the Study

## **Chapter 2: Review of Literature**

This chapter would be devoted for the brief review of literature available. Conceptual framework about the modality of the inward remittance entering inside the country is briefly reviewed. Review from published books, journals (articles), websites etc would be included in this chapter and remittance impact on Nepalese economic .

## **Chapter 3: Research Methodology**

This unit would present methodology used in the study. It consists of following subtopics:

- Research Design
- Population and Sample
- Sources of Data
- Tools for Analysis
- Methods of Presentation and Analysis etc.

## **Chapter 4: Data Presentation and Analysis**

In this chapter, data collected from various relevant sources would be presented and analyzed using various statistical and non-statistical methods. The data from the selected sources like Nepal Rastra Bank, Ministry of Labor, Ministry of finance, Central Bureau of Statistics, National Planning Commission, would be taken into reference. Tables, Bar Graph, Pie Chart, and Line Graph etc would be used for presentation of data. Various statistical tools would also be used for analysis of data.

## **Chapter 5: Summary, Conclusion and Recommendation**

This chapter is for major findings, summary, conclusion and recommendation.

Bibliography and appendices are incorporated at the end of the study.

## CHAPTER 2

### REVIEW OF LITERATURE

#### 2.1 Conceptual / Theoretical Review

The present research aims to analyze the economic impact of foreign employment and inward remittances entering inside the country. For this purpose, a review of related literatures in this concerned area is a must which will help me to get clear ideas, opinions and other concepts. 'What other has said? What other has done? And what other have written?' these all and other related questions are reviewed which has provided useful inputs in this research work. This chapter emphasizes about the literatures which were concerned in this connections. Therefore, in this chapter conceptual frameworks given by different authors and intellectuals of this area, books, journals, research works, and previous thesis related to labour migration and inward remittances are reviewed. Moreover, labour migration issues and inflow of inward remittances are reviewed and an attempt has been made to present them properly.

#### **Role of Nepal Rastra Bank and the Government of Nepal**

The central bank has different roles including remittance services depending on their responsibilities, policies and powers. It may be desirable that central bank monitors developments in the market for remittances to assess their significance for safety and efficiency. The central bank's responsibilities may also make it appropriate for the remittance operators to oversee certain remittance services. The central bank should provide various services to enhance the remittance industry for the smooth functioning of foreign remittance services. Examples might include the development of new services that support cross-border payments or enhancing existing services to make them more useful for supporting cross border payments. The central bank should cooperate with the government authorities to address significant policy issues arising from remittance market structures and performance. The central bank of Nepal, Nepal Rastra Bank (NRB) should have policy dialogues with the private sector and other central banks to facilitate remittance services and to foster international cooperation.

The task for Nepal, therefore, remains two-fold. First, the government needs to take a more proactive role in securing the safety and rights of its citizens who go abroad to find work. Second, the government must ensure that the money the workers earn reaches the right places safely. A standardized transfer system would allow workers to directly realize the advantages of their work, while simultaneously protecting them from an unreliable informal sector. The government should also issue financial instruments to mobilize the earnings of Nepalese working abroad and invest it into infrastructure projects. Such investment would be cheaper than that borrowed from international institutions. Before doing this, the policy makers would have to acknowledge the contribution of remittance in the national economy and should express strong commitment to utilize the funds for national development.

The soundness of remittance operation is crucially linked to sound macroeconomic policies. It has been recognized that an appropriate macroeconomic policy stance to attain balance in the economy is unlikely to be sufficient to maintain it unless supported by adequate microeconomic conditions. Hence, an efficient mix of monetary and fiscal policy instruments is required to boost remittance sector of the economy. NRB as well as the Government of Nepal, Ministry of Finance has to play a vital role by initiating appropriate policy measures for the development of remittance economy.

### **History of International Labour Migration in the Nepalese Context**

Nepal has also long history of International Labour migration. Around 200 year ago, Nepalese started to seek work abroad and send remittances back to their families in Nepal. In early 19<sup>th</sup> century, for instance, the first men migrated to Lahore (in today's Pakistan) to join the army of Sikh ruler, Ranjit Singh. They earned the nickname "Lahure" which is still used today for Nepalese employed in foreign armies abroad. In 1815/1816, the first British army of India and were then and still are called "Gurkhas". Since then, international labour migration of Nepalese has never ceased. Especially in the recent decades, it has greatly increased and diversified in pattern.

The Nepalese government now intends to actively promote international labour migration and to safeguard the interest and welfare of migrants. Only a few initiatives have been taken so far. Among these are bilateral talks with the governments of the Gulf States in order to increase the number of posts for Nepalese and to increase security as well as to improve the conditions of employment of the migrants. Furthermore the government is trying to regulate the procedure of recruitment. It has therefore listed a number of Gulf States and Asian countries to which Nepalese workers may be recruited officially and defined conditions for registered recruiting agencies, including the condition that these have to be based in the Kathmandu valley, that is, in or near the capital.

## **2.2 Review of Previous Thesis/Research Works**

### **Foreign Labour Migration and the Remittance Economy of Nepal**

A joint study was conducted with the aim of evaluating Nepal's dependence on exporting labour. They have explored the migration history of Nepal dating back to the beginning of the 19<sup>th</sup> century when people started migrating towards India to join the army force and relates it to the current context of migration towards the Gulf States.

Having undergone various studies in the related field researchers came out with the following conclusions: In the last five years, the importance of foreign labour migration to the Nepalese economy has increased as numbers of Nepalese leaving to find work abroad have soared. The total volume and value of remittances from Nepali workers abroad has increased significantly; remittances are possibly as high as 100 billion NRs. (Over US\$1.5 billion).

## **Remittance Economy: Ignored and Under-Utilized**

Mr. Yogi in his report focuses on the inward remittance entering inside the country and the extent that these funds have been utilized to the productive sectors. According to him thousands of people leave the country to work abroad every year and send back their hard earned money. But the significant sum remains largely unutilized due to indifference on part of the government and policy makers.

The report highlights on the history of international migration and segregates the value of inward remittance on the basis of country where the flow of immigration from Nepal is higher. He also emphasizes on the huge foreign exchange reserve contributed by the receipt of annual pensions of former British Gurkha soldiers both from India and United Kingdom.

A study conducted on determining whether the money received as remittances is being utilized in a productive way showed that most of the earnings of ex-Gurkha soldiers and others returning from abroad had been used in buying land, constructing houses and other unproductive social rituals. Even those who were interested to start new ventures did not find any attractive areas for investment. Most migration impact studies have focused only on the direct social and economic effects of migration, that is, the impact on migrants and their households. However, remittances may also have significant impacts on non-migrant households, and hence may reshape sending communities as a whole. Such indirect effects are usually not captured by remittance-use studies. For instance, research has tended to negatively evaluate consumptive expenses as non-developmental. However, consumptive expenses, provided that they occur locally, can have positive impacts by providing non-migrants with labour and income. This is confirmed by empirical evidence that consumption by migrant households can lead, via multiplier effects, to higher incomes for non-migrant households. The same holds true for so-called “non-productive” investments. For example, academics and policy makers have almost universally bemoaned the high amounts of money that migrants tend to spend on housing. This is partly because such “diatribes by academics and policy makers against migrants for their profligate and unproductive ways” reflect common elitist views on the

irrational spending behavior of lower classes, which in any case have a weak or absent empirical basis.

Various empirical studies have reported that construction activities can generate considerable employment and income for non-migrants. In this way, the benefits of remittances might accrue to households other than the ones that directly receive them. These expenses increase consumption levels that may—by easing capital and risk constraints on local production—in turn facilitate local investments by migrants and non-migrants alike. In this way, expenditure on housing and consumption may have significant multiplier effects in the wider economy. Emigration and remittance expenditure also have the tendency to increase wages in sending regions and countries.

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Numerous cases of intolerable sufferings of Nepalese migrant workers have been found abroad. It is bitter reality that Nepalese workers are accepted in East and South East Asia as well as in Gulf countries only because they are cheap and they do whatever job they get. Most of them are educated male and female from middle and lower middle class families who go abroad with a hope to earn much within a short period of time. The large number among them works illegally. Nepalese whether by training visa or by illegal measures, reach their destination countries after paying considerably huge amount to the middle man or the so called employment agencies. They are generally forced to work under '3-Ds' (Dangerous, Difficult and Dirty) conditions.

As a response to physical and sexual abuse of women migrants to the Middle East, in 1998, His Majesty's Government of Nepal officially banned female migration to Gulf States. After this to obtain a passport women have to produce a permission letter from their guardian, that is, from their husband if they are married or from their father if they are unmarried. Further ideas of the government, with the objectives to promote international labour migration, which have not yet realized, are (1) the creation of a 'foreign employment bank' which should replace the informal channels that are now used for remittances, and (2) creation of revolving fund which will provide collateral free loans to individuals from deprived sections of society.

For all households involved in the migration it is the lack of opportunities in Nepal for employment and for secure livelihood strategies which leads to migration whether within the country, within the region or overseas. Households that are poor have less choice with regard to migration opportunities and the poorest households are most vulnerable when it comes to illegal migration and various forms of trafficking. The recent Maoist insurgency also basically reflects frustration of youth with poverty and lack of opportunities, which is again exerting migration pressure from the affected areas to other parts of Nepal or overseas, particularly India.

## **Labour Movement at Global Level and Regional Level and the Flow of Remittances**

Skilled labour is an abundant factor of the industrial world and unskilled labour the abundant factor in the developing world. Globalization should therefore be associated with an increase in the relative demand for skilled labour in industrial economies and unskilled labour in developing economies. Wage and opportunity gaps between rich and poor countries, regional conflicts and political instability in developing countries, the relative share of young adults in the population in sending and receiving countries, etc. are still deriving North-South and South-South migration. In the regions where development has been slower and poverty more obstinate; rising populations, combined with dwindling opportunities impel emigration. Besides, the shrinking share of young adults in developed countries and rising share of young people in Asia, Africa and other parts of the world are complementary drives of labour movement. Shortages of agricultural land and of urban employment will be two important concerns for poorer countries, with spillover effects for other countries. In Africa, South Asia, and parts of the Middle East, intense competition for jobs could sharpen incentives to emigrate. Both the developed and developing countries have much to gain from an increased flow of workers. Poor countries gain from higher wages as well as from remittances that accrue from migration.

International migrants are not distributed evenly across countries or regions. In 2000, they constituted 8.7 percent of the population in developed countries, while accounted for just 1.5 percent in developing countries. In developed countries such as USA, Russia, Germany, Ukraine, France, Canada hosted larger number of international migrant in 2000/01. In developing countries, India, followed by Saudi Arabia and Pakistan, hosted the largest number of foreign persons in 2000/01. The Asian region has experienced a burgeoning of labour migration, centering in the oil producing countries of Western Asia and the newly industrialized and industrializing economies of Eastern and Sub-eastern Asia. In addition, prolonged conflicts, increased occurrences of civil unrest, and political instability in some areas of Asia also led to an unprecedented rise in the refugee population during the 1980s and 1990s. The oil price increase of 1973-74 and 1979 had resulted in a rapid escalation of oil revenues flowing to the

Middle East economies which, in turn, permitted unprecedented rate of investment in the domestic industries and infrastructure of these Gulf States. A small indigenous labour force ensured that this economic boom inevitably generated a demand for labour far beyond the capacity of the local labour market. This, in fact, provided opportunity to labour surplus countries in South Asia and South East Asia to export manpower to the Middle East in large numbers, involving over a million temporary workers a year.

### **Remittance: Its Significance for the Nepalese Economy**

Remittances play a central role in the economies of many labour-sending countries including Nepal. The flow of remittance in the economy does not determine the level of economic growth but the manner the country uses it is much important. Meaningful utilization of remittance money paves the way for boosting socio-economic activities towards deprived people and for the development of remote areas of the nation. Mere collection of remittances in banks and financial institutions does not bring desired outcome in the economy. Such funds should be channelized into different layers of the economy to meet twin goals of poverty alleviation and sustainable development. Presently, planners, policy makers are also recognizing the crucial significance of remittances to national economy. Through the meaningful utilization of remittance, economic activities could boost up and thereby lift the standard of livings of the people in a satisfiable manner. This would in turn raise the level of output, employment, export and foreign earnings. The GDP growth of the nation could be improved in the long run with the better use of remittances.

Nepal, to a large degree, depends on remittances to sustain its economy. Remittances have sustained the present day Nepalese family budget, paying for schools fees, debt payments, and daily household needs. They appear to be part of a livelihood and poverty reducing strategy at the individual and household level. As the rise in the inflow of remittances is the upshot of the increase in the outflow of mainly semi-skilled and unskilled workers who come from poor households, the money they send back has positive impact on the living standards of the families left behind.

Various mechanisms have been employed by the Nepalese workers in sending money back home. For example, earlier, there was growing interest in the relative performance of informal channels such as the 'hundi' system of money transfer that normally lie outside the formal and regulated banking sector, and cost half or less than formal banking with respect to commission. However, this has changed and there is considerable interest among policy makers in drawing more remittances into formal, regulated, channels.

Because of poverty and inequality, labour migration has been the most important economic support, especially for rural Nepal. Nepalese workers have sought foreign employment as both the agricultural and non-agricultural sectors struggle to create new employment opportunities. Currently many workers view foreign employment as their only viable option owing to the widespread conflict in the country. According to the latest statistics of the Department of Labour and Employment Promotion, the number of workers going abroad for employment has risen by 27.7 percent in the first six months of FY 2004/05 as compared to the corresponding period of the previous year.

The importance and impact of remittance in the economy could be assessed through various ways. Empirical studies of suggest that for a number of developing countries, the level of remittances is significant in proportion to the country's merchandise exports. They revealed that in Bangladesh, remittances were equivalent to about 44 percent of total merchandize export in 1993; in India, about 13 percent in 1990; in Philippines, about 22 percent in 1993 and in Pakistan, about 24 percent in 1993. The increase in remittance, if substantial, can contribute significantly towards stabilizing the exchange rate, increasing availability of foreign exchange for imports, lessen the dependence on foreign borrowing and aid and in some cases relieve the pressure to accept the harsh conditionality imposed on borrowings by multilateral agencies. The increase of the flow of remittances has paved the way for South Asian economies as Bangladesh, Sri Lanka and Pakistan to keep their Balance of Payment (BOP) situation in a healthy state. The strong inflow of remittances especially for Bangladesh since 1996 have allowed foreign exchange reserves to increase to (US\$ 3.3 billion) and provided a confidence to

float her currency. What we find from the above mentioned phenomenon is that remittance money has also become a crucial component for Nepalese economy. The GDP has also accounted remittances as one of the major sources of national income of the country. The remittances have contributed significantly to maintain Nepal's favorable BOP position.

As we already reviewed that remittances often provide a significant source of foreign currency, increase national income, finance import and contribute to the Balance of Payment (BOP); others however believe that remittance not only fail to help the economy but also decrease the livelihood of an economy. The flow of funds can be deceptive if it creates dependence among the recipients, encourages the continued migration of working age population and decreases the likelihood of investment by the government or foreign investors because of an unreliable workforce. Moreover, the researchers as Russell, Martin; etc. view remittances as unpredictable source and as a cause of increasing inequality. Also remittances are frequently spent on consumer goods, rather than locally produced ones hence decreasing the potential multiplier effect of the money and increasing import demand and inflation.

An increasing number of academic studies seemed to support the hypothesis that migration sustains or even reinforces problems of underdevelopment instead of the reverse. These "migration pessimists" have argued that migration provokes the withdrawal of human capital and the breakdown of traditional, stable village communities and their economies. This would then lead to the development of passive, non-productive and remittance-dependent communities. Besides the "brain drain" the massive departure of young, able-bodied men and women from rural areas is typically blamed for causing a critical shortage of agricultural and other labour, depriving areas of their most valuable work force. Because it is generally not the poorest who migrate the most, migration and remittances were also believed to increase inequality in communities of origin.

Migration pessimists have also argued that remittances were mainly spent on conspicuous consumption and "consumptive" investments (such as houses), and rarely invested in productive enterprises. Skepticism about the use of migrant remittances for productive investments became the common thread of the migration and development debate. Besides

weakening local economies and increasing dependency, increased consumption and land purchases by migrants were also reported to provoke inflationary pressures and soaring land prices.

Also, in a socio-cultural respect, the effects of migration and remittances were increasingly seen as detrimental. Exposure to the wealth of migrants was assumed to contribute to a change in rural tastes that would increase the demands for imported urban or foreign produced goods and food. This would further reinforce the cycle of increasing dependency. Migration has often been held responsible for the loss of community solidarity and undermining the socio-cultural integrity of migrant-sending communities.

## **CHAPTER 3**

### **RESEARCH METHODOLOGY**

The main objectives of this study are to examine the impact of the large pool of workforce leaving the country as well as the contribution made by the inward remittances sent by this workforce in the economic development of the country. To achieve these objectives, the study requires an appropriate research methodology. Therefore, this chapter highlights about the methodology adopted in the process of present study.

Research means to research the problems again and again to find out something more about the problem. Methodology refers the various steps that are generally adopted by a researcher in studying his research problem along with the logic behind it. Thus, research methodology is a way to systematically analyze the logic behind problems so as to find out something about the problems.

An appropriate choice of research methodology is a difficult task, which is, must necessary to support the study in realistic term with sound empirical analysis. So that , the study uses the following research methodology like research design, population and sample, data collection procedure, methods of data analysis, methods of presentation, etc.

The selection of methodology is based on the research problem and stated questions. Further interview was conducted for validating the information gathered and to have pragmatic approach to analyze the current situation. Detail explanations of the research methodology used are discussed below which seems appropriate to understand methodology in detail:

#### **3.1 Methodology**

The main objective of this paper is to discuss the trend of remittance inflow to Nepal and find out its impact on the relevant macroeconomic variables of the economy. To fulfill the objectives, the relevant data such as remittance size, foreign exchange reserve, import, export,

trade deficit, current account balance, balance of payment position poverty, consumption etc. are collected from secondary sources. The paper is prepared on the basis of available literature survey within the content area. They are tabulated in logical way so as to draw inferences regarding their impact in the economy.

### **3.2 DATA COLLECTION PROCEDURES**

As the present study is being undertaken to evaluate the foreign employment and inward remittance on the overall economic development of the country, the secondary sources of data are used in the study. The supplementary data and information are obtained from various sources like quarterly reports and annual reports of the Department of Labour and Nepal Rastra Bank, Ministry of Finance, various published and unpublished periodicals, magazines and dissertations, and all available reports and materials of Nepal Rastra Bank (NRB) on inward remittances as depicted on Balance of Payment figures.

### **3.3 METHOD OF DATA PRESENTATION AND ANALYSIS**

The presentation of data is the basic organization and classification of the data for analysis. After data collection is completed, the data will be in what researchers call “the raw form”. The data will still be on questionnaires, data collection forms, and note cards. It is necessary to arrange the data so that it makes some sense to the researcher and so that it can later be presented to the readers of the thesis. Different types of data require different methods of summary and presentation. There are a number of methods, which can be used to simplify the data. The easiest way to understand data is by examining it in charts, graphs, and tables. But even before one can arrange data in tables and charts, it is necessary to rearrange the raw data. Organization and processing of data require knowledge of some technical methods. There is a definite sequence for analyzing data. The overall process of analyzing data can be viewed as involving a number of separate and sequential steps. The activities in data processing include editing, coding, classification, and tabulation of information.

Both the primary data, collected during the survey at various locations where the concentration of people going abroad for foreign employment is higher and the secondary data gathered from various sources were categorized, tabulated, processed and analyzed using different methods.

### **3.4 SAMPLE CHARACTERISTICS**

The sample will be comprised of respondents who had come to collect the remittance sent by their relatives from abroad. Due to the time constraint the samples will be select on the basis of their presence at the money collecting centers at various places.

## **CHAPTER 4**

### **PRESENTATION AND ANALYSIS OF DATA**

Foreign employment in Nepal is seen to have been established with the inception of recruitment of Nepalese men as Gorkha Soldiers by the British Empire in the year 1815 A.D. Foreign employment now is completely different from what it was years ago. There are approximately 618 manpower agencies involved in recruiting the Nepalese for different purpose on behalf of the companies from abroad as per the record of Department of Labour. Nepalese are allowed to go for employment in 107 countries as per the Department of Labour.

To know in more detail about the state of foreign employment, inward remittances and also its impact on the country's economy, a survey was conducted on the following locations where the concentration of people going abroad for foreign employment is very much higher.

#### **4.1 UTILIZATION OF THE REMITTED FUNDS AND SAVING STATUS OF RECIPIENTS**

During the survey it was found that most of the people opting to go abroad for foreign employment had to rely on various available options for arranging funds required for going abroad. Such available options comprised of high interest bearing loans from the local vendor, interest free loans, sale of property etc. It is due to this fact that the initial funds remitted from abroad is normally used to settle such loans.

When the respondents were asked about the end use of the funds remitted from abroad 40 percent said that they would use the fund to settle the loans outstanding if any or for their basic needs. Similarly 20 percent had accumulated the funds and used to buy land/building as per their requirement followed by another 30.4 percent of people who had used it in educating their children whereas the rest 9.6 percent had diverted such funds to some business activities like farming, small scale business etc (Table – 4.12).

Since very few people send money on a monthly basis, it is the recipients who would have to save the money so as to meet their monthly expenses. Some have even been able to save substantial amount after having met their basic requirements. Depending upon the monthly

income of the remitter and the financial status of the recipients, the monthly saving of any remittance receiving families can be determined.

When the respondents were asked about the savings they made out of the funds they received, 20 percent said that they have not been able to save any funds out of the remitted funds whereas as the rest 80 percent comprised of people who were able to save some after meeting their basic requirements. When inquired about the volume of the funds saved, 53 percent said that they have saved NRs 5,000-10,000 followed by 23 percent of people who had been able to save NRs.1,000 – 5,000. Similarly 15 percent were able to save NRs.10,000 – 25,000 whereas the rest 9 percent could save more than NRs.25,000 on a monthly basis (Table – 4.12). This would again depend upon the volume of remittances sent by the remitter and the frequency of remittances.

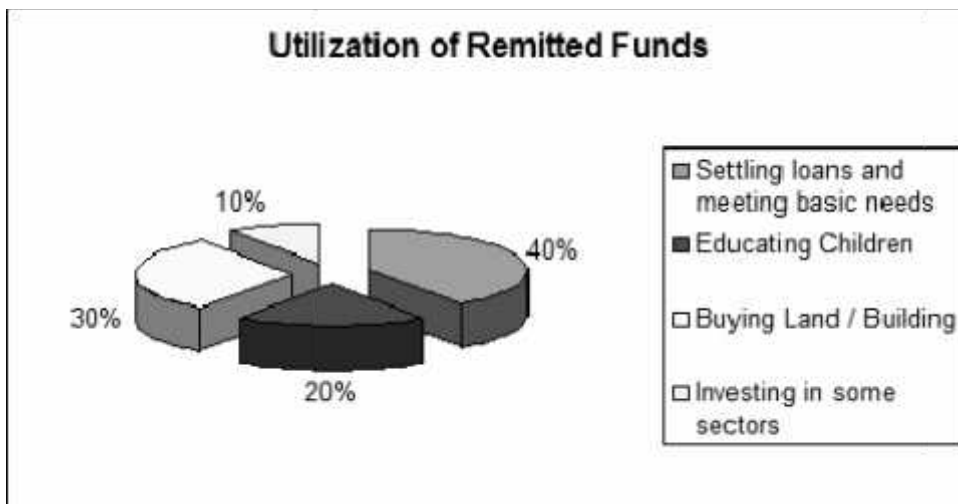
Saving gives a greater financial strength to the recipients as far as meeting any financial obligations are concerned. It also provides a financial cushion to many families having a financial crisis. On the other hand this opens up investment opportunities to the recipients. Savings can easily be converted into some productive investment wherein one can multiply their savings.

**Table – 4.1 Utilization of the Remitted Funds and Saving Status of the Recipients**

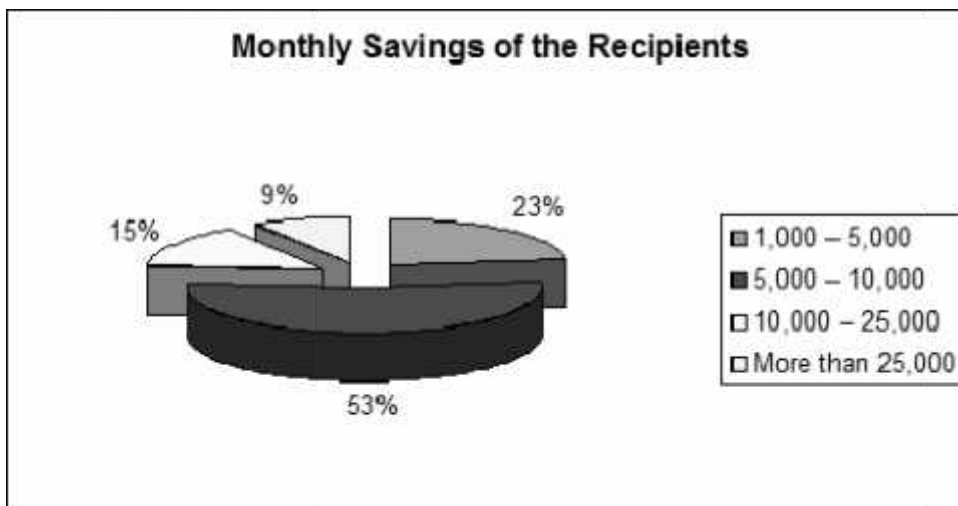
<b>Particulars</b>		<b>Percentage</b>
Utilization of the remitted funds	Settling loans and meeting basic needs	40
	Educating Children	20
	Buying Land / Building	30.4
	Investing in some sectors	9.6
Monthly savings of the recipients	1,000 – 5,000	23
	5,000 – 10,000	53
	10,000 – 25,000	15
	More than 25,000	9

**Source: Field Survey at various places, 2013**

**Figure – 4.1: Utilization of Remitted Funds and Saving Status of the Recipients**



**Figure – 4.2: monthly saving of the recipients**



Merely remitting fund from abroad does not complete the process of fund transfers. It actually has to go through a long process before it is finally delivered to the concerned beneficiary. Though few years ago, people from various parts of the country were availing the banking facility even at the most remote areas the situation does not remain the same at today's context. Rastriya Banijya Bank, Nepal Bank Ltd., Agricultural Development bank had established various branches at different parts of the country. However due to the ongoing Maoist insurgency and the frequent bank robberies, occurring in the various part of the country from their hand, have forced these banks to withdraw their branches from these rural

During the survey it was clearly seen that most of the young generation having a strong desire to flee from the country in search of the foreign employment came from areas which has been badly affected by the Maoist activities. They are left with no choice but to flee out of the country to earn the livings of their belongings.

It was due to this craze of people going abroad for foreign employment and the huge volume of inward remittances soaring inside the country which has attracted banks as well as other financial institutions to invest in this sector. Having identified the potential gain from the inward remittances, various banks and other financial institutions after having taken the approval from the central bank of Nepal started tying up with the exchange houses abroad. Such tie-up with the exchange houses abroad have initiated both the banks and other financial institutions to establish sub-agents at various parts of the country so as to facilitate a smooth operation of inward remittance as far as delivery of payment to the concerned beneficiary is concerned.

During the field survey when the respondents were inquired about the distance they would have to travel while collecting the remitted funds, the largest portion of people (78.4 percent) said that they hardly had to cover any distance for collecting such funds. Similarly 19.2 percent of people said that they had come to collect their fund from as far as 25 kilometers where as the rest 2.4 percent had to come traveling 50 kilometers to collect the fund (Table – 4.10). This clearly indicated that almost all the places where the field survey was conducted there were the presence of paying agents who were either acting on behalf of the banks or other financial institutions involved in remittance business. This to a large extent has eased in the operation of the inward remittance business by making a proper chain for the safe delivery of funds to the beneficiary.

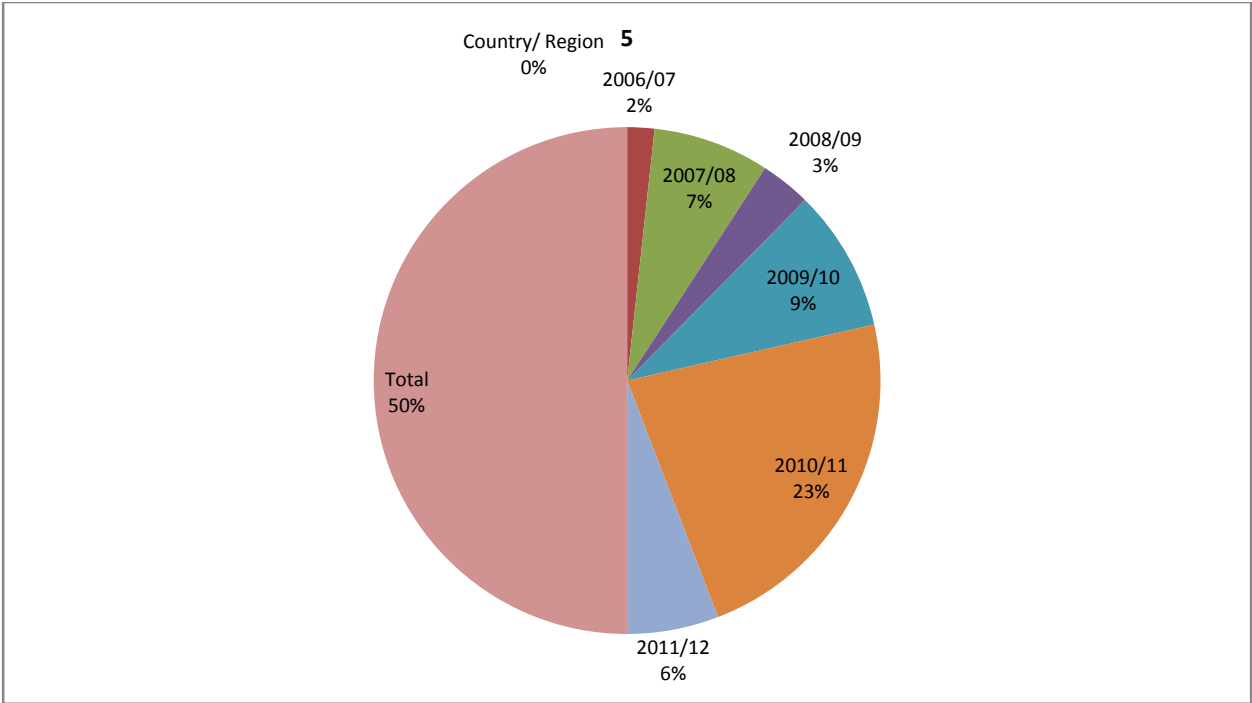
Even though choosing the mode of transferring of funds to their country of origin is completely dependent upon the remitter's choice, however the response from the beneficiary also plays a

vital role in choosing amongst the available mode of transferring of funds. While inquired about the place of their preference for receiving the remitted funds 64 percent voted for the paying agents, followed by 18.4 percent of people who preferred receiving through banking channels. Similarly 13.6 percent of people choose for the hundis and the rest 4 percent went for the delivery by the individuals coming home from abroad (Table – 4.10).

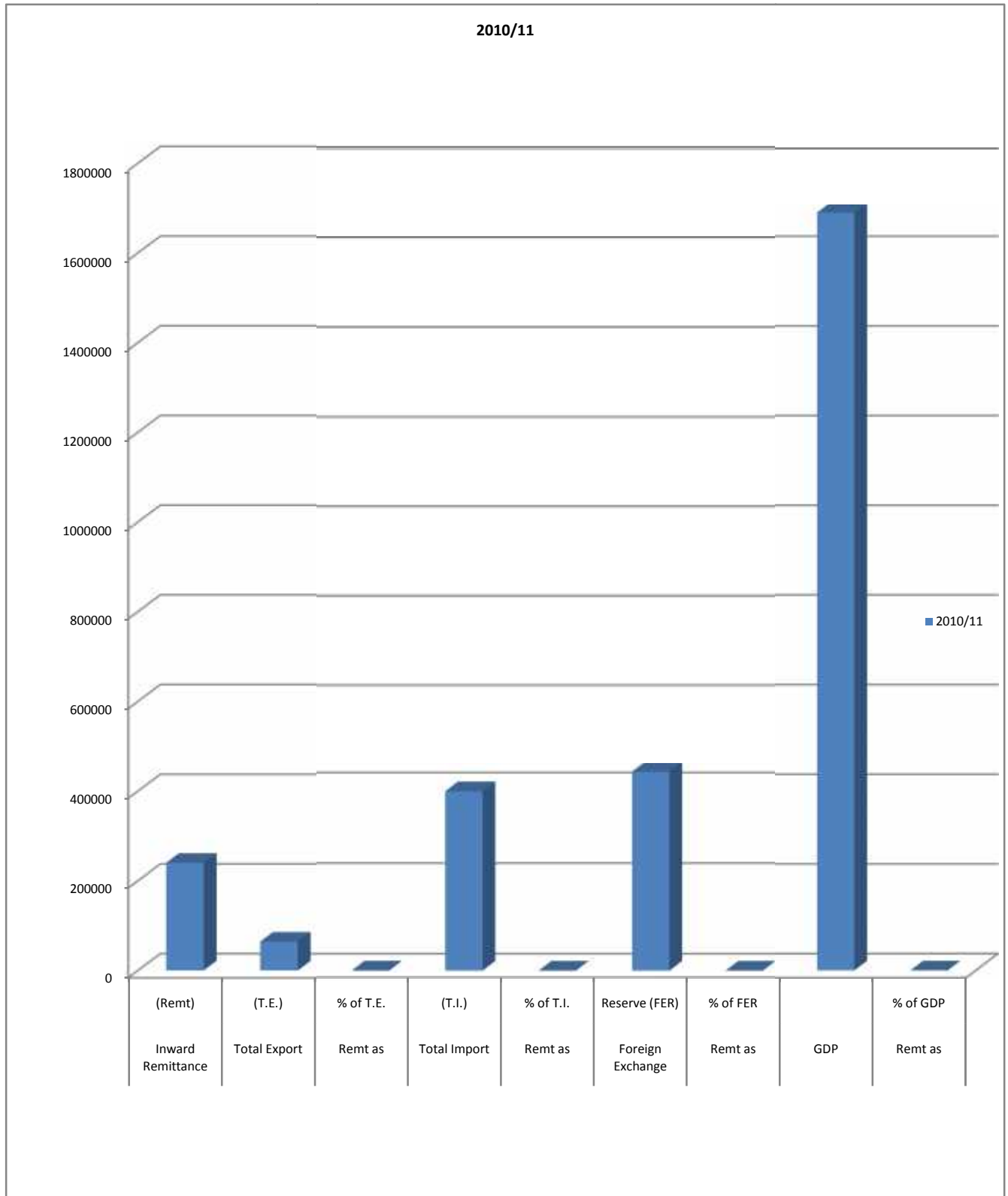
**Table – 4.2** Remittances Flow, Total Export, Total Import, Foreign Exchange Reserve and Gross Domestic Product

<i>Years</i>	<i>Inward Remittance</i>	<i>Total Export</i>	<i>Remt as</i>	<i>Total Import</i>	<i>Remt as</i>	<i>Foreign Exchange</i>	<i>Remt as</i>	<i>GDP</i>	<i>Remt as</i>
	(Remt)	(T.E.)	% of T.E.	(T.I.)	% of T.I.	Reserve (FER)	% of FER		% of GDP
2007/08	142,682.70	59,266.50	240.75	221,937.30	64.29	212,623.50	67.11	820,814.00	17.38
2008/09	118000.00	122737	96.00	342536	34.5	2600290.00	45.38	1252000.00	9.42
2009/10	133000.00	32296.00	411.00	185829.00	71.89	368629.00	36.14	1463000.00	9.09
2010/11	240000.00	64338.00	373.00	396175	60.45	439496.00	54.54	1690300.00	14.2
2011/12	265000.00	74261	491.00	461667	58.00	450796.00	58.88	1973558.00	13.42

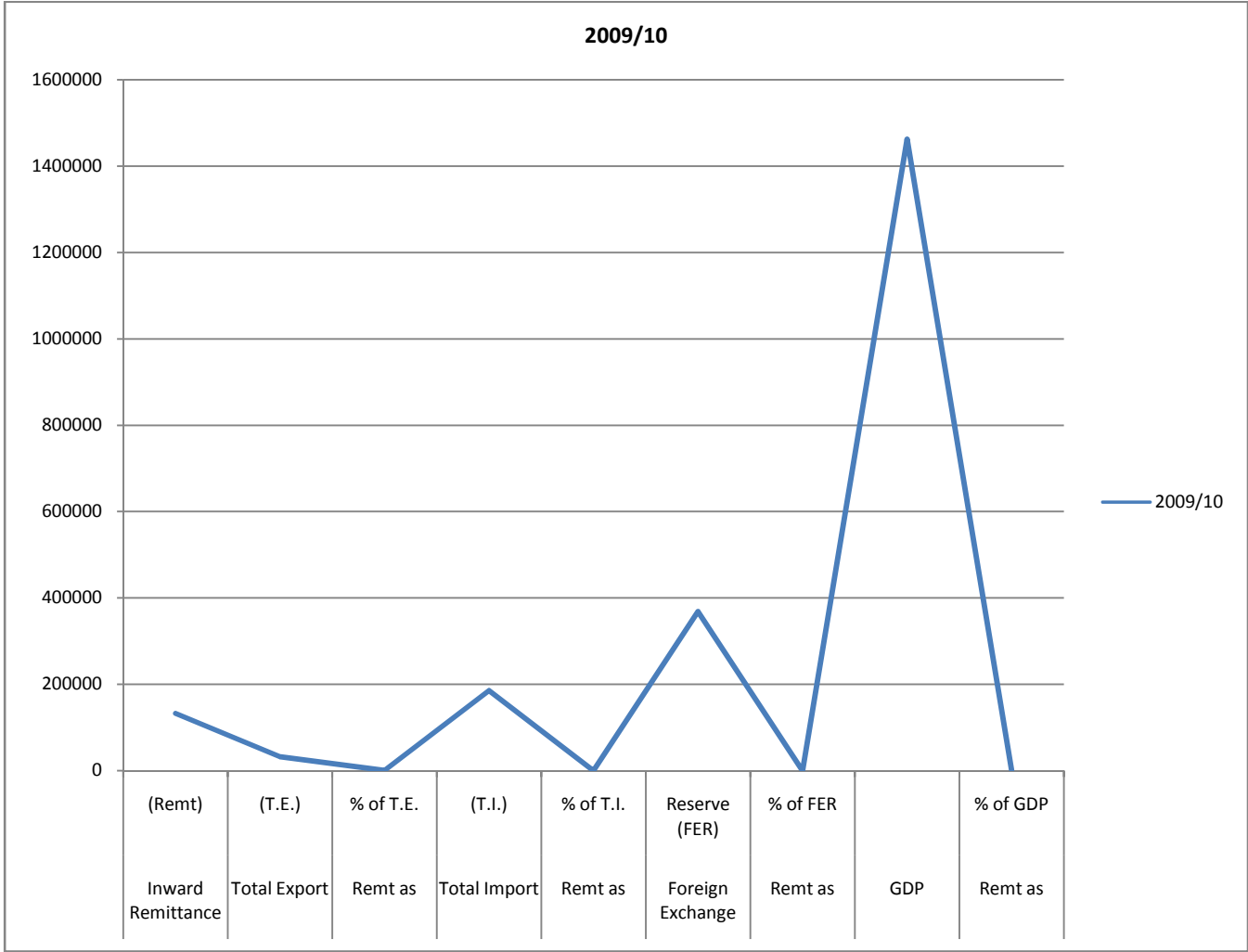
**Figure – 4.3** Remittances Flow, Total Export, Total Import, Foreign Exchange Reserve and Gross Domestic Product



**Figure – 4.4** Remittances Flow, Total Export, Total Import, Foreign Exchange Reserve and Gross Domestic Product



**Figure – 4.5** Remittances Flow, Total Export, Total Import, Foreign Exchange Reserve and Gross Domestic Product



In 2007/08 the contribution of remittance to the total export and import were 240.75 percent and 64.29 percent respectively which went up to 96.00percent and 34. percent respectively in 2008/09. Likewise, the contribution of remittances to Nepal’s GDP rose promisingly over the years. In 1990/91 the share of remittance to the total GDP was just 1.7 percent which rose up to 12.39 percent in 2002/03 and subsequently to 17.38 percent in 2007/08. The ratios of remittance have been found to be significant in proportion to the country’ foreign exchange reserves too. For example, in 1990/91 its share was just 16.1 percent which rose to 50.08 percent in 2002/03 and since then has been experiencing ups and downs in its contribution to country’s foreign exchange reserves and was 67.11 percent in 2007/08. These facts and figures reveal that remittance has become life blood of Nepal’s economy.

It can be seen that remittances play a central role in the economies of many labour-supplying countries including Nepal. The flow of remittance in the economy does not determine the level of economic growth but the manner the country uses it is of much importance. Meaningful utilization of remittance money paves the way for boosting socio-economic activities towards deprived people and for the development of remote areas of the nation. Mere collection of remittances in banks and financial institutions does not bring desired outcome in the economy. Such funds should be channelized into different layers of the economy to meet twin goals of poverty alleviation and sustainable development. Presently planners and policy makers are also recognizing the crucial significance of remittances to national economy. Through meaningful utilization of remittance, economic activities could boost up and thereby lift the living standard of the people in a satisfactory manner. This would in turn raise the level of output, employment, export and foreign earnings. The GDP growth of the nation could be improved in the long run with the better use of remittances.

The importance and impact of remittance in the economy could be assessed through various ways. Some empirical studies suggest that for a number of developing countries, the level of remittances is significant in proportion to the country's merchandise exports. The increase in remittance, if substantial, can contribute significantly towards stabilizing the exchange rate, increase availability of foreign exchange for imports, lessen the dependence on foreign borrowing and aid and in some cases relieve the pressure to accept the harsh conditionality imposed on borrowings by multilateral agencies.

Hence what we can find from the above data is that remittance money has also become a crucial component for Nepalese economy. The GDP has also accounted remittances as one of the major sources of national income of the country. The remittances have contributed significantly to maintain Nepal's favorable Balance of Payment position.

If we visualize the effect of remittance from macro perspective in the case of Nepal, what we find is that its contribution to total export, total import, foreign exchange reserves and GDP

have increased significantly over the years. As the flow of remittances heavily inflexed from the beginning of FY 1990/91, its contribution to these variables rose tremendously over the years. For the purpose of this study, we have only taken into consideration the figures from 2002/03 to 2007/08 i.e. a period of six years (Table – 4.13).

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## **4.2 State of Inward Remittance through Foreign Employment**

Although Nepal was a late entry in taking advantage of Middle Eastern labour demands, the country has currently been experiencing a boom in this sector which can easily be witnessed by the number of Nepalese leaving the country everyday and the huge flow of inward remittances through various channels. Official reports suggest that Nepali workers remitted about sixty billion rupees last fiscal year through official channels. It is also claimed that billion of rupees entered the nation during the same fiscal year through various unofficial channels.

The Nepalese economy is passing through a very difficult period. The nation is still unable to provide jobs to its population that is capable of working and providing services. The available job opportunities have not been able to meet the pressure created by the abundance of workforce that is being produced in the nation by the ever-rising population.

Therefore, people working abroad have been a blessing to the Nepalese economy. The total share of the remittances to the national gross domestic product jumped to 17.4 percent in fiscal year 2007-08, from 10.3 percent in 2001/02. Remittances have provided relief even when the national economy experienced a sharp fall in foreign exchange reserves. The share of remittances in the nation's FOREX reserves swelled to 46.7 percent in 2005-06 from just 36.6 during 2003-04.

The problem of unemployment in Nepal is at a critical level. Even when the country is going through a critical economic phase, many Nepali families spend heavily to lead respectable lives, and the credit for this must be given to the inward remittance business they receive from their family members working abroad. However, the flip side of the remittance is that it has not been able to provide much help in giving a boost to the national economy, although it has become an important source for the betterment of many Nepali families.

According to experts, the remittance money has so far failed to assist in any noticeable growth of the national income, which can be boosted to a new level if the remitted money was to be invested in productive activities. Although the amount remitted is large, the number of families that receive it is widely spread, making the task of bulk investment quite a difficult task. Many of these families have no idea about investing the remitted money. They rather use the money primarily for buying land, homes, household goods and sending their children to some expensive school.

### **4.3 Factors Behind Reduction in Poverty**

According to the second Nepal Living Standard survey conducted by the World Bank, Nepal's poverty has reduced by 11 percent during the last eight years (2052/53 to 2060/61). This indicates that the percentage of people living under the poverty line has reduced from 42 percent to 31 percent. This has however not contributed much in the poverty reduction of the rural areas. This has been witnessed by the fact that rich people are getting richer whereas the poor are getting poorer. Poverty has reduced from 43 percent to 35 percent in the rural villages i.e. rural areas have experienced an 8 percent reduction in poverty whereas poverty in urban areas reduced from 22 percent to 10 percent hence witnessing a 12 percent reduction. This has hence given

rise to the ever widening gap between the rich and the poor or between the rural and the urban areas hence making an impact on the overall economic development of the country. We presently have a plan of reducing the population below poverty line to 24 percent from the present level of 31 percent.

Poverty reduction is definitely a matter of pride; moreover that, 11 percent reduction on poverty during a short span of 8 years is a substantial economic achievement for a country like Nepal whose economy is shattered due to the ongoing political instability. What then can be considered as a major contributor in the poverty reduction of the country? Development plans have not been so influential despite the 9<sup>th</sup> and 10<sup>th</sup> Development Plans' only aim was poverty

alleviation. According to World Bank's report the major reasons behind poverty reduction are increase in the inward remittance, increase in the daily wages in the agriculture and non-agricultural areas, increasing urbanization, decrease in the number of dependent family members etc. inward remittance singly claims 50 percent contribution in reducing poverty.

If we observe the utilization of inward remittance by its recipients it can be seen that most of it is spent on household matters. It is due to this fact which has led to a decrement in the number of people living under the poverty line. It is due to the flow of inward remittance which has made it possible for many people to raise their standard of living. This has resulted in an economic prosperity amongst most Nepalese people. This however should not be related to the economic condition of the country. The economic scenario of the country depicts a different picture i.e. the poverty has reduced despite the downturn in the economic development of the country. Hence inward remittance can be considered as a major contributor in making it possible.

# CHAPTER 5

## SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

### 5.1 SUMMARY OF FINDINGS

Migration and remittances influence the consumption .through different mechanisms such as via higher local wages, higher demand for the services and locally produced goods, higher investment in family health and education.

Remittances can generate a positive effect on the economy through various channels such as savings, investment, growth, consumption, and poverty and income distribution. Workers' remittances flow in as a component of foreign savings and as such complements national savings by increasing the total pool of resources available for investment.

Remittances constitute an integral part of household livelihood strategies. They make a direct contribution to raising household income, while broadening the opportunities to increase income. They also permit households to increase their consumption of local goods and services.

At the community level, remittances create multiplier effects in the domestic economy, producing employment opportunities and spurring new economic and social infrastructure and services, especially where effective structures and institutions have been set up to pool and direct remittances. Where these have been set up and encouraged, and where the state is cooperative, remittances can bring about a change, especially in remote rural areas where state resources have not been effective.

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Whether remittances are utilized for consumption or purchasing houses, or other investments, they produce positive impact on the economy by stimulating demand for other goods and services. Moreover, the positive macroeconomic or development impact of remittances could become more effective if migrants form associations and their commitment to their home country becomes 'institutionalized'.<sup>13</sup> There are basically three methods of measuring remittance inflows. The first technique is through the BOP estimates. The second mechanism is the household surveys of recipients of such flows, for instance, the Nepal Living Standards Survey (NLSS). The third technique is through banks or financial institutions in origin countries, that is, focusing on resource transfer institutions. The size of remittance flows examined in this paper refer to the workers' remittances under the current account of the BOP data compiled by the Research Department of the Nepal Rastra Bank 21 Conclusions relating to the impact of remittances can vary depending.

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The major portion of the remittance is used for meeting household use and to payback loans borrowed earlier to go abroad (Seddon and et al 1999 and NRB, 2001). A survey of 832 households in eight districts (which includes four districts of the Far Western Development Region) of Nepal found that the majority of the families were dependent on remittance money (Department of Women Development, 2003).

The utilization of remittances for the improvement of the living standard is documented by several studies (Ashwani, 1999, Wahidin, 1989, Seddon and et al, 1999 and Department of Women Development, 2003). Remittance are typically spent on land and housing. These are safe investment for the households, but in macroeconomic terms, they are non-productive assets, with no lasting impact on the country's real income. Thus while the remittances are beneficial at household and community level, they cannot help long term development of the country without its strategic management.

The total saving out of remittance was about 8 percent which is very low compared to other Asian countries (Amjad, 1989). The saving rate amongst the Nepalese workers is lower as the majority of them are employed in low paying jobs and their marginal propensity to consume is relatively higher. Only the small proportion of the migrants uses the remittance directly for productive investment like agriculture, manufacturing and trade. The major forms of

investments are on education of the children, reinvestment of the remittance for further migration and for lending money.

The resources and expertise of the returned migrants could also be a good resource for country's economic development. Nepal does not have authentic data on the numerical dimension of the returned migrants. The study by Nepal Rastra Bank reveals that 47 percent of the returned migrants had learned new skill while working abroad, but only 16 percent had used the skill for income generating activities after their return. In Nepal, remittances have emerged as one of the premier sources of foreign exchange, and in recent years they have been an important avenue of support for family members remaining at home. It has been already demonstrated that remittances sent by the migrant workers is an effective tool for poverty reduction. Though foreign employment is boon to the economy, the facilities are inadequate to back up the increasing trend of migration. Inadequate information on jobs abroad, lack of skill

training, pre-departure preparation, lack of assurance of safe working environment and right of the migrant workers are the other constraints for boosting foreign employment and remittances.

The formulation and effective implementation of pro poor migration policy is the need of today. The government should play proactive role to promote foreign employment by inducting and adhering to the policy of economic diplomacy. Replicating the best practice of the region has to be endorsed in the national context for promotion and regularization of foreign employment, to encourage official transfer of remittance and to streamline the asset and skill of the returnees for the economic development of the country.

Undoubtedly foreign employment and the flow of inward remittances entering inside the country in the form of valuable foreign currencies are the most revered topic in the current context. This on one hand has helped in overcoming the growing unemployment problem prevailing in the country whereas on the other hand it has contributed to a large extent in strengthening the Balance of Payment positions.

Foreign employment and remittances are two interlinked variables. It is the people who go abroad for employment opportunities and send their earnings in the form of inward remittance. Higher volume of inward remittance coming inside the country as depicted in the report of the Central Bank is a clear indication of the equally higher outflow of Nepalese workforce leaving the country every year. It was hence felt that these two variables be studied co-relating one with the other.

Little research has been conducted on issues dealing with Nepalese migrant workers and remittances. Misplaced nationalistic pride could be at fault; as such workers are often dismissed for the “unpatriotic” act of leaving the country in search of work. The issue of Nepalese remittance was first brought into the public eye in 1997, around the same time as British Department for International Development (DFID) – supported project was being conducted on the effects of remittance in rural Nepal. This project was an offshoot of research done in 1996 on the rural economy of western Nepal, which showed an increasing reliance on remittances. Presented in 1998, the preliminary findings of the DFID research suggested that the actual volume and importance of remittances to the Nepali economy had been significantly understated, a finding confirmed by subsequent research.

With the aim of studying the inter-co-relation between these two variables and its economic impact, a field survey was conducted at various places where the concentration of people going abroad for foreign employment is higher. The major findings have been summarized below:

### **Structure of Foreign Employment of Nepalese Labour as per Field Survey**

Nepal has witnessed international migration since 1815 A.D. when Nepalese were recruited as soldiers in India. Due to the open border between India and Nepal it has been very difficult to estimate the figure of Nepalese currently working who might have migrated there during such a long period of time. Ignoring the number of Nepalese working in India, it has now been observed that the trend of people going abroad i.e. in the Middle East for foreign employment has increased considerably. This may have been due to the fact that these countries offer higher salaries in comparison to India.

During the field survey conducted at various places it was found that amongst the respondents 34 percent had gone to Malaysia, followed by Doha, Qatar (32 percent), Saudi Arabia (24 percent) United Arab Emirates (10 percent), South Korea (3 percent) and the rest to other destinations in search of foreign employment (Table: 4.3). This figure however excludes the data of people migrating to India in search of employment.

**Table – 5.1 Major Destination and Proportion of Nepalese workforce**

Name of the country	Percentage	Name of the country	Percentage
Malaysia	34	Bahrain	2.6
Doha, Qatar	23	Oman	1.4
Saudi Arabia	16	South Korea	0.6
United Arab Emirates	12	Israel	0.3
Kuwait	5.2	Others*	4.9

With the aim of studying the inter-co-relation between these two variables and its economic impact, a field survey was conducted at various places where the concentration of people going abroad for foreign employment is higher. The major findings have been summarized below:

#### **5.1.1 Documented Nepali Labour Migrants and their Concentration**

There are more than 500 thousands documented Nepali labour migrants who have left the country in search of foreign employment since last few years. This number does not include the migrants who are residing in India. Major concentration of Nepali labour migrants is found in Qatar, Saudi Arab, UAE and Malaysia. There is no significant number of labour migrants in other countries. The trend of labour migration in the Gulf States and Malaysia is increasing gradually.

#### **5.1.2 Armed Conflict, Political Scenario and Labour Migration**

Ongoing conflict, Political scenario and the loss of employment opportunity are found to be the major reason to the increment of international labour migration. Volume of migrant workers has increased considerably after the start of armed conflict in Nepal.

#### **5.1.3 Problem of Potential Migrant Features:**

Problems about potential migrant workers faced in the home country are very much neglected and the problems in the working countries are highlighted but no effective action are taken by the government.

#### **5.1.4 Weak Implementing Aspect of National Act:**

In one sense, the state's policy on foreign employment is perfect but its implementing aspect is found very weak due to the identical problems at all level. Government's action is not directed in a proper way as the policy guidelines. Government is lacking financial and human resource to strengthen the capacity of labour administration. Labour migration, being a highly important source of national income, is not in the priority of the government.

#### **5.1.5 Weak Commitment toward International Instrument:**

International instruments including the "Convention for the Protection of the Rights of the Migrant Workers and Members of their Families" are found very much powerful to ensure the rights of migrant workers. But Nepal has still not ratified that convention. The Declarations, Recommendations and Plan of Action adopted in different international conferences are also very much applicable to best benefit the migrant workers. Nepal is the state party of all these conferences i.e. state has morally obliged to implement the Plan of Action in the national level.

#### **5.1.6 Motives behind Migration:**

All kinds of people from poor to higher economic and social status are migrating to the accessible location and their interest behind migration is money. Poor and vulnerable group are migrating to India and lower middle and middle class people towards Gulf States and Malaysia. Similarly, higher middle class people are migrating to South East Asian countries like Japan and South Korea and the people from rich family to Europe and North America. So a distinctive class division among the labour migrants is found in terms of selecting their place of work.

### **5.1.7 Motives behind Uplifting Social and Economic Status:**

The expectation of earning is found different in each work place. But the common motive of each migrant is targeted to uplift the economic and social status of their family as compared to present situation.

### **5.1.8 Unprofessional Manpower Agencies:**

Manpower agencies are not fair in their business deal. They lack professionalism in successfully operating their business. Government's policy to regulate the work of manpower is absolutely ineffective. Manpower agencies are more focused on earning money rather than providing best services and benefits to the labour migrants. Manpower companies are losing their bargaining capacity with the foreign recruitment agencies due to the unhealthy competitions prevailing amongst the Nepalese companies.

### **5.1.9 Exploitation of Workers in all Levels:**

Exploitation of workers is found from the very beginning i.e. from his/her usual place to residence to the country of destination. Government's sincerity to address the issue of labour migrants in the implementation level is found very weak in terms of coordination capacity, labour diplomacy and the allocation of resources in the needy areas of concern. Labour migrants are working in poor and vulnerable environment. Most of them are found working in bonded like situation.

### **5.1.10 Weak transaction and Capitalization of Money:**

Earning of migrants is not coming back to the home country safely. There is also the lack of capitalization of their money.

#### **5.1.11 Concern about Safe Migration of Women:**

Migration of women besides India has increased since the last 20 years, which shows increased empowerment and motivation of women for economic independence. Major reason behind the demand of Nepalese women abroad is found due to their honesty and competence to be engaged in household work. Women have higher saving capacity than men and they contribute to 11 percent among the total remittance entering into the country. Women are also bounded from their family to take independent decision for foreign work. Economic exploitation and lack of information are found major obstacles to assure their safe migration.

#### **5.1.12 Lack of Proper Mechanism within the Government System:**

It is also found that government has a lack of proper vision and working mechanism to address the issue of international labour migration. Market promotion, market assessment, demand verification and the provision of labour attaché in the potential labour receiving country are still lacking though the foreign labour migration has been developed as emerging business and a reliable source of national income in the difficult economic situation of the country.

#### **5.1.13 Lack of Public Awareness about the Remittance:**

It was found that there has been very less effort from the concerned authority on creating awareness to general public about the remittance business which is helping to boost economic development of the country. This has hence created confusion to both the senders and receivers of remittances and has resulted in unnecessary delays in receiving the payments.

#### **5.1.14 Dominance of Hundi or Hawala System for remitting funds:**

Informal channel of remitting funds through Hundi or Hawala still dominates the formal channel of remitting funds. This is because of its fast delivery to the concerned beneficiary and comparatively less troublesome than the remittance sent through formal channels. This has

been the most primitive form of sending money from one place to the other and is still being used from various parts of the world to remit money. Due to this it has been very difficult to estimate the volume of inward remittance entering inside the country. Various experts have their own views as to the volume of inward remittance entering inside the country. It has however not been possible to estimate the figures of remittance entering inside the country through informal channels due to the open border between India and Nepal and consequently the remittance entering inside the country from India which is normally carried in by the Nepalese returning back to their home.

#### **5.1.15 No Presence of Banking Sectors at Various Parts of the country:**

It was found in many places that people were deprived of the basic banking facilities due to the threat of Maoist looting the banks. Few places though had the banks but were not operational as they were not carrying out any banking transactions. It has hence become a threat for general public to safeguard their money. With the increase in the inflow of remittances due to the ever increasing number of people opting to go abroad for foreign employment, it is obvious that people from various parts of the country collect their money from the possible means. Non presence of banking facilities forces many people to keep such money at their home hence posing threats of any mishaps.

#### **5.1.16 Sub-Agents of Banks and Money Transfer Companies:**

With the ease of licensing policy of the Central Bank of Nepal (i.e. Nepal Rastra Bank) since 2002, private sector organizations started operating in the field of remittance. Unlike commercial banks their prime focus is facilitating the delivery of inward remittance to the concerned beneficiary. It is due to this that they have appointed their sub-agents so as to make the payment to the concerned beneficiary at the nearest possible locations. Banks have also started appointing their sub-agents at various parts of the country so as to broaden their network coverage for remittance payments. This has made the remittance delivery fast and

more effective which can also be depicted due to the huge volume of inward remittance soaring inside the country.

#### **5.1.17 Economic Prosperity through Inward Remittances:**

Inward remittances to its recipients here in Nepal have become the most important financial support. It has helped them overcome their financial difficulties. Although most of the Nepalese workers going abroad for foreign employment were found to have been involved in lower paying jobs, their savings sent back home in the form of remittance are of great importance. With the appointment of subagents for making remittance payments at various major parts of the country, receiving the remittance is not a big problem for the beneficiaries. It was found that most of the people at the receiving end had collected their funds within 2-7 days of remittance.

#### **SOURCE OF EXPENSES INCURRED WHILE GOING ABROAD FOR FOREIGN EMPLOYMENT**

It was found during the field survey that the larger portion of people going abroad for foreign employment has opted to go there through Manpower Agencies. It may have been due to their ignorance about the process involved while going abroad for foreign employment or the Government's policy that people tend to choose such agents for arranging all the documents related to going abroad. Manpower Agencies process for the employment visas on behalf of the applicant and charge the service fee according to the nature of work in which the applicant is interested in hence bridging the gap between the labour demanding countries and the ever increasing unemployed labour force entering into the labour market here in Nepal.

Shattered by the political instability, Nepal has been badly hit by the ongoing Maoist activity which is one of the major causes of people opting to go abroad for foreign employment. Making an investment to pay the Manpower Agencies for a return of a good placement abroad

is the most prominent investments seen these days. Investing in such sectors can force an individual to sell his inherited property or get loans on higher interest rates or use all the funds that one has or to use other possible means.

The survey showed that 43.6 percent of people used their own fund while going abroad for foreign employment followed by 39.8 percent of people who had no other option but to take loans on higher interest rates from the local vendor. Similarly, 9.2 percent of people could only proceed forward with the process after they sold their land and property, followed by 2.3 percent people who didn't have to incur any expenses while going abroad and the rest 5.1 percent had gone through other means i.e. their expenses were all incurred by the employer or they had taken interest free loans through their relatives (Table – 4.6).

**Table- 5.2 Sources of Expenses Incurred**

<b>Sources of Expenses Incurred</b>	<b>Percentage</b>
Fund available with themselves	43.6
By taking loans on higher interest rates	39.8
By selling the land and property	9.2
No expenses incurred	2.3
Through other means	5.1
<b>Total</b>	<b>100.0</b>

## RECOMMENDATIONS

### 5.2 Recommendations regarding the Foreign Employment

Based on the field survey conducted at various places and the interaction with the concerned authorities of various departments relating to Foreign Employment the following recommendations have been made which would help the concerned authorities to take necessary steps to overcome them:

- ) Foreign employment sector should be made more reliable in the years to come. Our diplomatic missions abroad should be effortful to have at least a foreign employment promotion section. The task of such section would be to disseminate the fact and events concerning foreign employment opportunities especially for the Nepalese. Nepalese authorities concerning foreign employment should be effortful to send trained and educated Nepalese youth for foreign employment. Such youth would remit more money from abroad to Nepal than that of un-skilled youths working abroad. This does not mean that the un-skilled youths should not be encouraged. South Asian labour exporting countries could workout a common platform regarding foreign employment which would monitor the problems of South Asian labourers at various places around the world.
- ) Nepalese government should play a major role about the nature of government's policy on foreign employment i.e. should it be control oriented or the promotional one. If it is promotional, there should be the strong recognition of man power agency and they should provide facilities to make their work easier. The promotional policy should also be in favour of the worker going abroad, which include the protection and promotion of the rights of the migrant workers. The basic things that must be addressed in the policy level for the welfare of worker are pre-departure orientation, effective information dissemination system; administrative processes involved in the departure should be minimized. The government should also develop reintegration process of migrant workers in their respective community and for the holistic development of the country. Capital

accumulated and skills gained by migrant workers need to be used properly when they return back after their work.

- ) Nepalese government need to ratify the International Convention of the Protection of the Rights of Migrant Workers and members of their Families. Ratification of this UN convention by the Nepalese government will also assist to increase their bargaining power with the labour receiving countries to protect the rights of Nepalese labour migrants. Ratification of UN convention by the labour sending country will create moral pressure to the labour receiving country for the ratification of the convection.
- ) Nepalese government has to carry out an in-depth study identifying the problems of migrant workers in home countries as well as in the potential countries where they are going for work. The study will assist to lobby in the government level regarding the problems facing migrant workers. Nepalese government also needs to establish a department in major worker receiving countries that could help solve the problems of migrant workers in time.
- ) Government should initiate in providing appropriate trainings for the potential labour migrants, so they could get well paid job and also develop their skills. Lengthy administrative process of the government should be minimized. Bilateral and multilateral cooperation and promotion of international labour standards as well as involvement of the social partners and migrant workers in the formulation of migration policies is essential. Cooperation between origin and destination states helps to maximize the potential benefits from migration. Formalizing such cooperation through bilateral and multilateral labour agreements is therefore desirable step.
- ) Categorization of manpower companies is very much essential at present context. Companies with better grade should be awarded or given incentive from the government so that it would assist them to promote their business in an organized way. The incentive can be tax free, recognition of authorized manpower agency for a certain period of time

and authority to handle the monitoring work of labour migrants abroad. Specialization of man power companies is also very much essential. Government has to design such a policy which permits the man power companies to supply workers either in a single country or for specific work.

- ) Nepalese trade union organizations through their district network can operate training or counseling centre focusing the need and rights of the migrant workers. Trade union organizations have to lobby with the governments (both in sending and receiving countries) for the welfare of migrant workers in securing their fundamental rights. And above all the society has to change their attitude towards migrant workers be it for men or women migrant workers. Foreign labour occupation need to be established as dignified occupation.

### **Recommendations regarding the Inward Remittance**

Having visited to most of the places with higher concentration of people going abroad and based on various interactions with the concerned authorities it is recommended that Nepal Rastra Bank in co-operation with the government and non-governmental institutions should come-up with some concrete measures, which are highlighted below:

- ) Improving knowledge about remittances is critical for the assessment of policies, which directly impact the developing role of remittances in the economy. The transparency is required to understand its impact on poverty. Nepal Rastra Bank has continuously emphasized the importance of accurate estimation of capital inflows in the form of emigrants' remittances. Formalizing the inflow of remittances is very important. More than half of remittances enter the country through informal channels. The survey shows that the bulk of remittances to Nepal are channeled through unofficial sources, i.e., physically brought by the emigrants, friends and relatives. This is partially a reflection of the short geographical distance between the countries. This high flow of remittances through unofficial channels also asks for actions to make official channels more attractive

in terms of efficiency, safety, cost and anonymity. However, there are encouraging signs of demand for new technologies, innovative partnerships and entry points to reach disadvantaged groups.

) The high fees of the money transfer applied by the banks are often brought up as a motive why individuals do not prefer this service. Thus, it is better to explore possibilities to lower the transfer costs through broader bilateral agreements between the countries. Even though, money transfer companies provide transfer services at reasonable rates with a good geographical coverage, it is noticed that lot of cash are still entering the country through informal channels. This is more a regulatory problem rather than the preference of emigrants to go informal. The legislation on exchange rate control or anti-money laundering could increase transfer rates further and push people to go underground. This calls for a revision of regulation that does not penalize the volume of remittances. The formalization of the economy is a major component of improving business environment in Nepal. Therefore, forcing individuals to get into formal channels will have the long-term benefit of signaling the serious intentions of moving on the right directions to emigrants.

) For recipient families, accessibility to financial institutions plays a more important role due to large percentage of receipts delivered straight to the recipient's door. In fact, the disconnection between the physical receipt of funds and the location of the financial institution may have a great impact on disintermediation among recipients. The receivers could exercise some control over the mode and location of receipt. The geographic proximity of a branch or the ability to pick up a remittance in an office can determine an institution's ability to compete in the remittance market of Nepal. Remittances can be an entry point for many remitters and their families to the formal financial system. Many emigrant families are either not familiarized with banks or have limited access with financial institutions. Nepal Rastra Bank through its monetary policy or public communication strategy should aim to bring the public closer to banking products and services including transfers. No matter the small size of remittance amounts. Even those

small shares left by recipient families in bank accounts could assist economic development, as more funds will be available in banks to provide loan to private sector.

) For commercial banks and financial institutions, their ability to market additional value-added services, such as savings products, loans or other types of credit to remittance recipients will require the achievement of a critical mass of customer acquisition. A higher technology delivery mechanism to bring down the average cost of the investment requires serving such clients. Competition in the provision of remittance services helps to improve the services being provided and the markets for remittances should therefore be open to new entrants. Thus, the remittance industry of Nepal should be able to provide following facilities to senders and receivers:

- ✓ Clear information about the price and other features of the services.
- ✓ Easy access to remittance services.
- ✓ Reasonable protection from operational failures and criminal abuse.

) The following underlying principles should be considered by the regulating authorities and remittance operators for ensuring efficient management in remittance service:

- ✓ Transparent and adequate consumer protection policies should be adopted to enhance quality of remittance services.
- ✓ Encourage improving the payment system infrastructure in the country that has the potential to increase the efficiency of remittance services.
- ✓ A sound, predictable, non-discriminatory and proportionate legal and regulatory framework should be formulated for the remittance services in jurisdictions.
- ✓ Competitive market conditions including appropriate access to domestic payments infrastructures should be fostered in the remittance sector of the economy.
- ✓ Appropriate governance and risk management practices should be institutionalized for effective remittance services in the country.

The above mentioned general principles should be announced without delay by the Nepal Government and the regulating authorities as the public policy guidelines for achieving safe and efficient foreign remittance services. This announcement should also ensure the remittance market more contestable, transparent, accessible and sound.

) Having seen the end use of the remitted fund it is felt that Nepal still lags on the meaningful productive use of remittances money for the betterment of the people and economy. Presence of remittances has boosted informal lending practices. It has been concentrated on the investment in real state business also. But presence of remittance in Nepal has widened the income and wealth gap. Additionally, Nepal is not succeeding to tap more and more remittances amount via banking channels despite of various efforts in the past. As a result, a substantial portion of remittances are still coming to Nepal via informal channels. Central Bank's policies in the major South Asian labour exporting countries, aimed at rationalizing the exchange rate mechanism, is expected to bring more remittances through banking channels.

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# Appendix I

## Questionnaire for the family of Remitter

1. Number of Family members here in Nepal:  
.....
  
2. Number of Family member/s living abroad & where.  
(a) One      (b) Two      (c) Three      (d) More than Three
  
3. What is your current source of income?  
(a) Agricultural Produce      (b) From Cattle      (c) Service  
(d) Remittance
  
4. Personal information about the person working out of Nepal.  
Age:  
Educational Qualification:  
Duration of Contract to work:  
Country:  
Type of Job:
  
5. Who helped your family member/s with the entire process of going abroad?  
(a) Himself      (b) Manpower Agency      (c) Friend Abroad  
(d) Others
  
6. What was the expenses incurred for the matters related to going abroad for foreign employment?  
.....
  
7. Item wise listing of the expenses incurred whole going abroad for foreign employment.  
.....

8. What is the approximate monthly income of your remitter working abroad?  
.....
9. How long did it take your remitter to send the first remittance since he left Nepal?  
(a) one month                    (b) 2-6 months                    (c) 6-12 months  
  
(d) More than a year
10. What are the mostly used mode of transferring of funds from abroad.  
(a) Banks                    (b) Paying Agents                    (c) Individual Persons  
(d) Hundi/Hawalas
11. What is the normal time duration that it takes to receive the fund once you are informed of the remittance by the remitter?  
(a) The same day                    (b) 2-7 days                    (c) 1-4 weeks  
(d) More than a month
12. How often do you receive the funds?  
(a) Every Month                    (b) Quarterly                    (c) Biannually                    (d) Yearly                    (e) Not regular
13. How far do you travel to collect your remitted funds?  
(a) Its Nearby                    (b) within 25 Km.                    (c) Within 50 Km.                    (d) Takes more than a day
14. Amongst the various available options for receiving your funds where do you prefer receiving your funds?  
(a) Banks                    (b) Paying Agents                    (c) Individual Persons  
(d) Hundis
15. Could you specify the reason for your choice on Question No. 15?  
(a) Reliable and the funds can be deposited in the account.

- (b) Fast, Hassle free and do not require more paper works like in Banks
- (c) Reliable as the fund is normally collected from individual bringing the funds
- (d) Have been receiving the funds from the same process since the beginning.

16. Has there been any instance that it took you a very long time to receive the funds?

- (a) Yes            (b) No

If Yes, Could you specify the reason behind

- (a) Had approached the wrong place to collect the fund
- (b) Had approached the payout location with the wrong security number
- (c) Due to the unavailability of the Banking Service
- (d) Had received the message very late

17. What are the areas that you use the remitted fund for?

- (a) Settling Loans & For Basic Needs
- (b) Educating Children
- (c) Buying Land/Building
- (d) Investing in some productive sectors like cottage industry

18. Are you able to save any money from the remitted funds after have met your basic requirements?

- (a) Yes (b) No

If Yes how much do you save on a monthly basis (equivalent NRs.)

.....

19. In what sector have your invested your received money?

- (a) Real Sector            (b) Business    (c) Savings (d) Others

Please Specify .....

20. Do you think that the government should organize awareness campaign for such investment opportunities so as to make people aware of those sectors where they could invest their funds?

(a) Yes            (b) No

21. Could you give your suggestions as how could the procedure of sending Nepalese People for foreign employment be more organized than it currently is and the ways that needs to be followed for hassle free delivery of inward remittances.

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***THANK YOU***