

# CHAPTER 1

## INTRODUCTION

### 1.1 Background of the Study

The history of migration is as much the history of human civilization. Humans have moved into new areas in search of food and shelter since their emergence as a species. Ever since the Stone Age, migration has led to the transmission of physical characteristics and diffusion of cultural makeup including tools, habits, skills, customs, forms of social organizations and furthermore, the unfolding of newer ideas and the spread of knowledge. The most important migratory movements in history were the Gothic forays through the 3<sup>rd</sup> to the 6<sup>th</sup> century A.D., the Arab invasions in the 7<sup>th</sup> and 8<sup>th</sup> centuries, and the invasions of the Ottoman Turks in the 14<sup>th</sup> to the 16<sup>th</sup> centuries (Pandey, 2005). But from 17<sup>th</sup> century onwards, migration became a matter of individuals and families rather than nations or mass groups. The basic motive for venturing into distant lands now became the quest for better economic opportunities and improved living standards rather than just food and shelter. The Industrial revolution gave rise to an important trend of international migration that of the great movement of people from rural to urban centers in virtually every country and the travel from low-levels of social depravity to higher levels of economic prospects.

With the ebb and flow of time and the innovations in easy air travel, communications and improved productivity; migration was not necessarily a ‘permanent relocation’. By working in a factory thousands of miles away, now a “migrant worker” can send money back to his family in the remote hills of his country and also return for a reunion during holidays. Foreign employment became a major source of national income for many developing countries (Pandey, 2005).

#### 1.1.1 Migration and Safe Migration

Movement of people to other countries in search of employment is by no means a new phenomenon because labour mobility has been an important and essential feature of the economic and social development of societies throughout human history. Labour

migration for overseas employment has become a topic of popular attention of various labour surplus countries in recent years especially after the speedy globalization. Migration is a relatively permanent moving away of collectivity, called migrants from one geographical location to another, preceded by decision making on the part of migrants on the basis of hierarchically ordered set of values or valued ends and resulting in changes in the international system of migrants. It is a physical transition of individual or from one society to another. This transition usually involves abandoning one social setting and entering another and different one. The mode of changing of place of domicile may be permanently or when temporarily for appreciable duration. It is used symbolically in the transition from one surrounding to another in the course of achieving better human life.

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 (Pathak, 2005). 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 (Pathak, 2005). 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.

Safe and systematic labour migration is a process as well as outcome of cross-border recruitment and placement, willingly based on informed choice with promised terms and conditions of employment. It is determined by various factors including migration, cooperation among the source and destination countries on matters of protection of migrant legal, authorized, documented and regular migration. Regularity and safety at source, transit and destination; compliance to national and international standards by both the source and destination countries; knowledge-based, skill-based and information-based migration, cooperation among the source and destination countries on

matters of protection of migrant workers (including undocumented workers); access to labour markets and prevention of illegal migration. Basic indicators of safe migration include pre-departure capacity development through proper orientation on dynamics of migration; effective service delivery for migration for facilitated departure and transfers till job placement; decent employment conditions; proper documentation and information; bilateral labour agreements between the sending and receiving states; worker-friendly policy and law; on-employment monitoring and supervision; grievance handling mechanism and counseling services; safe and reliable remittance services; safe return and reintegration of migrant labour.

Safe migration is determined by voluntary, willful and informed movement of people abroad for employment, study, family reunification, business or personal factors whereas the unsafe migration is caused due to forced migration which includes people leaving their countries to escape persecution, conflict, repression, natural and human-made disasters, ecological degradation, or other situations that endanger their lives, freedom or livelihood. Forced and unsafe migration leads to human trafficking and smuggling for 3-D work: dirty, dangerous and difficult (Pathak, 2005).

### **1.1.2 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 (Pathak, 2005). 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 (Pathak, 2005). 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.

Realizing the imperatives of the foreign employment in the economic growth of the country His Majesty's Government of Nepal introduced Foreign Employment Act in 2042 B.S. (1985 A.D) and joined the employment market by sending its surplus manpower abroad for the employment. But in reality the outflow of the Nepalese workers from the country in considerable number started after 1990. The pace of the foreign employment increased dramatically after 1996 and the consequent shrinking of economic opportunities back home compelled Nepalese youth to look for alternatives elsewhere. With 42 percent of the total population living below the poverty line and garment, carpet and pashmina production declining due to overall slowdown of global financial system, the only sector that is sustaining the ailing economy is the remittances generated from Nepalese labour force working abroad. Of late, foreign employment has become the most important sector for the sustaining of the country's economy. In an average 200 youths leave Nepal for employment overseas. Massive unemployment inside the country is the main reason behind this upsurge in venturing out to distant lands. Among the total population of 23.1 million, 47 percent are underemployed. According to one estimate, annually 300,000 to 350,000 new Nepalese labourers enter the market. Out of these new entrants, 30 to 40 thousand find jobs within the country; about 100,000 go abroad and the rest remain in the country without a job.

Although officially, Nepal has opened 108 countries for Nepalese workers, there is an estimated half a million to 700,000 mostly unskilled and semi-skilled Nepalese labourers working in the Arabian Gulf. Although, they have now started going in large numbers to other regions as well, the Gulf region has more Nepalese workers than anywhere else in the world. Despite this link, Nepal's relations with Gulf countries have been an oft-neglected aspect of Nepal's international relations exercise (Pandey, 2005).

### **1.1.3 Understanding Nepal's Foreign Employment**

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 sending 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.

There is almost the buck-passing tendency and rent seeking behaviour among

government agencies and private sector as well as the components of civil society used to work as the watchdog of migrants' rights and interests. Rational ignorance has been shown by the agencies of government and private sector along with diplomatic missions against the spirit of decent foreign employment. None of the states, sending and receiving, have shown accountable behaviour for ensuring decent migration. There is never ending reluctance in part of labour receiving states and lack of persuasive move by the labour sending countries to agree on bilateral Memorandum of Understandings, which are the instruments regarded for decent employment for migrants. The non-intervention by states of origin and the destination has barred from producing the desired levels of conditions of labour migration. Despite the fact that there are irregular channels for human export, no country is serious about the issue of undocumented and irregular migrants.

Foreign employment has not been placed as integral component of national economy, neither treated as national priority or any substantial mainstreaming efforts. No move has been forwarded towards a gender-sensitive safe migration policy with a rights based approach. There is no labour budgeting and investing plan despite of its significant contribution to national economy. The pitiable reality is that there is no clarity in the systems of foreign employment practiced so far whether it is state-regulated or state-managed, state-monopoly or privatized. As the consequence, there is no efficient, appropriate, adequate and effective policy and institution for fostering safe migration and promoting foreign employment in the interest of national development (Pathak, 2005).

The categories of manpower available in Nepal are broadly classified into four groups (Gurung, 2003)

- I. Professional
- II. Skilled Technicians
- III. Semi skilled
- IV. Unskilled

**Professional categories:**

- a. Managers
- b. Engineers of different stream like computer, civil, mechanical and chemical etc.
- c. Medical doctors
- d. Scientist in various fields
- e. Professors/ Teachers in various fields
- f. Chartered / Cost Accountants

- g. Geologists/ Soil specialist
- h. Architects/ Planners
- i. Banking specialist
- j. Travel and Tour operators
- k. Accountants

**Skilled Technicians:**

- a. Diploma Engineers
- b. Pharmacist
- c. Laboratory technicians
- d. Medical assistants
- e. Paramedics
- f. Foreman, Electrical, Mechanical, civil etc.
- g. Chefs
- h. Construction supervisors
- i. Quality Surveyors
- j. Welders
- k. Carpenters
- l. Building Painters, Spray Painters
- m. Steel fixers
- n. Masons
- o. Tile fixers and Plasterers
- p. Plumbers
- q. Pipe fitters
- r. Steel Fabricators
- s. Drivers, Heavy and Light
- t. Drafts men
- u. Waiters, Cooks and Bakers
- v. Security Guards
- w. Operators: Machine, Laundry, Shovel, Bulldozer, Power tailor, Computer
- x. Gold Smith

**Semi skilled:**

- a. Electric Helpers
- b. Mechanical helpers
- c. Sky folders
- d. Glass cutter

- e. Mason helpers
- f. Washer men
- g. Pressmen
- h. Office Assistants
- i. Waiters
- j. Assistant cook
- k. Kitchen helpers
- l. Barbers
- m. Gardeners
- n. Shop assistant
- o. Salesmen: Timekeeper, Office boy etc.

**Unskilled:**

- a. Construction workers
- b. Cleaners
- c. Watch men/ Guards
- d. Agriculture labourers
- e. Industrial labourers
- f. Office boys
- g. Room Boys

#### **1.1.4 Inward Remittance through Migration: A Global Perspective**

Inward remittances are basically foreign exchange, which is remitted by people who are living abroad to their own countries. The earnings of a country by remittances are shown in the Balance of Payments statistics of each country and the accounting is prepared according to the guidelines prepared by the International Monetary Fund. The International Monetary Fund separates remittances into three categories; Workers remittances from workers who have lived abroad for more than one year. It is recorded under the headings 'Current Transfers' in the current account of the balance of payments. The wages salaries and other compensation received by border, seasonal and other workers (such as local staff of embassies), who have lived abroad less than a year are recorded under the 'income' subcategory of the current account. Migrant Transfers are reported under the capital transfers in the capital account. The above definition does not include transfers through informal channels – such as remittances send through friends, family members, Hundi or remittances send in kind such as jewelry and other consumer goods. Although the headings migrant remittances goes only to the workers who lived abroad more than one year but other heading captures the extent of workers remittances



better than the data reported under the headings of workers remittances alone. For example, in the Philippines remittances sent by the seasonal workers through the banking system exceed the remittances from the workers remittances.

Remittances have become the second largest capital flow behind Foreign Direct Investment (FDI) and ahead of Overseas Development Assistance (ODA) to developing countries. According to the World Bank study overall remittances constituted 1.5 percent of GDP and 5.1 percent of imports to this group of countries in 2004. For developing countries remittances are also relatively more important by contributing 66.2 percent of FDI inflows and 250.0 percent of net official finance. In 2004 remittances were larger than both official and private flows in 36 developing countries.

**Table – 1.1 : Capital Flows in Developing Countries**

**In Billion US \$**

S.No.	Headings	2001	2002	2003	2004	2005*
1.	Foreign Direct Investment	181.7	162.2	175.0	147.1	135.2
2.	Portfolio Equity Flows	12.6	4.4	4.9	14.3	-
3.	Official Development Assistance	56.4	53.7	52.3	58.3	-
4.	Workers Remittances	67.6	68.4	77.0	88.1	93.0

*\*Estimate*

*Source: Global Development Finance, World Bank – 2006*

Although FDI has slipped from a 2001 peak of \$181.7 billion and has been estimated to be \$135.2 billion in 2005 but still remains the major source of external financing for developing countries. While workers remittances were estimated to reach \$93 billion in 2005 up from \$67.6 billion in 2001. Portfolio equity shows the volatile trend which is estimated to be \$14.3 billion 2005 from \$12.6 billion in 2001. Official Development Assistance has remained somewhat stagnant from \$56.4 billion in 2001 to \$58.3 billion in 2005.

Regionally Latin America and the Caribbean have estimated to receive the lion share of remittances in nominal terms with \$29.6 billion in 2005 followed by South Asia with \$18.2 billion. Relative to GDP, however South Asia was the largest recipient with remittances receipt amounting to 2.5 percent of GDP in 2004. Till 2000 India was the top country of the world that received highest remittances followed by Mexico. Since 2001,

Mexico has outpaced all the developing countries. In 2002 Mexico received \$11.0 billion followed by India at \$8.4 billion. In 2005 Mexico is supposed to receive \$13.2 billion and India \$8.4 billion. Philippines is the third highest remittance receiving developing country and received \$7.4 billion in 2004 and is estimated to receive \$ 8.0 billion in 2005.

The United States and the Saudi Arabia are the largest sources of Workers remittances to developing countries with \$31.4 billion and \$15.9 billion payments of remittances respectively in 2004. The other top sources of remittance are Germany, Belgium and Switzerland. Until the Mid 1990's, Saudi Arabia was the largest source of remittance paying countries in the world. Since 1995, as economic activities have slowed remittances from Saudi Arabia have also stagnated. But the remittances from the United States nearly doubled driven by the economic boom (Pant, 2005).

### **1.1.5 Characteristics of Remittances**

According to Pant the characteristics of Remittances are as follows:

1. 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.
2. 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.

3. 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.
4. 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.

### **1.1.6 Factors Determining the Remittances Income**

Pant further highlights the factors determining the remittance income, which is as given below:

1. Number of migrants and the length of stay: An important factor is, of course, the number of migrants. It is natural that if more migrants went for work abroad and if they stayed for a longer period they remit more. But, according to the study of the World Bank, temporary migrant workers tend to remit a larger portion of their income than immigrants who plan to settle down. The temporary workers who have planned to return home soon have the ties with family left behind. The propensity to remit (Remittances as a share of income –  $R/Y$ ) has been believed to decline with time. The remittance behavior of the migrant workers also varies with skill and gender. The skilled workers may earn more and send a large nominal amount than unskilled workers. The unskilled workers may send a larger share of income. Woman are believed to remit a larger proportion of income and more regularly than man.
2. Macro Economic Activities: The nominal remittances send by the migrants depend upon the comparative macroeconomic activities of the migrant sending and receiving countries. If the labours sending economy is in expansion phase then the remittances enters in the form of cash. Similarly remittances enter through the formal channel if the banking facilities are provided in the rural sector. In case the economy is in contraction phase the remittances enters in the form of kind.

3. **Foreign Exchange Regime:** Whether the migrants sent remittances through formal or informal channel would depend on the difference between the official exchange rate of domestic currency and the black market rate. If the recipient country has parallel foreign exchange market, then the remittances enter through the informal channel. Because the unofficial market rate is always higher than the official exchange rates used by the banks for converting the remittances into the local currencies.
4. **Level of Education:** The level of education of the migrants also determines the amount and the channel of remittance. The educated migrant knows well the banking system and the advantage of sending money through the banking channel. The uneducated migrant prefers to send through the informal channel.
5. **Political Stability:** The political stability of the migrant sending country determines the amount of the money send to the country. In a politically stable country there is a positive investment climate, which can make effective utilization of remittances.

### **1.1.7 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 const 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.

### **1.1.8 Inward Remittance Business in Nepal**

Nepal is one of the world's poorest countries, with a population of around 27 million and a per capita GDP of under US\$1. It is also landlocked, between India and China, and mountainous, situated between the Himalayas and the plain of the Ganges River. Agriculture remains a major source of livelihood, and tourism is also important.

But one of Nepal's major exports is labour, and most rural households now depend on at least one member's earnings from employment away from home and often from abroad.

The Labour Act of 1985 has facilitated arrangements for Nepali migration to about a dozen specified countries, but the government has failed to develop a coherent labour export policy. Every five years, the government of Nepal produces a plan as a policy guideline. Although the current 10th Plan recognizes both the contribution remittances make to the national accounts and the increasing demand for Nepali workers abroad, the government is struggling to keep up with these trends.

In the last decade, foreign labour migration has become a major feature of Nepal's economy and society. Approximately 700,000 Nepalese work "overseas," meaning beyond India, mainly in the Middle East, East Asia, and Southeast Asia. About five

percent of these are women. At least another 700,000 work in the private sector in India, and 250,000 in India's public sector.

Although average earnings are low and individual remittances relatively small, the aggregate value of money sent (or brought) back to Nepal from India has been substantial — probably between 25 and 30 billion Nepalese rupees (NRs), or about US\$450 million to US\$500 million, in the mid-1990s (Seddon, Adhikari, and Gurung, 2001).

In total, it was estimated in 1997 that the value of remittances from countries not including India amounted to between 25 and 30 billion Nepalese rupees (NRs), or between US\$450 million and US\$500 million — about the same amount thought to be coming from India. The bulk of these remittances came from Southeast Asia (Malaysia, Singapore, and Brunei) and the Far East (Hongkong, Japan, Korea).

That number, combined with the remittances from India, would be between 50 billion and 60 billion NRs — nearly US\$1 billion and between 18 and 22 percent of Nepal's GDP — a very substantial contribution to the national accounts and the national, regional, and household economies.

## **1.2 Focus of the Study**

Foreign employment is cited as the most suitable remedy for the ever increasing unemployment problem prevailing in the country in today's context. Various manpower agencies have been working as a facilitator helping people who want to go abroad for better employment opportunities hence bridging the gap between the larger pools of idle workforce available in our country to meet the demand of larger workforce in other countries. This has given rise to international migration not only in Nepal but is seen worldwide.

Positive consequence of people leaving ones country of origin is that their earnings in the destination country would enter inside the country of origin in the form of inward remittance whereas the brain drain from the country of origin can be a biggest threat to it and can be taken as a negative consequence. The main focus of this study is to analyze more specifically the pros and cons of the foreign employment and inward remittances and its economic implications. The study is expected to create awareness amongst Nepalese going abroad in search of better employment opportunities. Other bodies benefiting from this study would be the various government bodies especially the

Ministry of Labour. This would help them create employment opportunities inside the country or even device skillful training programmes which would help Nepalese going abroad get highly paid jobs.

### 1.3 Statement of the Problem

It was only after the Gulf War which prompted the countries in the Middle East to open their door demanding for labours so as to restructure their shattered economy. As a result of this a greater pool of workforce from South Asian countries have started going to the Middle East to overcome the problem of unemployment in their country of origin. Since then the number of people going to the Middle East and Malaysia are in an increasing trend and the flow of people going to these countries dominates the flow of people going to other countries. Nepal, unable to overcome its ever increasing problem of unemployment, has not been an exception to these.

The Eighth Development Plan (1992 – 1997) was a major turning point and was the first government move towards the upliftment of the foreign employment for Nepalese going abroad for employment. Manpower agencies started providing the service as a facilitator helping Nepalese people going in search of employment. Manpower agencies then started mushrooming up and today they are situated in every nook and corner of the city. Many fraudulent cases have emerged as a result of manpower agencies indulging themselves into wrong practices. This has posed a threat to the currently boosting foreign employment industry which would ultimately hamper the inward remittance business flourishing in Nepal.

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:

- a. What is the economic impact of foreign employment and remittances on

- the underdeveloped country like Nepal?
- b. What can be done to enhance the skill development of people going abroad for foreign employment?
  - c. How remittance has contributed in poverty alleviation?
  - d. How can the remittance be utilized in other different sectors of economy?
  - e. What is the micro and macro level impact of inward remittance business in Nepal and its contribution to the Gross Domestic Product (GDP)?
  - f. What can be done to bring the money transfers into the official fold?

## **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:

- a. To study about the economic impact of current state of Foreign Employment and remittance in Nepal.
- b. To study the methods of enhancing the skill development of people going abroad for foreign employment.
- c. To study about the contribution of remittance in poverty alleviation.
- d. To study the contribution of remittance in other different sectors of economy.
- e. To study the impact of micro and macro level of inward remittance business in Nepal and its contribution to the Gross Domestic Product (GDP).
- f. To study the methods for bringing the money transfers into the official fold.

## **1.5 Limitations of the 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:



- a. Since very few researches have done in this area in the context of Nepal, the study depends upon the published data and data gathered from the survey.
- b. This study is only concerned 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.
- c. Since large volumes of inward remittance are entering inside the country through informal channels, official data excludes these figures. However various efforts were made to cover these data to the extent possible.
- d. The study is mainly based on the published secondary data and data gathered from the survey conducted at various places i.e. primary data gathered from related sources hence the reliability depends on it.
- e. As a research student the study is unbiased but resources and time period is limited.
- f. 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 basis source of secondary data. Primary data are restricted to the ones collected during the survey from certain highly emigrant concentrated locations.

## **1.6 Organization of the Study**

The study is divided into five chapters as follows:

### **Chapter 1: Introduction**

This is an introductory part of the present study. It includes background of the study, statement of problem, objective of the study, significance of the 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.

### **Chapter 3: Research Methodology**

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

- I. Research Design
- II. Population and Sample
- III. Sources of Data
- IV. Tools for Analysis
- V. 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 Labour, 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**

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. 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.

### **2.1 Conceptual / Theoretical Review**

Various researches have been conducted internationally on the issue of international labour migration and remittance economy but in the 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.

With the increase in the number of workers, the inflow of remittances has also taken an upswing. Moreover, because of the policy steps taken for enhancing the inflow of remittances to the country through the official mechanism the share of remittances coming through the official channel has gone up. The mounting remittances have led to a surplus in the current account, thereby strengthening the overall balance of payments position. Despite of such a large volume of inward remittances soaring inside the country as a result of booming international labour migration from Nepal, there still remains some questions unanswered.

### **2.1.1 An Overview of Labour Migration**

Over the past three decades, policies in the area of labour migration have developed along four major paths: growing restrictiveness and selectiveness in the admission of labour migrants in developed countries; a significant increase in the number of countries, particularly developing countries that have become host to foreign workers; the rising recognition that the rights of migrant workers and their families need to be protected and; the adoption of regional agreements on the free movements of persons (UN, 2002).

Globalization of integration of regional economies has added impetus to the growing mobility of workers across abroad. In Asia the movement of labour is becoming an important and enduring phenomenon associated with economic growth and development since it eases skill imbalances in labour markets and provide broad cultural and economic benefits for sending and receiving countries. Migrants' remittances, for example, are now a valuable and stable source of foreign exchange to many origin countries. At the global level, the importance of migration to development is now reflected in the fact that it has become the part of agenda of multilateral institutions, as for example in the trade negotiations within the framework of General Agreement of Trade and Services (GATS).

While market forces are driving labour migration, there are several signs of market failure associated with its related processes. A number of risks have been associated with migration including trafficking and forced labour, recruitment malpractices such as fraudulent job offers and exorbitant placement fees, debt bondage, sexual and physical harassment, employment in hazardous jobs, and under or non-payment of wages. Experience suggests that state intervention through appropriate regulatory institutions and measures are essential to the efficient and equitable working of labour market

Recruitment malpractices, fraud and abuses are widespread in many Asian Countries. To combat them government should have transparent systems in place for licensing and supervising private recruitment agencies. There should be stiff sanctions against fraud and against the practice of charging workers excessive placement fees, while providing incentive for good performance and cutting down lengthy bureaucratic procedures through such measures as establishing "one-stop" contract registration

processing centres (ILO, 2003).

Despite major barriers to migration, irregular migration has grown in recent years in Asia due to, among others, restrictive labour migration policies which are not in line with labour market needs. There is consensus that irregular migration is undesirable and must be minimized particularly as it often results in putting workers in a position of vulnerability to violation of their basic human rights.

Until the First World War, international migration played a key role in the integration of economies of both sides of the Atlantic. After the Second World War, migration of workers contributed to economic and social integration between countries in South and North. During both these periods, labour went hand in hand with capital mobility, and migration was key factor in the globalization of economies. International migration now seems to be excluded from the new process of globalization.

At the beginning of the twenty-first century, the total number of persons living outside their countries of origin worldwide was 175 million including 120 million migrant workers and their families according to the ILO estimates. It is estimated that 20 million African men and women are migrant workers and that by 2015 one in ten Africans will live and work outside their countries of origin. While migration is bound to grow and offers development opportunities for both countries of origin and destination as well as for individual migrant workers, ill-conceived or inadequate policies have led to a series of problems that are of direct concern to the International Labour Organization and its constituents (UN, 2002).

It is surprising to know that the larger share of international population movement is in developing countries. The refugee burden is particularly heavy in developing countries, which receive nearly three-quarters of all officially-designated refugees and untold numbers of other forced migrants. In addition, the developing world contains numerous magnets for economic migrants, including the newly industrializing economies of Asia; the oil-producing Middle East Gulf States; West Africa and – increasingly – South Africa; and the Southern Cone, Venezuela, and Mexico in Latin America. While international migrants represent only a small fraction of the world's population, the impacts of these movements can be larger if compared to the numbers who move. (ILO, 2003).

Who are these international migrants? They include people who have moved

more or less “voluntarily” (e.g., short and long term workers ranging from unskilled labourers to highly skilled “professional, technical, and kindred” (PTK) workers), as well as those whose movement is in some sense “forced” (e.g., refugees and bona fide asylum seekers, and people who move for environmental reasons or “ecomigrants”). Included along this spectrum are many whose movement is a response to poverty and lack of employment at home.

Some are settlers, whose migration – whether undertaken legally or illegally – is essentially permanent; others have moved (at least initially) on a temporary basis. In general, migrants tend to be young adults. Again, it comes as a surprise to many that between 40 and 60 percent of all international migrants worldwide – and over one half of refugees – are women and girls. In some migration streams (such as those from Sri Lanka and Indonesia to the Gulf States), the majority of migrants in the 1980s were women.

Increased attention to the volume and directions of international population movements has been accompanied by growing awareness that migration is linked often in ways that are poorly understood to the process of development itself. Developing countries, which both send and receive the majority of international migrants, are trying to understand better the role of migration in the development process. Industrial countries, for their part, are examining the ways in which their trade, aid, investment, and development assistance policies affect and are affected by international migration, especially from developing areas. In the case of migration, globalization and its dominating facet, foreign direct investment, may mean two opposing things. It can be viewed as the necessary complimentary between movements of production factor labour and flows of capital and goods or, conversely, as an alternative to the movement of workers. In the first case, globalization would lead to the growth and diversification of migration flows, while in the second international trade and capital movements would substitute migration.

Beyond quantitative changes, the essence of new developments brought in by globalization is the transformation of pattern of trades and productive systems. High skilled labours become more capital alike and are characterized through high international mobility, while movements of low skilled labour may become superfluous regarding rising capital portability.

Many developing country governments encourage international labour migration, more often implicitly than explicitly. By providing employment for both unskilled and

skilled workers, emigration offers an outlet for domestic frustrations that might otherwise present serious political problems, and can produce large inflows of valuable hard currency remittances. The consequences of international migration for development (of development on migration) in countries of origin and destination remain hotly debated.

Many countries around the world are facing rapidly changing dynamics of labour migration. Migration pressures are increasing in all regions of the world. Migrant workers are often still subject to severe forms of exploitation in recruitment and employment, to forced labour, substandard housing, exclusion from social protection, and denial of many basic human rights.

All too frequently, national migration policies, legislation and practices are outdated. Many governments acknowledge that existing law and practice are manifestly inadequate to assure effective management of today's labour migration conditions. During 2000 to 2001, a number of governments in Central and South-East Asia, the Caucasus, the Persian Gulf and Latin America have asked the ILO to provide advice and technical assistance towards reformulation and modernization of labour migration legislation, structures, policies and practices. Our aim is to offer the relevant government a comprehensive review-analysis-recommendations package to address labour migration issues and needs, update legislation, policy and practices, and implement measures for effective management of labour emigration and immigration. The ILO International Migration Branch has the accumulated knowledge, expertise and framework to respond to these challenges. It however, requires additional resources to provide adequate and timely cooperation to constituents.

### **2.1.2 Causes and Consequences of International Labour Migration**

The causes of international migration are multiple and, for any given country, change over time. Understanding those causes, identifying what – if any – issues they raise for migrants and their countries of origin and destination, and determining appropriate and effective policy options for addressing such issues needs to be done on a country-by-country basis (Bhattarai , October, 2005). A review of Existing Government Policies and Programmes supported by Youth Action Nepal.

**Consequences in countries of Origin:** Many developing country governments have encouraged international labour migration, more often implicitly than explicitly. Such countries include Turkey, the Philippines, South Korea, India, Pakistan,

Bangladesh, Sri Lanka, Jamaica, Cuba, Barbados, Mexico, El Salvador, and Nicaragua. Their reasons are multiple. Emigration can provide relatively well-paid employment, especially attractive for governments struggling to keep pace with rapid labour force increases. In some countries (Egypt, Sri Lanka and India are prominent examples), educational systems are producing numbers of highly-educated graduates far in excess of domestic demand for such persons. By providing employment for both unskilled and skilled workers, emigration offers an outlet for domestic frustration that might otherwise present serious political problems, and can produce large inflows of valuable hard currency remittances. Moreover, some governments have welcomed, if not encouraged, the emigration of selected ethnic groups and political dissidents. At the same time, sending country governments express concern that emigration deprives these nations of their best human resources, represents a transfer of educational investment from poor to rich countries and leads to abuses or exploitation of their workers. Out-migration can also pose the risk of rather serious and sometimes dramatic economic problems and the need to make sudden adaptations when migrants return unexpectedly and in large numbers, as occurred in the aftermath of Iraq's incursion into Kuwait in 1990.

The consequences of international migration for development (and the effects of development on migration) in countries of origin remain hotly debated – and poorly understood. The positive links are most clear over the long term, as illustrated historically by countries such as Sweden, Germany, and Britain, and more recently by “transition cases” such as Italy, Greece, South Korea, and Taiwan, all of which went from being countries of emigration to countries of in-migration. Over the short term (10 to 20 years), it has proven difficult to demonstrate empirically any “automatic mechanism” by which international migration results in development. At the same time, there is evidence that rapid and successful development may increase emigration in the short term.

Although the poorest seldom have the means to migrate, remittances have been shown to play an important role in poverty alleviation for migrant households and in sub-national areas of out migration. The consequences of remittances for income inequality depend greatly on the income composition of a given migrant stream. Inequality may increase if migrants are concentrated in upper-income households, but may have neutral effect where migrants are fairly evenly distributed across income levels.

The consequences of migration for labour markets and human capital in countries of origin are multiple and most often context-specific. It has been difficult to demonstrate absolute reductions in unemployment as a result of international migration, but



emigration does appear to play an important role in absorbing labour force growth. Whether or not emigration constitutes a “drain” of workers at any skill level sufficient to hinder the development process depends upon the availability of human and other resources to fill the gap. Similarly, migration may or may not contribute to the acquisition of skills abroad. It is more clearly evident, however, that migration and remittances improve the ability of migrant families to educate and provide health care for their children.

**Consequences in countries of Destination:** Migrant-receiving countries are a heterogeneous lot, and generalizations about the consequences of international migration for them as a whole are difficult to make, especially given that migration patterns and to them change over time and with changing circumstances. Arguably the most universal consequence is that international population movements-however small-can alter the ethnic, racial, cultural, and sometimes the political composition of receiving societies. While these diverse populations are often successfully integrated, they may also contribute to social conflict and, in extreme cases, violence against migrant groups.

### **2.1.3 Problems Faced by Migrant Workers in Sending Countries**

In Philippines there is little or no employment opportunity in the home country, or there is only an under-employment opportunity. Workers must pay a placement fee to a local employment agency or a special fee to their own home government. Workers often must borrow money at high interest to pay these fees.

Similarly in Thailand, there is need for pre-departure orientation programs for Thai workers who wish to go overseas for work. The Ministry of Labour does have programs in operation to facilitate the process. The problem is an insufficient budget for pre-departure orientation programs and proper administration. The bureaucracy set up to handle the growing number of interested Thai candidates for jobs abroad is also very complicated and the process is very time consuming.

This has been further complicated by a burgeoning number of private job placement agencies that have found that it is very profitable to step into the system and offer their services to Thais who want quick jobs abroad. These job brokers travel to village after village offering quick overseas employment and present a picture of instant wealth to villagers who are very vulnerable to their spiel. The condition for such employment, of course, is paying the broker a placement fee. The official fee is roughly

60,000 baht (USD 1,350) but in fact the amount being paid fluctuates according to the demands of the job broker and the gullibility of the job-seeking workers. Often the figure is closer to three times the official quota.

Contracted work overseas is rarely long-term. Usually the work contract lasts two years. For the worker to recoup the amount of money paid to the broker as a placement fee a full two years is virtually essential and, even so, any meaningful profit requires a good deal of overtime work.

There is much activity at present at the Ministry of Labour to update their procedures to be more relevant to the situation and more protective of the workers seeking overseas employment.

Thai overseas workers tend to be non-confrontational to employers, hard working, and docile so they are in demand. The Thai Government actively promotes overseas jobs and tolerates the job brokers' involvement.

#### **2.1.4 Globalization and Regional Integration in Asia**

Migration and management of labour migration are now acknowledged as central issues of concern for governments and social partners worldwide. Recent ILO figures indicate that there are some 5 to 7 million migrant workers and their dependents outside their countries of origin across Asia and another 8 – 9 million in the Middle East, the majority from Asia.

An increasing number of governments have recognized the need to establish, modernize or improve their legislation, policies, practices and administrative mechanisms to address migration issues, particularly labour migration.

Initial emphasis has been on migration control. Visa requirements, increased border controls, monitoring and other mechanisms have been strengthened in Asian countries, some of which have historically experienced considerable cross-border movements.

#### **2.1.5 Major Concerns in Asia**

Economic development, trade, and labour dimensions of migration have been

identified as important concerns by a number of Asian countries. How does labour migration contribute to development? What benefits can labour mobility confer on regional economic integration? How can States ensure appropriate attention to employment standards and other measures to discourage irregular migration and unfair competition with national workers? What costs does the loss of skills and talent “brain drain” incur for some countries?

Labour migration is of major economic and social interest for a number of countries in the region. Migrant remittances represent a significant portion of foreign exchange earnings for Bangladesh, India, Indonesia, Nepal, Pakistan, the Philippines, Sri Lanka and Vietnam, among others (worldwide, a total of 73 billion dollars per annum, second only to petroleum). For several industrializing countries in the region migrants provide a significant portion of their semi-skilled and/or unskilled labour needs.

For some States in Asia and elsewhere, the loss of skilled workers and trained professionals through emigration represents a serious threat to development efforts. A regional approach to migration must enhance the beneficial aspects and at the same time develop mechanisms to encourage the retention or return of talent.

Migrant workers in host countries in Asia and the Middle East face extensive abusive and exploitative situations according to many reports. Application of human and labour rights norms to non-citizens is inadequate or seriously deficient in many countries in the region, particularly as regards irregular migrants, those without authorization to enter or remain in the country.

Increasing migration pressures coupled with stronger control measures has contributed to the growth of smuggling and trafficking of migrants. Trafficking in migrants has been given considerable visibility in inter-governmental fore, in the news media, and by governmental and non-governmental organizations in Asia. Women and children are especially victimized; many are trafficked into conditions of slave labour and/or forced prostitution.

Experience in various countries has demonstrated that enforcement of minimum labour and workplace standard serves as an effective restriction to irregular migration and employment by discouraging sub-standard exploitative conditions that make utilization of unauthorized foreign workers attractive to certain employers and that render such employment uncompetitive for national workers.

### **2.1.6 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 (ILO – DFID, 2002).

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.

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 (ILO – DFID, 2002).

### **2.1.7 Sustainable Foreign Employment: Issues, Critical Concerns and Way Forward**

Poverty in Nepal has been regarded as the prime cause often blamed on high unemployment and underemployment. Decreasing trend in the availability of productive employment opportunities in the country and low level of family income are the push factors combined with the attraction to foreign employment are the major causes behind the multiplying increment in the number of Nepalese migrant workers. With the escalation of the insurgency in the last few years, the number of Nepalese migrant workers and the aspirants has increased drastically. The exact number of such actual and potential migrants is difficult to estimate due to poor information system and lack of border regulation with India. Many of Nepalese migrant workers have gone to other countries through various other means than regular channel. The undocumented and irregular migrants have become the source of vulnerability and exploitation. There is significantly a low level of preparedness to work among the migrant workers in fronts of occupational competence and psychological and behavioral skills. Most of them are unable to communicate even a single word of English, and many of them have no such exposure to outside world of work. It is the general observation that the situation is extremely below the level of satisfaction with respect to capacity, income and voice.

The dynamics of population movement for economic betterment has undergone fundamental transformations in the 21<sup>st</sup> century adding new multi-faceted dimensions,

complexities and challenges. Globalization has created diversified and expanded space for trans-border labour mobility. This is a big opportunity for Nepalese labour market to intervene into the international labour market through its cheap labour force. The tendency in progress of the labour markets in the developed and newly developed economics to import cheap but sincere work force from the labour markets of underdeveloped economy has become an effective pull factor generating more opportunity for the country like Nepal. Excessive supply of unskilled youth work force and the low level of capacity of national economy to absorb such availability have reinforced to use such opportunity of overseas employment. It has been the sector of competitive advantage for Nepalese job market.

A sustainable foreign employment has continuity, relentlessness, incessant and unceasing qualities. This can be attained through empowered workers with the capacity to use the informed choice of employment opportunities. Sufficient advocacy and sensitization is needed in this advent. It requires safe and qualitative migration for decent employment with skillful and occupationally competent workers. The critical concerns of sustainable foreign employment includes protection of migrants and promotion of employment condition; optimizing the benefits of migration through expansion of employment windows and efficient service delivery; inter-state and inter-stakeholder cooperation and collaboration; and knowledge management for better utilization of international labour market dynamics. Sustainable foreign employment also asks for proper recognition in national development priority of investment appropriate mainstreaming thereon. Adequate understanding and assessment of international labour market dynamics is required.

It is the point to realize the important contribution of migrant workers to national economy and the urgency to improve the system and mechanism for fostering sustainable foreign employment. The demand of Nepalese workers is in increasing trend and the greater use of such diversity and employment opportunity is crucial for reducing the poverty and the addressing the growing pressure of unemployment. As a way forward for attaining sustainable foreign employment, there are the critical areas for strategic interventions including policy development and legislative reforms by choosing the policy regime and building efficient structures for implementation; building governance competency for optimizing the benefits of migration and expanding the opportunities; information – education and communication strategies for behaviour change; cooperation, collaboration and partnership building among the national and international partners of social development; knowledge management to track and monitor the

dynamics of labour markets and the conditions of migrant workers. Pursuance to bilateral and regional collaboration and partnership building among the labour sending countries is vital and cooperation between countries of origin and the destination is essential for better social protection and decent employment of Nepalese migrant workers.

Foreign employment gains prolonged with quality in the presence of accountable and competent governance. Assumption of accountable role-behaviour by the sending and receiving states is the prerequisite in this regard. It also asks for professional and accountable recruiting agents, meaningful participation of migrants, recruiting agencies and the civil society in policy making and law enforcement enhances the sustainability. Capable diplomacy and institutional mechanism to coordinate, facilitate, monitor and supervise the whole process of migration cycle qualifies the meaningfully sustained foreign employment. Responsive civil society and media are the catalysts with regard to ensuring socially inclusive, community-owned and internalized migration. A more collaborative effort with partnership building among the stakeholders at national, regional and international levels is expected to strengthen the sustainability in this respect.

Competent, appropriate and adequate policy framework is needed because the national policy on foreign employment leads to sustainability with its objective to promote employment through development of international labour market and human resource management; protection and promotion of well-being of migrants through adequate regulation, protection of migrants rights, standard setting and enforcement, effective migration services and supervision of private recruitment agencies; maximize development impact of labour migration through channeling migrants' remittances, safe return of skillful talents and social integration. A worker-friendly legislation with competent regulatory mechanism beyond the classical command and control framework, and more inclined to the promotion of foreign job markets is the urgent need at the moment.

### **2.1.8 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 (Rama 2003-160). 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 (WB, *Global Economic Prospects – 2004*-145). 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 (Stiglitz and Yusuf 2001- 252-254). 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 (UN, *International Migration Report – 2002*, United Nations, New York, 2002-11-13). 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 (Sasikumar, 1998- 35-36). 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.

Development economies have traditionally taken into account foreign savings as the key to raising a country's capital output ratio. Factors such as foreign direct



investment (FDI), official development assistance (ODA), foreign trade, the transfer of technology and, most recently, remittances have been considered as major tools for the economic development of any country. As remittances now rank second in importance only to FDI in the overall external financing of developing countries, it is of no surprise that this issue is of particular interest to development policymakers.

The macroeconomic effects of remittances enjoy a strong theoretical tradition dating back to Adam Smith and the international division of labour as a means of delaying the onset of diminishing returns, David Ricardo and the labour theory of value and comparative advantage. It advances right up to the endogenous growth innovation in the 1980s assigning human capital a crucial role in modern production and exchange.

Macroeconomic studies demonstrate that though remittances are affected by the economic cycles of source and host countries, they often provide a significant source of foreign currency, raise national income, finance imports and contribute to the balance of payment. While other capital flows tend to increase during favorable economic cycles and decline in periods of economic downturn, remittances seem to react less violently and reveal incredible stability over time. For instance, remittances to developing countries continued to go up steadily in 1998-2001 when private capital flows declined in the wake of the Asian financial crisis. Even the more stable components of capital flows – FDI and official flows – declined in 2000-2001, while remittances continued to rise.

Banks in many developing countries did not show much interest in workers' remittances in the past, presumably because of cumbersome paperwork and lack of widespread branch networks. This is beginning to change, however. The efforts to crack down on money laundering and financing terrorism have affected remittances through the informal networks, and a large number of workers are looking for formal banking channels to remit funds. These developments, and the high margins associated with this business, have attracted new entrants.

### **2.1.9 Remittances: An Economic Force in South Asia**

Remittances by international migrants to their home countries have grown dramatically in recent years. They are now the largest source of external finance for developing nations after foreign direct investment (FDI). For many countries, remittances are larger than FDI, and in some cases, larger even than official development aid.

In 2006, remittances to developing countries exceeded US\$ 126 billion, up by nearly 48.7 percent from 2003. Actual amounts are probably much larger because flows through informal channels such as **hundi** elude official data collection. As many workers continue to look abroad for the chance to make a better living, these flows are likely to grow further in the years ahead.

Money remitted home is one of the most visible – and beneficial – outcomes of global migration. The number of global migrants has risen markedly in recent years due to persistent income inequalities between nations, including between developing countries. The United Nations estimates that about 175 million people, or roughly 3 percent of the world's population, lived and worked outside the country of their birth in 2000, up from 120 million in 1990.

The rise in officially recorded remittances is also the result of economic policy changes in many developing countries that have encouraged remitters to shift from informal to formal channels to transfer their funds. Efforts to curb money laundering and terrorist financing have also brought more transfers into the official fold.

Unlike other capital flows, remittances are stable and directly benefit the poor. After the Asian financial crisis of the late 1990s, remittances to developing countries continued to rise even though FDI and official aid flows declined.

Moreover, as migrants repatriate their savings, the rural areas of the developing world, from where much of the world's transnational labour is drawn, are quietly being transformed. With migration set to rise in the coming years as a result of globalization, remittances can be expected to grow steadily well into the foreseeable future. Therefore, both remitting and recipient countries are considering the long-term economic implications of these transfers.

#### **2.1.10 Remittance: Its Significance and 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.

External debt is growing at a rapid tempo resulting growth in debt servicing. Nepal's present day challenge is the ever-increasing outstanding debt and increasing burden of debt servicing. In 2005/06 a sum of Rs. 14.3 billion was utilised for meeting the principle repayment. Of this, 49.0% was for servicing the external debt which was to be paid in terms of foreign exchange. External debt servicing increased by 17.4% compared to the previous year (Ministry of Finance, 2007). However, Nepal has been able to handle debt servicing comfortably due to increased inflow of remittances.

The ratio of remittances to saving, investment and saving investment gap is increasing with higher rate of growth of remittances. This shows that Nepal's dependency on foreign aid for filling the saving investment gap can be lessened to a greater extent through strategic plans and programs for mainstreaming the incoming remittance to financial system and for their productive use. In this respect replicating the successful program launched by labor exporting Asian countries such as Sri Lanka, Bangladesh, Thailand and Indonesia could be helpful.

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 2006/07 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 (Athukorala, 1992) 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 merchandise 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. Remittances have played a vital role in keeping the economy afloat. Instability and insecurity are crucial problems for the low economic growth of 2.5 percent (Ministry of Finance, 2007). The overseas migration and remittances have been instrumental in poverty alleviation as well as for improving the living standards of the people (Seddon et al., 1999 and Shrestha, 2004).

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 Russel, Martin; etc. view remittances as unpredictable source and as a cause of increasing inequality (Athukorala, 1992-511-529). 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.

### **2.1.11 Usage, Channels and Problems Relating to Remittances**

The economic benefit of remittances lies on the meaningful use of remittance at the grassroots level. Most parts of remittances are used in developing countries for daily expenses such as food, clothing, housing, health care, education, etc. – and they make up a significant portion of income of the households. Remittance income is also spent on improving houses, buying land and cattle, and buying durable consumer goods such as TV, washing machine, vacuum cleaner, refrigerator, etc. Generally, only a small percentage of remittances is used for savings and what is termed “productive investment” for e.g. additional income and employment – generating activities such as buying land and tools, starting SMEs, investing in organic farming and constructing roads, schools, and hospitals and other activities that would have multiplier effect on the local economy.

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 (NRB, 2001).

Kansakar (1982) on behalf of CEDA conducted a study on the use of remittance and found that out of the total remit money, a beneficiary household member would spend 50 percent on household management, 16.2 percent on agricultural activities, 5.3 percent deposit in banks, 8 percent invest in running business and 4.5 percent on constructing houses. The study on remittance of NRB shows that some 80 percent remit money has been spent on house construction, buying land, household expenses, purchasing ornaments, educating children, etc. by the beneficiary households. This means some 20 percent of the remittances have been found to be used for productive purpose i.e. running business, enterprises and intensive cultivation in farm lands indicating Nepal still lags on the productive and meaningful use of remittance money at micro level. The presence of remittance has increased informal lending practices. Private banks and financial institutions are mushrooming with the flow of remittance in Nepal. Additionally, what we could observe is that with the influx of remittances, there is a heavy concentration of investment in real states. Business investments are undertaken mostly in trade, transport and other services, and investment in manufacturing and agriculture is a relatively rare phenomenon in the case of Nepal. Migrating trend of Nepalese youths towards India and abroad to some extent has hampered the agriculture sector and agricultural production is at a decreasing state in rural areas due to the decreasing supply of workable population. The income and wealth gap has been widened

with the presence of remittance in rural economy. The financial market has furthermore not expanded in rural area even with the flow of remittances.

Apart from remittance inflows through formal banking channels, a substantial portion of remittances are found to be coming through informal channels. There are two types of leakages: one due to erroneous, imprecise accounting, and the other due to the choice of informal, unsupervised channel for remittances. It has become an accepted practice to treat all informal remittances as foreign exchange leakages from the labour exporting country, but this practice is erroneous because these 'leakages' also include remittances items such as (i) 'personal imports' of migrant workers (i.e. goods imported by return migrants under the duty free allowances facility and (ii) the savings brought home on return (in the form of cash or traveler's cheques) subsequently converted into local currency in domestic banks. The transfer of remittances shows mixed outcome in Nepal. Nearly 20 percent working abroad send money back to the family members through banking channels while 21 percent rely on friends, some 36 percent send money through mixed procedures while 7 percent rely on hundi for this purpose. 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 formal banking channels. It is estimated that on an average one third of remittances flow is through informal channels for countries with weak financial sectors or tight forex controls.

### **2.1.12 Remittance Transfers to Nepal: Overview of Remittance Transfer Methods**

Remittances are "The money that migrant workers bring or send back home, to their country of origin". Remittances are transferred to Nepal through the hand carry system, the "**hundi**" system, or through commercial banks. In the case of the hand carry system, migrants or their friends take remittances with them when they go home to visit their family. The commercial bank system is self-explanatory. The hundi system is explained in detail below. Nepali migrants (especially from India) send their money back home mainly through informal channels. This is partly linked to the undocumented migration, and is a major reason why official figures grossly underestimate the real value of remittances to Nepal (Seddon, 2001).

In 2006, formal remittances to Nepal were about NR 12 billion (US\$ 150

million), whereas informal remittances have been estimated at some NR 72 billion (US\$ 900 million). This implies that only about 17 % of total remittances come through official channels (Nepal News, 15.02.07: <http://www.nepalnews.com.np/contents/englishdaily>). Nepali commercial banks have been criticized in local newspapers for not assisting migrant workers to transfer remittances back home.

**a. Hundi**

“Hundi” or “Hawala” is an indigenous, informal banking money transfer system (Passas, 1999). Funds are transferred without an actual movement of money. This system predates conventional western banking. A hundi is an unconditional order made by a person directing another person to pay a certain sum of money to a person named in the order. The terms “hawaladar” and “hundiwala” refer to the hawala and hundi operator. Some researchers date hawala or hundi back to more than a century ago, when Indian immigrant communities in Africa and South East Asia devised it as means of setting accounts. Others place the origins of hundi/hawala several centuries ago, when traders sought a secure system to transfer money, and through which travelers found a way to protect themselves against thieves.

Hundis, being a part of the informal system, have no legal status and are not covered under the Act that regulates bills of exchange, promissory notes and cheques (i.e. the Negotiable Instruments Act 1881). They are normally regarded as bills of exchange, even though they were more often used as equivalents of cheques, issued by indigenous bankers (<http://www.museum.rbi.org.in/m-hundi.html>, 28.4.2008).

Hundi is very common for sending money from other Asian states than India. Migrants that have worked in the Middle East, Hong Kong, Malaysia, Japan, South Korea, Taiwan and western countries used the hundi system (amongst others). Depending on the sending country, the money does not flow directly to Nepal, but flows via other hundi centres like Honk Kong or Dubai. Sometimes the money is first converted into gold or other goods. Only once it arrives in Nepal, it is reconverted into cash. The hundi system is more prevalent when migration is illegal. None of the migrants recorded any losses or bad experiences with the hundi system.

**b. Hand Carriage**

Hand-carriage is the most common form of remitting money to Nepal, especially



among migrants in the Gulf States and India. In India, hand carriage is the only system that is used. Migrants may either carry their remittances themselves, or give them to family members or friends, who travel to Nepal. If a migrant carries the money by him – or herself, it does not cost anything. The migrant also does not have to look for trustworthy persons that can take the money with them, nor does s/he need any documents. Yet the migrant should be registered in the host country. If not, the migrant runs the risk of not being allowed back into the host country. The police could also possibly identify and prosecute the illegal immigrant. With few exceptions, the migrants have not faced any problems in carrying their money home.

If migrants give their remittances to a family member or a friend, the transfer is also free of charge. Migrants can also send other, small things, such as letters and pictures. These friends often work for the same company and they do not have any problem sending it through them. Legal migrants from Malaysia often take money from illegal migrants. Depending on how many reliable colleagues a migrant has got, s/he may or may not send money home regularly.

Migrants change their remittances in their host country into US dollars. In Nepal, remittances are changed into Nepali Rupees (in banks, or preferably on the black market). Migrants from India and the Gulf States bring the national currency along. Many migrants from Saudi Arabia also bring gold with them which they can sell at a profit hence benefiting from it. Yet gold is subject to tax, and there are limitations of import, depending on the migrant's salary.

### **c. Bank System**

The third possibility is to transfer remittances through banks. This was only used by very few migrants, mainly staying in Western Europe. The main problem was that most migrants, and especially their families in Nepal, are not familiar with banking services. So it becomes almost impossible for the recipients to obtain the money. The bank transfer is also very slow. It can take two to three weeks until the money arrives at its destination. Furthermore, illegal migrants cannot obtain a bank account in their host country, and may (rural) areas in Nepal simply lack the required bank infrastructure.

The main reasons for not using a commercial bank is the lack of banks, limited knowledge about commercial banking and the slow transfer process (Hand carriage and

hundi are much faster). People also trust their traditional ways of remittance transfer more than they trust commercial banks.

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

There has been very rare thesis works done to identify the impact of foreign employment and inward remittances on the economic development of the country. However various research works have been done in this particular area where researchers have tried to explore the growing unemployment problem in various countries, craze of people going abroad in search of employment and the impact of inward remittances entering inside the country of origin.

Seddon, Adhikari and Gurung (2001) jointly conducted a study entitled **“Foreign Labour Migration and the Remittance Economy of Nepal”** 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).

Migration continues partly because of growing insecurity in Nepal’s rural areas as the Maoist insurgency has come to control large parts of the countryside. In addition, Nepalese must confront a lack of economic opportunities at home and increasing opportunities abroad.

Indeed, there has been much talk in Nepal recently of “internal displacement” and “forced migration” as a result of the conflict. Certainly, some of the better-off Nepalese in rural areas have been displaced. But it is difficult to distinguish those seeking to avoid the conflict from the bulk of economic migrants because the rural areas are so impoverished and because there has been little research on internal migration.

The failure to create and implement a coherent overall development strategy mobilizing all of Nepal's resources – including effective education, training, and manpower planning for human resource development – has led to low rates of growth and high levels of unemployment and underemployment in what remains a largely subsistence agriculture, handicraft, and service-based economy, with around 40 percent of the population below the poverty line. Hence, the massive upsurge in migration from rural areas to cities and other countries.

The implications of this situation are far-reaching for Nepal as a whole, for the structure and dynamics of regional and local economy and society, and – perhaps most of all – for households and individuals all over the country, both those directly involved in foreign labour migration and those left behind.

Bhattarai (2005) conducted a research on **“Migration of Nepalese Youth for Foreign Employment: Problems and Prospects”** with the aim of evaluating the Nepalese government policies and programmes related to the regulation and management of foreign employment profession in Nepal with the major objectives as: **(i)** to identify the major issues and challenges in foreign employment **(ii)** to identify the problems faced by migrant workers (both male and female) both in home country and the country of destination **(iii)** to prioritize the needs of international migrant labours **(iv)** to evaluate the existing government policies and programmes and suggest appropriate amendments in the existing policies.

On the basis of various analyses, the researcher came out with the following conclusions: International labour migrants mostly in the Gulf States, Malaysia and other South East Asian countries is a new phenomenon of migration in the Nepalese context and that only have about 30 years long history. Unexpectedly the foreign labour migration has developed in such a way, which has shifted the agricultural based economy towards remittance based economy. Numbers of people going abroad for work have been increased for the last few years, especially after the origination of armed conflict in Nepal. Major concentration of Nepali migrant workers was in Gulf States for the very beginning but the dynamics has been changed and people are migrating towards Malaysia since the past three years even though the number of people going the Gulf States is still significant. A class division among the labour migrants is also found to select the country of destination i.e. poor people are to India, Gulf States and Malaysia and rich people towards Japan, South Korea, North America and Europe.

International provisions are found very sound and applicable to protect the rights of migrant workers but governments in both sending and receiving countries does not seem sincere to the domestication of the spirit of international instruments, conference recommendations and plan of action.

International provisions are there to protect the right of the migrant workers. But both the government and receiving countries do not seem to be sincere to the implementation of the spirit of international provisions. Ratification of UN convention by Nepal will create moral pressure on the labor receiving countries. Bilateral agreement has not taken place even with some major labor importing countries pertaining to the safety and welfare of the migrant workers. Another problem is lack of working mechanism to address the issues related to international migration like demand verification. Provision of labor attaché in the potential labor receiving countries is still lacking.

Manpower agencies are almost unfair about their business dealing with the workers and their professionalism is questionable. The role of trade union organizations is also found ineffective to address the issues of potential labour migrants in home country as well as in the country of destination.

So the current need is for more effective migration management to reduce the vulnerabilities of migrant workers and safeguard the rights of migrant workers.

Maharjan (2005) in his editorial available on **“Foreign Employment Need for Streamlining It”** (<http://www.southasianmedia.net>) focuses on the need for foreign employment and its scope. According to the writer, inward remittances play a pivotal role in the national economy of any country which in case of Nepal has been badly battered due to the ongoing conflict. Industry, trade, tourism and other sectors of the economy are all in the doldrums. Under such circumstances, the rate of unemployment is high in the country. So the number of people seeking employment abroad has risen.

The current Tenth Plan has aimed at creating 200,000 employment opportunities but nothing substantial has yet come about. Rather, the existing employment opportunities have worsened due to the deteriorating law and order situation as several industries have closed down under the Maoist threats. This has hence given rise to the foreign employment. However, prospects for foreign employment are not on the right track. In the name of providing tantalizing jobs abroad, hundreds, if not thousands, of

people have suffered misfortunes. Some are never sent to their destinations, others are stranded and still others end up being victims of unexpected hazardous and low-paid jobs. Further, there are instances where the Nepalese are kidnapped, incarcerated or brutally killed in foreign countries. The brutal killing of twelve Nepalese workers in Iraq by ultra militants on 30<sup>th</sup> August 2004 is a case in point.

Therefore, foreign employment is not hassle-free. There are several instances of the people seeking foreign employment going to rack and ruin. As such, the time has come for the government and other associated bodies such as manpower agencies to make concerted efforts to streamline foreign employment.

As a matter of fact, earnings from foreign employment could change the face of the country by contributing a lot to poverty alleviation, which is the cynosure of the current Tenth Plan. It could ameliorate the landscape of the rural areas, where the need for development is acutely felt. It need not be reiterated that rural development is a bridgehead for overall national development

Nowadays, foreign employment is concentrated in the Gulf countries. It is necessary to diversify it so that its scope can be extended far and wide. On the other hand, a strong policy on foreign employment should be in place so as to streamline it. There is no argument that streamlining foreign employment is the need of the hour and that well-knit foreign employment could be an effective tool for poverty alleviation in the rural areas.

Yogi (2006) in his report on **“Remittance Economy: Ignored and Under-Utilized”** (available at <http://www.nepalitimes.com>) 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.

Yogi in his 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. There is no coherent program to increase the benefits of the remittance economy and reduce the very real social costs of foreign labour migration as part of Nepal's overall development strategy."

Whatever be the actual figures of remittance entering into the country every year, it is beyond doubt that there is much room for tapping its potential. For this, the government doesn't need to make additional investment. All it should do is to recognize the contribution of remittance to national economy and devise suitable policies to channelize it for productive use away from the present trends of consumptive use.

Sigdel (2006), conducted a study entitled "**An Overview on Remittance Economy of Nepal**" with the aim to evaluating the significance of inward remittance in the overall economic development of the country. Employment abroad has not only helped Nepal ever-growing un-employment problem but it has also injected much needed foreign currency into our economy to fill up foreign exchange and investment gap, thereby helping Nepal avoid a major BOP crisis.

The increase of the flow of remittances has paved the way for South Asian economies such as Bangladesh, Sri Lanka and Pakistan to keep their BOP situation in a healthy state. The strong inflow of remittances allows foreign exchange reserve to increase and provides the confidence to float a country's currency. If we recall the above mentioned phenomenon, what we found that the remittance money have 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 much to maintain Nepal's BOP position favourable. Not only this, this sector has become one of the prime sources of foreign currency earning and mitigating ever growing imports bills for Nepal. The expansion of banking and financial sector has been possible due to presence of remittances in Nepal.

Meaningful utilization of remittance money paves the way for boosting socio-economic activities towards deprived people and 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 in different layers of the economy to meet twin goals: poverty alleviation and sustainable development of Nepal. The GDP of the nation could be magnified in the long run with the better use of remittances.

## 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 (Fotheri, 1999-10). 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. Detail explanations of the above points are given which seems appropriate to understand methodology in detail.

### 3.1 Research Design

Research design is the main part of the thesis or any research work. “Research design is the plan, structure and strategy of investments conceived so as to obtain answers to research questions and to control variances” (Wolff & Pant, 2005-92). It tends to collect the right quantum of accurate information.” A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Selltiz, Wrightsman, & Cook, 1981-50).

By research design we mean an overall framework or plan for the activities to be undertaken during the course of a research study. The research design serves as a



framework for the study, guiding the collection and analysis of the data, the research instruments to be utilized, and the sampling plan to be followed.

The research design is an organized approach and not a collection of loose, unrelated parts. It is an integrated system that guides the researcher in formulating, implementing, and controlling the study. Useful research design can produce the answers to the proposed research questions. The research design is thus an integrated frame that guides the researcher in planning and executing the research works.

### **3.2 Population and Sample**

The population for this study comprised of all the Nepalese going abroad for foreign employment. Since the people going abroad for foreign employment could not be interviewed their family members have represented on behalf of them and have been selected as the population for this study.

The number of people leaving the country for foreign employment is in an increasing trend. Inward remittances entering inside the country of origin are the result of the efforts made by such people opting to go abroad for foreign employment. They send their hard earned money to their belongings here in their country of origin either through the banking channels or by some other informal channels. These funds are collected either from banks or other institutions working as sub agents at various locations. People coming to collect such funds have been selected as the sample for this study. To be more specific, of such people coming to collect the funds sent from abroad 125 were selected as samples for this study using accidental sampling method. Accidental sampling comprised of people coming to collect the fund and amongst such clusters few persons were randomly selected and interviewed.

### **3.3 Data Collection Procedures**

As the present study is being undertaken to evaluate the impact of 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, 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.

Beside these, various concerned individuals were directly approached to gain required relevant information. An interview schedule was designed in view of the data requirements. The interview schedule was administered to the people who had come to collect the funds sent by their relatives from abroad. Almost all the people who were approached for the interview readily agreed to respond to the questions. The average time taken for an interview was 15 minutes.

### **3.4 Sample Characteristics**

The sample comprised of 125 respondents who had come to collect the remittance sent by their relatives from abroad. Due to the time constraint the samples were selected on the basis of their presence at the money collecting centre at various places. Out of the total respondents only 5 were the ones who had personally remitted the funds from abroad and had come home during their vacation.

Most of the respondents i.e. three fourth were the wives of the persons remitting funds from abroad. Rest one – fourth was represented by remitter's father, mother, brother etc. On an average three children per family were dependent on the inward remittance sent by their parents. Sixty percent of the respondents were illiterate, and out of the rest forty percent, thirty percent of them had high school education and the rest could only write their name.

### **3.5 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 (Sekaran, 1992- 275).

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.

### **3.6 Tools used for Analysis**

There are different tools which can be used to simplify the data. The easiest way to understand data is by examining it in charts, graphs and tables. Therefore different tools have been used to identify the impact of foreign employment and inward remittances. Collected information like sources of income, structure of Nepalese foreign employment, details of individual going abroad, mode and expenses incurred while going abroad, types of work Nepalese people are involved into, monthly income, mode and frequency of remitting funds has been shown in pie chart. Tables are drawn for different information like outbound destination, No. of job seekers, proportion of Nepalese workforce, sources of expenses incurred, contribution of inward remittance in different sectors etc. At the same time graphs has been used for No. of job seekers and for the comparison of inward remittance with export, import, foreign exchange reserve and GDP.

## CHAPTER 4

# PRESENTATION AND ANALYSIS OF DATA

### 4.1 Introduction

Foreign employment in Nepal is seen to have been established with the inception of recruitment of Nepalese as Gorkha Soldiers in 1815 A.D. till it has come to the current stage. Foreign employment now is completely different from what it was years ago. Currently 700 manpower agencies involved in recruiting the Nepalese for different purpose on behalf of the companies from abroad out of which only 648 agencies are operating as per the record of Department of Labour.

This chapter analyzes some data on Nepalese working abroad as well as the factors responsible for the large scale out migration. It also examines the remittance economy of Nepal followed by some constraints related to foreign employment and remittances.

To know in more detail about the state of foreign employment, inward remittances and its impact on families receiving it, a survey was conducted on the following locations where the concentration of people going abroad for foreign employment is very much higher. Due to some unavoidable circumstances the survey had to be limited to the following places:

1. Birtamode, Jhapa
2. Urlabari, Morang
3. Biratnagar, Morang
4. Rajbiraj, Saptari
5. Lahan, Siraha
6. Siraha, Siraha
7. Mirchaiya, Siraha
8. Janakpur, Dhanusha
9. Jaleswor, Mahottari
10. Malangwa, Sarlahi
11. Gaur, Rautahat
12. Kalaiya, Bara

13. Birgunj, Parsa
14. Hetauda, Makwanpur
15. Narayangarh, Chitwan
16. Butwal, Rupandehi
17. Taulihawa, Kapilbastu
18. Pokhara, Kaski
19. Baglung, Baglung
20. Beni, Myagdy  
(surtvey of NRB)

## **4.2 Data Presentation and Analysis**

### **4.2.1 Size of the Family Members and Major Sources of Income**

Amongst the 2500 respondents during the survey conducted at the above mentioned locations, 60 percent have a family size of 1 – 5; another 35 percent having a family size of 6 – 10 and 5 percent were having a family size of more than 10 persons living together. It is due to the greater family size specially found in the Terai regions from Bara, Rautahat, Sarlahi, Dhanusa, Mahottari, Siraha and Saptari districts which has opted the people from these areas to go abroad for foreign employment so as to earn living for their family members.

During the survey, it was found that there were few houses which had more than three of their family members living abroad i.e. had opted to go abroad for foreign employment as they could not find a job here in Nepal and was finding it difficult to meet the expenses for their basic needs such as food and shelter. Amongst the respondents, 88 percent had one of their family member working abroad to support their families here in Nepal. Similarly 9.6 percent had two, 1.6 percent had three and 0.8 percent had more than three of their family members working abroad.

Nepal, a small agrarian economy in South Asia has a different picture as was revealed during the survey. The dependence over the earnings made from the agricultural produce has now shifted to some other sources of income due to the ongoing Maoist activities in various parts of the country wherein the farmers are not allowed to sell their agricultural produce. 50 percent of people had their major sources of income as the inward remittance that they receive on a periodic basis followed by 24 percent as agriculture, 18 percent working on a daily wage basis and services and the rest 8 percent

from the cattle they own.

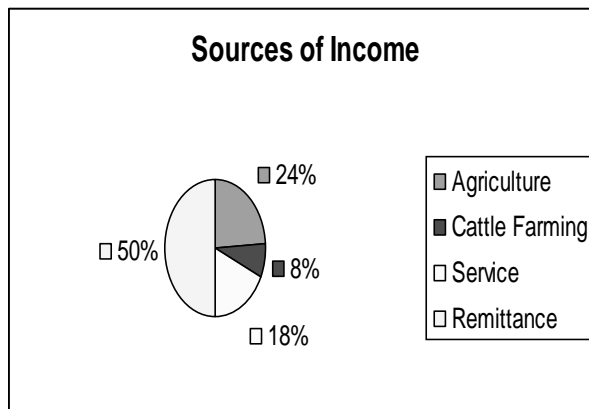
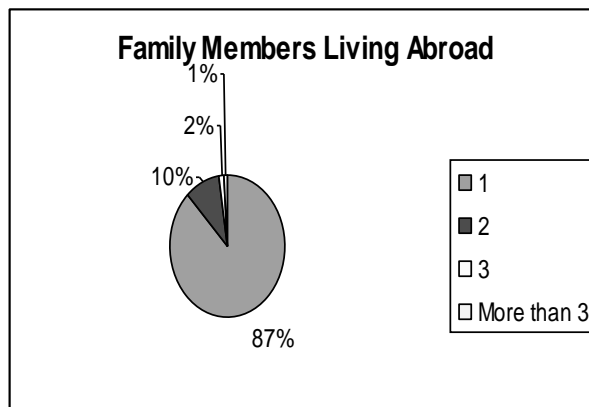
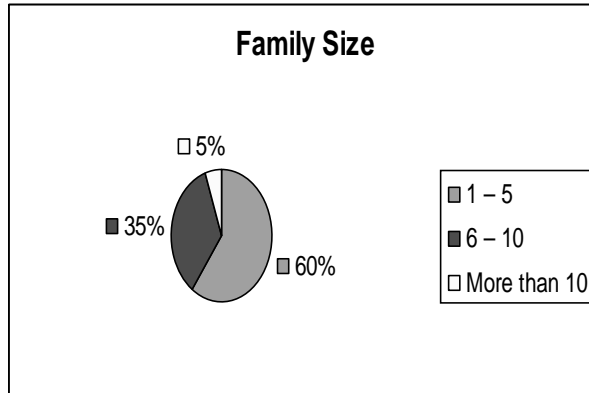
From this it was seen that the growing unemployment problem prevailing in the country, the ongoing Maoist activities which has made it difficult for the younger generation to work independently in their land of origin and the growing poverty has led the large pool of work force to search for some other better options to earn their living. The country unable to absorb all the workforce entering into the labour market every year has been a major cause of increasing unemployment. Willingly or unwillingly large pools of unemployed workforce have hence opted to go abroad in search of foreign employment. Their earnings sent from abroad have become a major source of income to most of the families' dependent on their income here in Nepal.

**Table – 4.1: Family Size and Sources of Income**

Particulars		Percentage
Family Size	1 – 5	60
	6 – 10	35
	More than 10	5
Family members living abroad	1	88
	2	9.6
	3	1.6
	More than 3	0.8
Sources of Income	Agriculture	24
	Cattle Farming	8
	Service	18
	Remittance	50

**Source: Field Survey at various Places, 2007**

**Figure – 4.1: Family Size and Sources of Income**



## **4.2.2 Major Outbound Destination and Structure of Foreign Employment of Nepalese Labour**

Since the beginning of 19<sup>th</sup> century it has been seen that Nepalese labourers prefer India as a major destination for work. This may have been due to the open border in between the two countries. The Census of India on Nepalese nationals indicate that their number has increased from 82,071 in 1951 to 133524 persons in 1961 and data on population of Nepal indicates an increase from 498836 persons in 1961 to 526526 persons in 1971 (Spotlight Weekly, *Remittance Economy*, Vol. 19., No: 26, January 14-20, 2000). The Census on 1981 showed that 66.5 percent of the absentee Nepalese in India were engaged in some kinds of services. Furthermore, 1991 Census of Nepal revealed that there were 650337 absentee populations of which 81.2 percent were in India and the rest were in other countries. This constituted around 3 percent of the active labour force (estimated in 1996 at around 11.7 million). It is unofficially estimated that almost 33 percent of the un-employed labour force are working abroad (Nepal, *Remittance Economy*, in Nepali Times, July 26 – August 1, 2002- 1-2).

The Nepalese going to Gulf countries and India for job belong to poor families comparing to those going to South East Asian countries. Poorest among the poor are left behind in the Nepalese villages. These people cannot possibly go even to India because they lack the necessary element to do so, including network, resources and risk bearing capacity. Thus, the poorest of the poor are still deprived of the direct benefits of remittance. . According to NRB's study, of the total Nepalese working abroad some 24 percent were in India followed by 16.3 percent in Saudi Arabia, Qatar (6.88 percent), South Korea (6.88 percent), South Korea (6.88 percent), and U.A.E. (5.6 percent).

### **Volume and Trend of 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 1993/94 to 2006 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.





in each fiscal year. But after 1998/99 the volume has increased in a rapid way, which is double or more than the previous years. The rapid growth of international labour migrants can be observed in each year and the volume has also increased at the similar pattern. The number of people going abroad as labour migrants is more than 100 thousand after 2002/03, which shows the deep attraction of people toward the foreign labour migration. The data of 2007 January/February, which is collected only for six months, indicates more than 200 thousands people from Nepal are expected to have migrated as labour migrants. During these six months only, 105,223 people have migrated from Nepal.

Several things are indicated by observing the above data. The number of labour migrants has begun rapidly only after 1998/99. 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 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 also another factor for the increasing volume of labour migration from Nepal.

Observing the volume and trends of the international labour migration, the table above can be sub-divided into three phases viz. the early phase, the middle phase and the latest phase. It is worth noting here to analyze the volume of international labour migration as the horizon of international labour migrants has widened with respect to the time factor and the contextual situation of politics as well as the divergent overall situation of the state.

### **The Early Phase**

In the early periods and even today, the volume and trends of international labour migrants is concentrated to India only because of the open border between India and Nepal. The first phase or the early phase here in the table shows the flow of Nepalese migrant workers highly concentrated to Saudi Arab and Qatar in the years 1994/95, 1995/96, 1996/97 and 1997/98 excluding India. Nepal identified other countries as the labour destination countries although due to high expected income and high demands of Nepalese labour in Saudi Arab and Qatar, people of both skilled and semi-skilled qualities motivated to go to these countries. There were negligible numbers of labour migrants to other countries. Whereas Malaysia had not given work permit to the Nepalese workers till 1997/98.

### **The Middle Phase**

Nepal though was not able to consume the increasing demand of labour employment in its own job market, started to supply the youths especially abroad. This study considers the year 1998/99 to 2001/02 as the middle phase. The overwhelming political situation of the country got even worse than ever before resulting in a great body of rural population displaced to the city centres. In these years, Saudi Arab and Qatar consumed a significant portion of Nepalese labour in their job market.

Regarding other labour destination countries, the flow seems quite negligible excluding Malaysia in the year 2001/02. The reason behind this may be less payment for the job or may be low popularity of those countries.

### **The Latest Phase**

The duration in between 2002/03 to April 2006 has been considered as the latest phase of international labour migration of Nepalese people. There has been a grand overflow of active human resources during these years. Huge migrant workers have been expected to be working in the Gulf region including other regions like Malaysia and others. The flow of migrant workers has significantly increased in Malaysia since the year 2001/02. The unfavorable working climate, strict rules of alcohol and sex and possibly due to high risk of life and health while working in the Gulf region may be the prominent reasons of divergence of interest to work in these areas by the Nepalese migrant workers in these recent years. Due to these aforementioned reasons, there has

been a compression of workers in Malaysia due to the favorable working environment there. To have ultimate way of earning and to have life and health security, most Nepalese migrant workers prefer going to Malaysia these days as has been depicted by the flow of people going there. In the year 2005/06 some 66290 people have migrated to Malaysia which is extremely high compared to other regions.

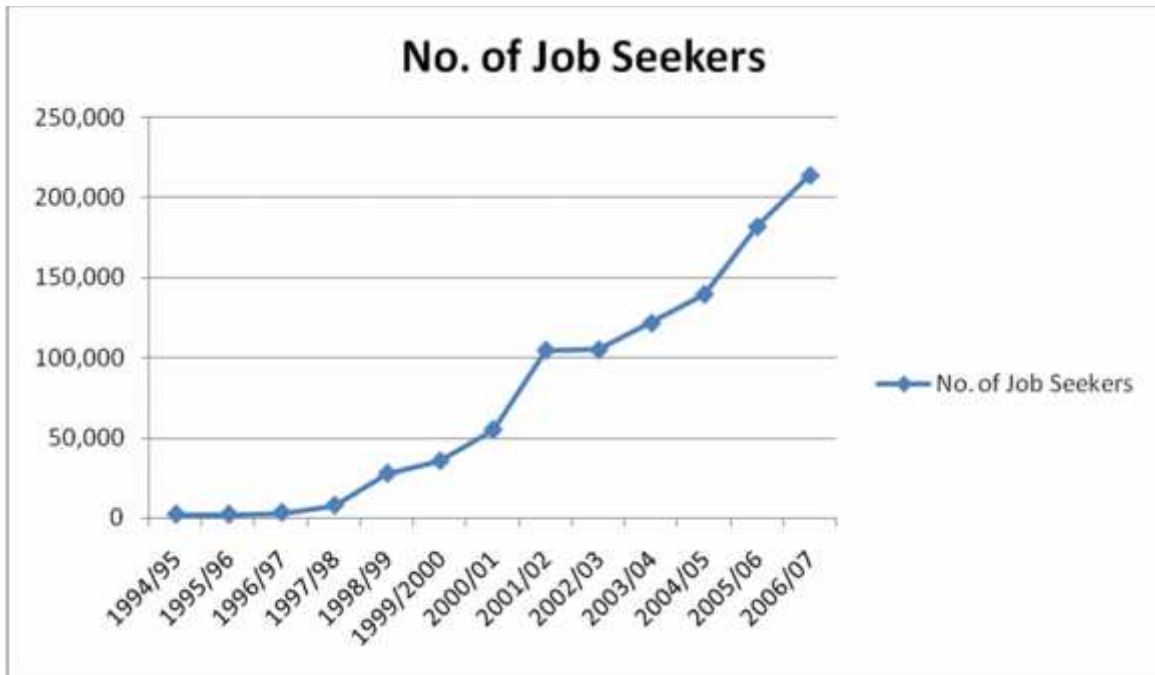
The total no. going abroad exceeds a lot. Yearly a large no. of Nepalese are registered at Department of Labor and Employment Promotion. According to Department of Labor and Employment Promotion no of people going abroad are:

**Table 4.3: No. of Job Seekers**

Year	No. of Job Seekers
1994/95	2,159
1995/96	2,134
1996/97	3,259
1997/98	7,745
1998/99	27,796
1999/00	35,543
2000/01	55,025
2001/02	104,739
2002/03	105,055
2003/04	121,769
2004/05	139,696
2005/06	182,043
2006/07	214,094

**Source: Department of Labor and Employment Promotion**

Figure 4.3: No. of Job Seekers



### **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 craze of people going abroad i.e. in the Middle East for foreign employment has increased considerably. It may have been due to the fact of getting higher salaries in comparison to India.

During the field survey conducted at various places it was found that amongst the respondents 39.07 percent had gone to Malaysia, followed by Doha, Qatar (27.14 percent), Saudi Arabia (19.32 percent) United Arab Emirates (10.65 percent), Kuwait (1.22 percent) and the rest to other destinations in search of foreign employment (Table: 4.4). This figure however excludes the data of people migrating to India in search of employment.

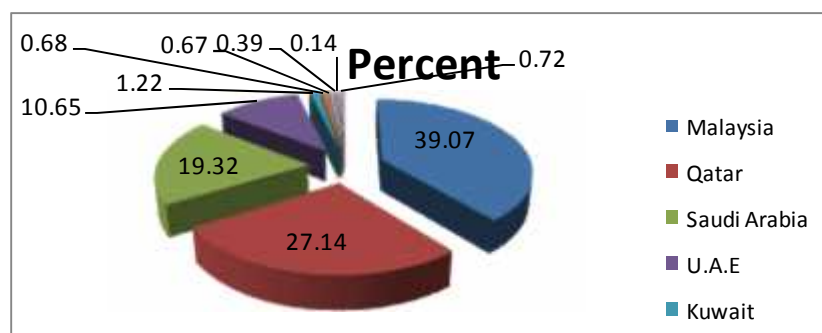
**Table – 4.4: Major Destination and Proportion of Nepalese workforce**

Name of the country	Percentage	Name of the country	Percentage
Malaysia	39.07	Bahrain	0.67
Doha, Qatar	27.14	Oman	0.14
Saudi Arabia	19.32	South Korea	0.68
U.A.E	10.65	Hong Kong	0.39
Kuwait	1.22	Others*	0.72

\* Others include Afganisthan, Israel, Maldives, Iraq etc.

Source: Field Survey at various Places, 2007

**Figure – 4.4: Nepalese Foreign Employment Structure As per Field Survey**



### 4.2.3 Age, Educational Qualification and Duration of Contract to Work

The current trend shows that the flow of people going abroad for foreign employment mostly comprises of labour class people. Due to the modality of such work it requires young, energetic and healthy people to be recruited. Amongst all the respondents on behalf of their relatives working abroad, about 60 percent of Nepalese workers' age was found to be between 26 to 40 years. Similarly 21.8 percent were over 40 years and 18.8 percent were young people of not more than 25 years old.

Educational qualification is something which is considered less important for the large pool of workforce leaving the country daily in search of foreign employment especially for those going towards the Middle East as revealed in the survey. Most of the people going for foreign employment belong to the semi-skilled or unskilled category hence requiring lower or no educational qualification at all. According to the survey, the largest portion of the labour force only have an educational qualification of primary level and represent 53.8 percent of the total population, followed by 21 percent who have passed S.L.C., Intermediate Level (16.3 percent) and those having a qualification of graduate level covers 8.8 percent of total population.

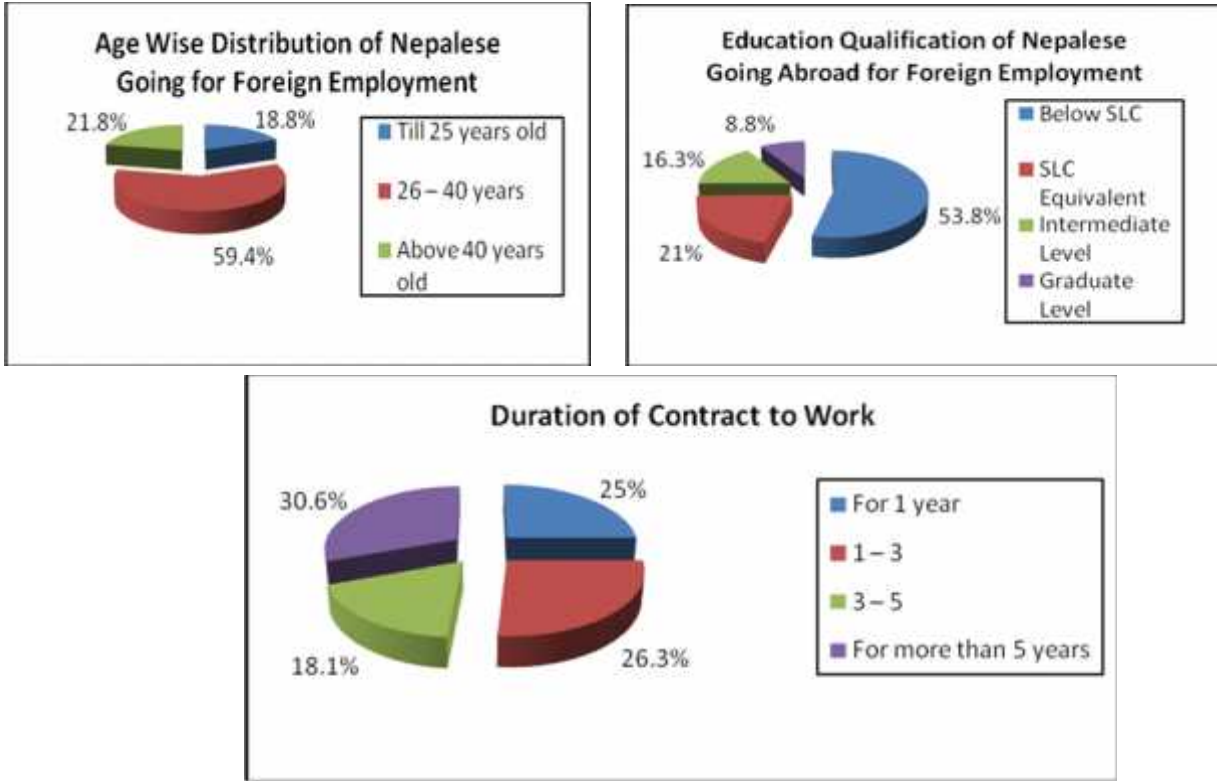
It was observed that the labour demanding states do not directly recruit its employees on a long term basis. It is done on a contractual basis and is normally for a duration ranging from 1 – 5 years with the provision of extending it provided that there is no bad record against such employee. However, the extension decision completely depends upon their discretion. According to the survey, amongst people who have gone abroad for foreign employment about 25 percent were found to have gone for duration of 1 year, whereas people staying for 1 – 3 years comprised of 26.3 percent. Similarly 18.1 percent were found to have been working there for duration of 3 – 5 years and the rest 30.6 percent were found to have been working there since last 5 years i.e. for more than 5 years.

**Table – 4.5: Details of individuals going abroad for foreign employment**

Particulars		Percentage
Age	Till 25 years old	18.8
	26 – 40 years	59.4
	Above 40 years old	21.8
Educational Qualification	Below SLC	53.8
	SLC Equivalent	21
	Intermediate Level	16.3
	Graduate Level	8.8
Duration of Contract to Work	For 1 year	25
	1 – 3	26.3
	3 – 5	18.1
	For more than 5 years	30.6

**Source: Field Survey at various Places, 2007**

Figure – 4.5: Details of Individuals Going Abroad For Foreign Employment



#### 4.2.4 Labour Market and Nepalese Manpower Supply

The history of Nepalese labour force going abroad for better opportunities dates back to the early nineteenth century when Nepalese soldiers were recruited in the British Army. This trend has continued to this day, with more than 60 thousand Nepalese working in the Indian Army and other government institutions in India (Pandey, April 2005). Realizing the imperatives of the foreign employment in the economic growth of the country, His majesty's Government of Nepal introduced Foreign Employment Act in 2042 B.S. (1985 A.D.) and joined the employment market by sending its surplus manpower abroad for employment. But in reality, the outflow of the Nepalese workers from the country in considerable number started after 1990 (Royal Nepalese Embassy, Doha, Qatar Website, Manpower Recruitment from Nepal, website: <http://www.rnedoha.org.qa/recruitment.htm>).

It was only when the countries in the Middle East opened their door for foreign employment during the nineties which led the larger pool of unemployed workforce to go



there in search of employment. Eighth and Ninth Development Plan further recognized the importance of foreign employment and the benefits that the country can get from this and thus highlighted policies which facilitated Nepalese wanting to go to the Middle East for foreign employment. As a result of this currently Middle East singly constitutes 86% of Nepalese going abroad for foreign employment excluding India. Manpower Agencies then started mushrooming in the capital city, having recognized the scope of being a facilitator to bridge the gap between the labour surplus country and countries demanding for it.

### **Mode of going abroad for foreign employment**

There are altogether 528 Manpower Agencies who have taken license from His Majesty's Government of Nepal, Department of Labour and Employment Promotion out of which only 475 are currently in operation. Out of the respondents, the largest portion of 64 percent had gone abroad for foreign employment through Manpower Agencies followed by 24 percent of people who were helped by their friends abroad; similarly 9 percent had initiated the process themselves followed by 3 percent through other means.

In order to select workers for foreign employment the licence-holder i.e. the Manpower Agency shall have to obtain prior permission of His Majesty's Government and for such permission an application with the following particulars shall have to be submitted:

1. Name and address of the employment providing institution.
2. Type of foreign employment.
3. Copy of the agreement entered into between the employment providing institution and the licence-holder regarding sending of workers abroad.
4. Copy of the contract to be entered into between the employment providing institution and the worker.
5. Others particular as prescribed.

After obtaining permission of His Majesty's Government the licence holder shall have to advertise publicly with particulars as prescribed for the selection of workers.

**Expenses Incurred while going abroad for foreign employment**

The licence-holder i.e. the Manpower Agencies are allowed to take service charge as prescribed for providing foreign employment as per the Employment Act. Depending upon the country of destination, nature of work, duration of the contract etc Manpower Agencies take certain charges with each individual. When inquired about the expenses incurred while going abroad for foreign employment it was found that it ranged from NRs. 50,000 to NRs. 300,000. Out of the total respondents who had opted to go abroad through Manpower Agencies, 81.3 percent were found to have incurred an expense ranging from NRs.50,000 to NRs.100,000 followed by 10 percent in the range of NRs.100,000 – 150,000, 6.3 percent in the range of NRs.150,000 – 200,000 and 2.5 percent having incurred an expense of more than NRs.200,000.

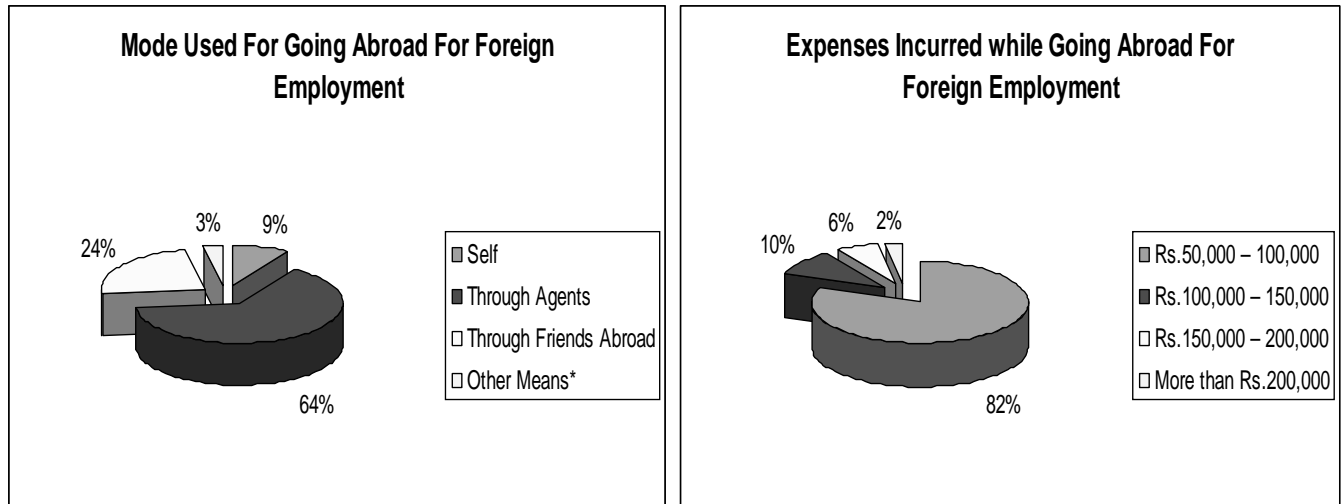
**Table – 4.6: Mode of going abroad for foreign employment and expenses incurred**

Particulars		Percentage
Mode used for going abroad for foreign employment	Self	9
	Through Agents	64
	Through Friends Abroad	24
	Other Means*	3
Expenses incurred while going abroad for foreign employment (In NRs.)	50,000 – 100,000	81.3
	100,000 – 150,000	10
	150,000 – 200,000	6.3
	More than 200,000	2.5

\*Other Means include people taken away by the Employer themselves, taken along with their friends etc.

**Source: Field Survey at various Places, 2007**

**Figure – 4.6: Mode and Expenses Incurred While Going Abroad For Foreign Employment**



#### **4.2.5 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 had or by any 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 – 4.7).

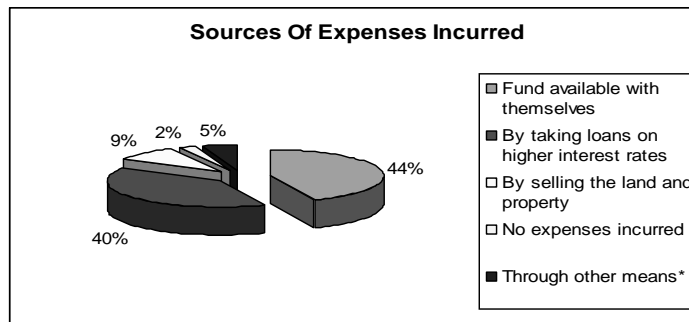
**Table – 4.7: Sources of Expenses Incurred**

Sources of Expenses Incurred	Percentage
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
Total	100.0

\* Other means include expenses incurred by employers, interest free loans taken from their relatives etc.

**Source: Field Survey at various places, 2005**

**Figure – 4.7: Sources of Expenses Incurred**



#### **4.2.6 Types of work for which the Nepalese People are recruited**

There were various instances where the people going abroad for foreign employment were not actually involved in the work they were told during their departure from Nepal by the Manpower Agencies. During the survey it was found that few people were even not accepted by the Company that they were said of having been demanded from.

According to the field survey that was conducted on the above mentioned 20 locations, the types of work that the Nepalese people are involved into are primarily divided into three main categories. They are as follows:

1. Labour Class Jobs
2. Clerical Jobs
3. Highly Qualified Jobs

Field survey showed that 75 percent of the people were involved in a labour class jobs followed by the next 21.6 percent involved in the clerical jobs and the rest 3.4 percent were found to have been involved in highly qualified jobs such as engineers, internal auditors, managers, system analysts etc (Table – 4.8).

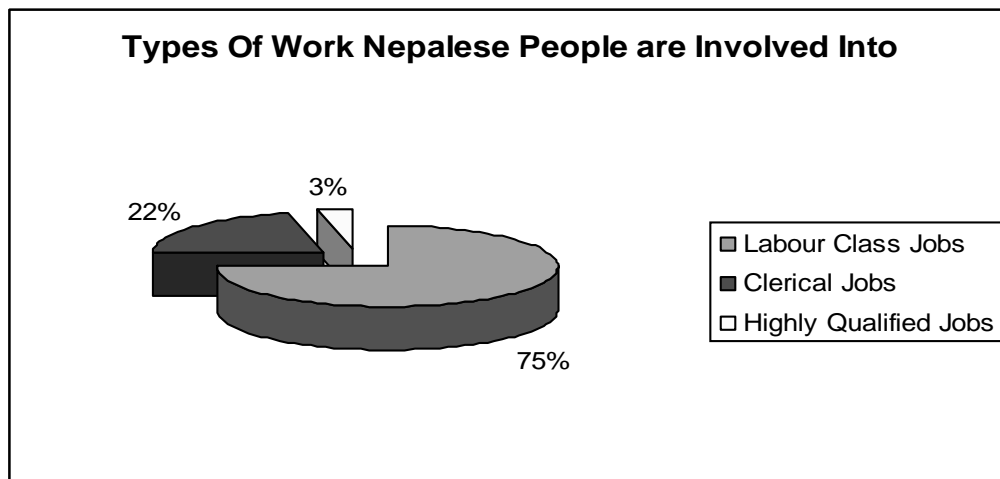
People involved in the labour class jobs mostly comprised of the illiterate people under either semi-skilled or unskilled categories. It is their illiteracy which has forced them to accept the labour class jobs. People involved in the clerical jobs mostly had an educational qualification of intermediate to bachelor level. Their job descriptions involved looking after certain departments, recordkeeping, accounting etc. Highly qualified jobs comprised of people such as engineers, doctors, managers, system analysts etc. They are the ones who are highly paid unlike the two other categories of workers.

**Table – 4.8: Types of Work Nepalese People are involved into**

Particulars	Percentage
Labour Class Jobs	75
Clerical Jobs	21.6
Highly Qualified Jobs	3.4
Total	100

Source: Field Survey at various places, 2007

**Figure – 4.8: Types of Work Nepalese People are Involved Into**



#### **4.2.7 Income Status of Nepalese Workers Abroad**

##### **Monthly Salary**

Due to the different geographical location of the country of origin and the destination country, it was not possible to directly make a survey amongst the Nepalese people who had gone abroad for foreign employment. However, during the survey it was a coincidence to have confronted few Nepalese who were currently working abroad but had come here in Nepal on their vacation. Direct interaction with such people was very

much informative as far as their state of employment and earnings were concerned. This could not have been possible by interviewing the representatives of such people.

During the survey, it was found that almost half of the population i.e. 49.6 percent of respondents had their remitter's monthly income of NRs.15,000 followed by 20.8 percent with the monthly income range of NRs.15,001 – 30,000. Similarly 13.6 percent of people had their monthly income ranging from NRs.30,001 – 45,000, followed by 8.0 percent of them having the income range of NRs.45,001 – 60,000 and also the rest 8.0 percent having the income range of above NRs.60,000 (Table – 4.9). Considering the salary structure and on the basis of the field survey conducted at various places it was found that the average salary structure of Nepalese Labourers working abroad was NRs.23,100.

#### **First money transfer made to Nepal from the country of destination**

When asked about the first money transfer received by the beneficiary since the remitter left their country of their origin, it was found that 51.2 percent took the time of 2 – 6 months after their joining of work abroad, followed by 23.2 percent who had sent during 6 – 12 months. Similarly 13.6 percent of people were found to have made their first remittances after a year of their departure whereas 12 percent did it after a month of their joining date (Table – 4.9).

During the field survey it was found that remittance made to Nepal by the Nepalese workers gone abroad especially on a contractual basis largely depends upon the receipt of their monthly income followed by the necessity of funds back home here in Nepal. It was found that some employers paid their workers on a quarterly basis as had been preferred by their employees. They would hence remit on a quarterly basis which would be more cost effective as far as the service charge of remitting of funds is concerned. Settling of high interest bearing loans are another important factor which would compel the Nepalese workers gone abroad to send their initial incomes at the earliest possible. On the other hand it was found that families of few people who were

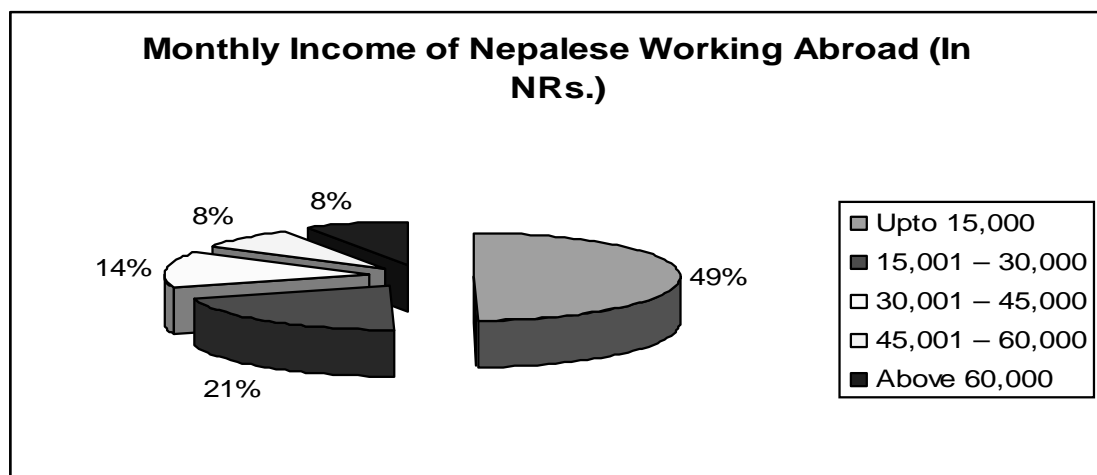
financially well off here in Nepal received their first remittance after a year of his/her departure. However it was found that almost all the Nepalese people going abroad for foreign employment had the tendency to remit fund to support their family members back home in Nepal.

**Table – 4.9: Income Status of Nepalese workers abroad**

Particulars		Percentage
Monthly Income of Nepalese working abroad	Upto 15,000	49.6
	15,001 – 30,000	20.8
	30,001 – 45,000	13.6
	45,001 – 60,000	8.0
	Above 60,000	8.0
First money transfer made to Nepal from the country of destination by the remitter	One month	12
	2 – 6 months	51.2
	6 – 12 months	23.2
	More than a year	13.6

Source: Field Survey at various places, 2007

**Figure – 4.9: Monthly Income of Nepalese Workers Abroad**





#### **4.2.8 Mode of fund transfer and time taken to receive such transfers**

The main concern to most of the Nepalese working abroad especially on a contractual basis is to find the most reliable and cheapest mode of transferring their hard earned money to their family members back home. There have been several instances where the beneficiary has been helpless as the fund sent from abroad could not reach to his hand despite going to the concerned place. This hence calls for the remitter to choose the most reliable and authenticated mode while making such transfers from abroad so that the beneficiary back home does not have to take unnecessary burden to receive it safely.

##### **Mode of fund transfer**

Banks, paying agents, hundis, friends, and money orders are the most frequently used mode of transferring funds from abroad. During the field survey it was found that the largest portions of respondent were receiving their funds through the paying agents situated at their villages or towns i.e. 66.4 percent received their funds through paying agents. Similarly the next large group i.e. 16.8 percent comprised of people who were receiving such transfers from banking channels, followed by another 12 percent of people who received the funds through hundis or hawalas. The remaining 4.8 comprised of people who received their funds from the friends of the remitter who had personally come here on the vacation (Table – 4.10).

##### **Time taken to receive the fund transfer**

Due to the technological advancement people prefer both sending and receiving the funds through the fastest means. Time taken to receive the transfers by the beneficiary once it has been initiated from the senders end is what is considered most important these days. It is this particular factor which determines the mode of transferring funds these days.

Time taken to receive the funds back home depends upon the mode that is used by

the remitter for its transfer. The fastest the mode of transfer the more it is costly; hence the mode that is used for the transfer depends upon the urgency of fund at the receivers end. Banking means of transferring funds from abroad can be through any of the followings:

1. Demand Drafts drawn on a particular bank that has an agency relationship with the bank abroad where the draft is made
2. Telegraphic Transfers
3. Online Transfers
4. Swift Transfers
5. Payment instructions using authenticated test keys etc.

According to the survey it was found that 73.6 percent of the beneficiaries were receiving the funds in between 2 – 7 days followed by 13.6 percent of people receiving it on the same day. Similarly for 10.4 percent of people it took 1 – 4 weeks to receive the fund whereas there were 2.4 percent of people whom it had taken more than a month to receive the funds after it had been transferred by the remitter (Table – 4.10).

### **Frequency of remitting funds from abroad**

During the survey it was found that the larger portion of people had a lower monthly income of NRs.15,000. Due to the fact that remitting small portion of funds more frequently would cost the remitter more than remitting a sizable income on a periodic basis it was found that the frequency of remitting funds on a quarterly basis dominated others. Due to the modality of remitting funds by the remitter it was divided into five categories: Monthly, Quarterly, Biannually, Yearly and Not Regular.

Field survey witnessed that 52 percent of the respondents were receiving their funds on a quarterly basis followed by 18.4 percent receiving on a monthly basis. Similarly 20 percent were found to have been receiving their funds biannually, 5.8 percent on a yearly basis and the rest 3.8 percent were not receiving the funds on a regular basis. Beside these according to the respondents it was found that the frequency

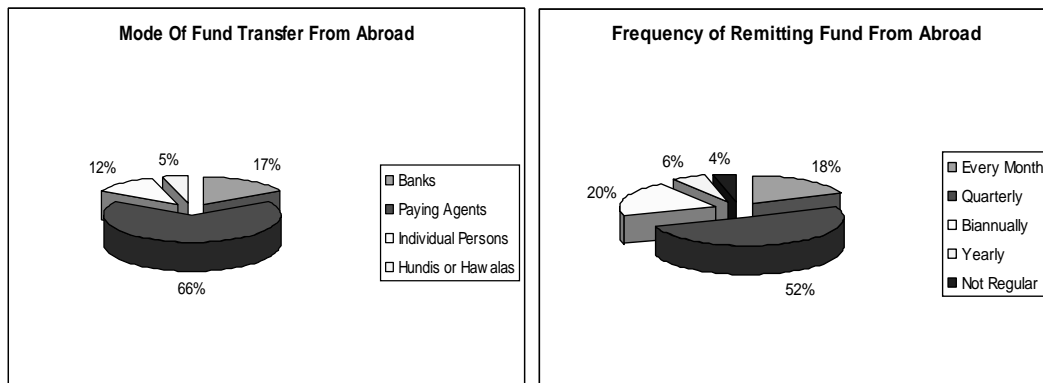
of remitting funds during the festival seasons like Dashain, Tihar, Chath etc. go very high. The flows of inward remittances during the festival seasons are very high (Table – 4.10).

**Table – 4.10: Mode of fund transfer and time taken to receive such transfers**

Particulars		Percentage
Mode of fund transfer from abroad	Banks	16.8
	Paying Agents	66.4
	Individual Persons	12
	Hundis or Hawalas	4.8
Time taken to receive such fund transfers	The same day	13.6
	2 – 7 days	73.6
	1 – 4 weeks	10.4
	More than a month	2.4
Frequency of remitting funds from abroad	Every Month	18.4
	Quarterly	52
	Biannually	20
	Yearly	5.8
	Not Regular	3.8

Source: Field Survey at various places, 2007

**Figure – 4.10: Mode and Frequency of Remitting Funds From Abroad**



#### **4.2.9 State of the collection of fund transfer from abroad**

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. Due to the ongoing conflict of the Maoist Insurgents and the looting of these banks situated at the urban areas have compelled these banks to withdraw its banking operations from these locations.

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 i.e. 78.4 percent of people 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 – 4.11). 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 – 4.11).

While asked to specify the reason behind preferring particular place to receive the funds 68 percent said that they would prefer a place which would be fast, hassle free and does not require more paper works like in Banks for delivering of funds. Similarly another 20 percent said that they would go for a more reliable place like banks where funds can even be deposited in their own account whereas 8.8 percent said that they would prefer hundis because it hardly requires any paper works. The remaining 3.2 percent of people would ask their remitter to send it with someone who was visiting home soon and said that this would be cost efficient and safe delivery is ensured (Table – 4.11).

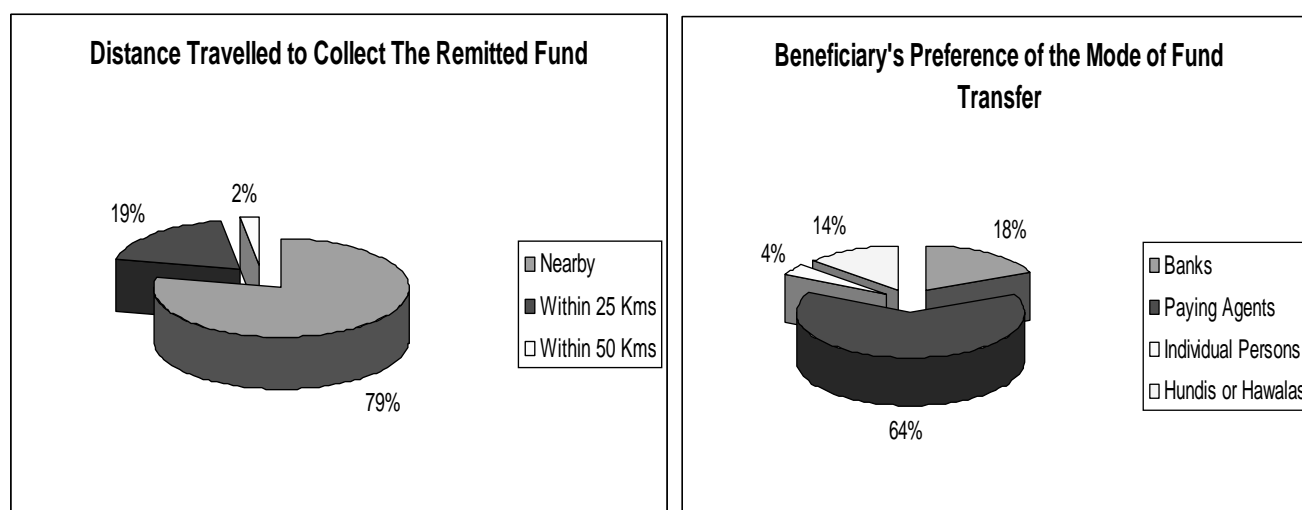
**Table – 4.11: State of collection of fund transfer from abroad**

Particulars		Percentage
Distance traveled to collect the fund	Nearby	78.4
	Within 25 Kms	19.2
	Within 50 Kms	2.4
	Takes more than a day	-
Beneficiary's preference of the mode of fund transfer	Banks	18.4
	Paying Agents	64
	Individual Persons	4
	Hundis or Hawalas	13.6

Factors determining their preference of receiving funds	Reliable & banking facilities	20
	Fast, Hassle Free & easy delivery	68
	Safe delivery at own house	3.2
	Reluctant to change	8.8

Source: Field Survey at various places, 2007

Figure – 4.11: State of Collection of Fund Transfer from Abroad



#### 4.2.10 Volume of remitted fund and problem faced during its receipt

##### Volume of remitted fund

Nepalese people going abroad for foreign employment tend to save their earnings after meeting their expenses and send it back home to sustain the living of their belongings. The higher the income of any individual the larger would be their remittances. As discussed earlier the frequency of fund transfer would depend upon the need of it, followed by the service charge hence it has been witnessed that Nepalese people tend to send a lump sum amount on a periodic basis rather than sending it on a monthly basis.

The income status of an individual determines his capability of remitting funds back home as far as the volume of remittance is concerned. When the respondents were inquired about the volume of remittance they receive, 58.4 percent said that they were normally receiving in the range of NRs.10,000 – 25,000, followed by another 25.6 percent of people who claimed of having received in the range of NRs.25,001 – 50,000. Similarly 10.4 percent of people were found to have received in the range of NRs.50,001 – 100,000 and the rest 5.6 percent were receiving more than NRs.100,000 (Table – 4.12). Calculating the average of the fund remitted by the remitter to their belongings here in the country of origin it was found that on an average they remit Rs.31,700 per transfer.

### **Problem faced during the receipt of fund transfer**

With the closure of various branches of banks at various locations especially in the rural areas, the people have been deprived of the basic banking facilities that they were previously availing from such branches of the banks. With the ever increasing number of people going abroad for foreign employment, inward remittances are for sure to soar inside the country in the same increasing trend. But with the unavailability of banking operations due to the threat of the ongoing Maoist activities, it is the people who are severely victimized. Receiving the inward remittance sent from abroad by the remitter in such situation is a far cry.

It was only after the need for overcoming the problems faced by various people at various locations of the country to receive the remitted fund safely was felt, which urged various exchange houses and banks to take initiative steps in this regard. After having taken the approval from Nepal Rastra Bank, the central bank of Nepal, private agents such as **International Money Transfer** and **Prabhu Money Transfer** emerged out as an agent whose main motto was to facilitate the inward remittance business. Having tied up with various exchange houses abroad where the presence of Nepalese were felt substantially and extending its operation by tying up with various individuals and firms here in Nepal so as to increase the number of payout locations the business of inward remittance was experiencing a dramatic change. After the establishment of such paying agents at various locations of the country, people at the rural areas have greatly benefited from it. Such paying agents have been able to cater the need of the people as far as delivery of inward remittances is concerned.

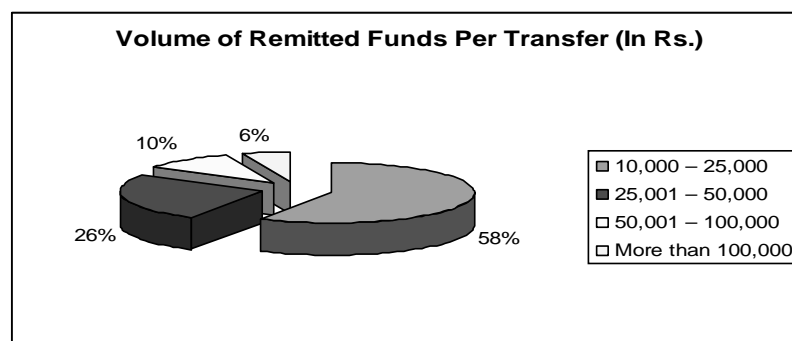
When asked about any instances that it had taken a very long time to receive the remitted funds amongst the respondents, 48 percent witnessed of such instances whereas the rest 52 percent said that they have so far not experienced any problems receiving their payment though they had to wait for the whole day to receive the money during some occasions. Amongst the 48 percent, when they were asked of the reason for having faced problems during the receipt of the transferred funds 43.3 percent said that they had gone to a wrong place to collect the fund whereas 30 percent had approached the paying agent with the wrong security number. Similarly 18.3 percent of people had to suffer due to the unavailability of banking services followed by the rest 8.4 percent who had received the message late from the remitter (Table – 4.12).

**Table – 4.12: Volume of Remitted Fund and Problem Faced During its Receipt**

Particulars		Percentage
Volume of remitted fund	10,000 – 25,000	58.4
	25,001 – 50,000	25.6
	50,001 – 100,000	10.4
	More than 100,000	5.6
Reasons for problems faced during the receipt of the remitted fund	Wrong agents approached	43.3
	Wrong security number	30
	Unavailability of banking service	18.3
	Communication gap	8.4

Source: Field Survey at various places, 2007

**Figure – 4.12: Volume of Remitted Funds Per Transfer**





#### **4.2.11 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 comprises 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 – 4.13).

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 their savings out of the funds 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 witnessed of having 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 – 4.13). 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

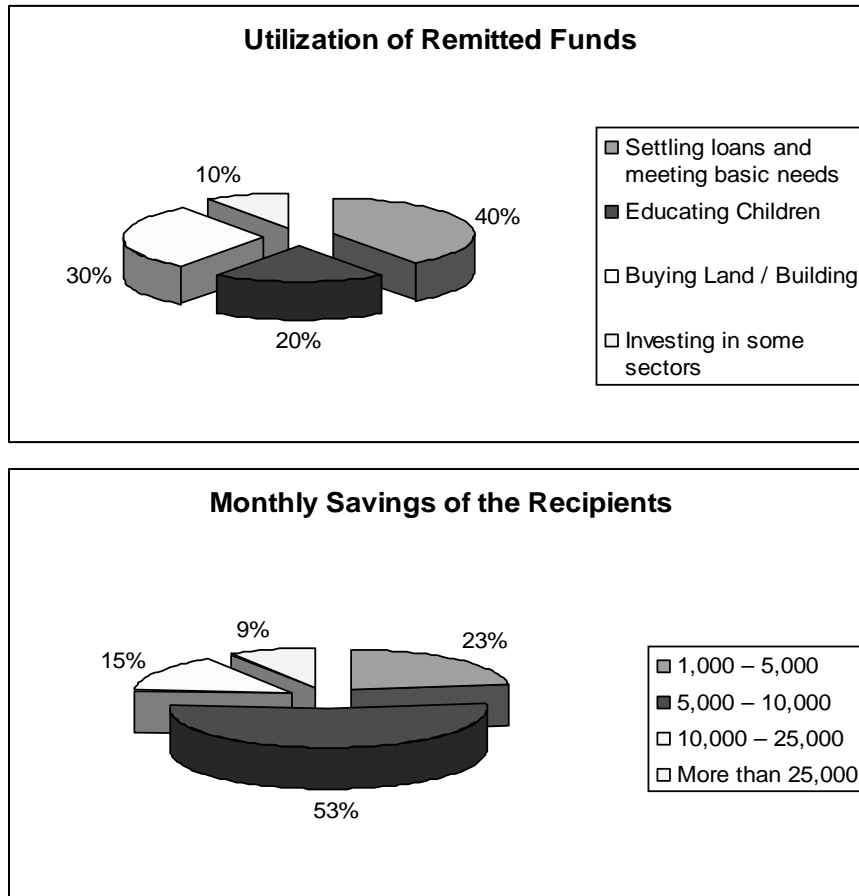
can multiply their savings.

**Table – 4.13: Utilization of the Remitted Funds and Saving Status of the Recipients**

Particulars		Percentage
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, 2007

**Figure – 4.13: Utilization of Remitted Funds and Saving Status of the Recipients**



#### **4.2.12 Investment Climate and Investment Opportunities**

The country has been badly hit by the ongoing political instability. The country has not witnessed the completion of any big projects due to the prevailing condition. Maoist activities have compelled many countries and investors to defer their investment programmes until some unknown period of time. This on one hand has shattered the Nepalese economy whereas on the other hand this has given rise to the ever increasing number of Nepalese going abroad for foreign employment.

As witnessed during the field survey, the respondents, when inquired about their intentions to invest in any productive sectors or if they were aware of any investment opportunities most of them said that they were interested in such investment opportunities. 74.4 percent of respondents showed their keenness in making such investments whereas the other 25.6 said that they were currently not in a position to make such investments.

Though many of them were aware of such investment activities and showed their keenness in it, only 36.8 percent of the respondents were found to have really indulged themselves in such activities. Amongst the 63.2 percent of respondents who were not involved in any sort of investment projects said that despite having interest in making such investments they were unable to make the decisions. They were urging for some sort of technical assistance from the concerned authority before making any investment decisions.

When asked for the opinion of the respondents, 97.6 percent of them said that there should be government level awareness campaign for such investment opportunities so as to make people aware of those sectors where they could invest their funds. The rest 2.4 percent opined differently.

#### **4.2.13 Macro Economic Impact of Inward Remittance**

##### **Contribution of Inward Remittance to Total Export, Total Import, Foreign Exchange Reserve and Gross Domestic Product (GDP)**

If we visualize the effect of remittance from macro perspective in the case of

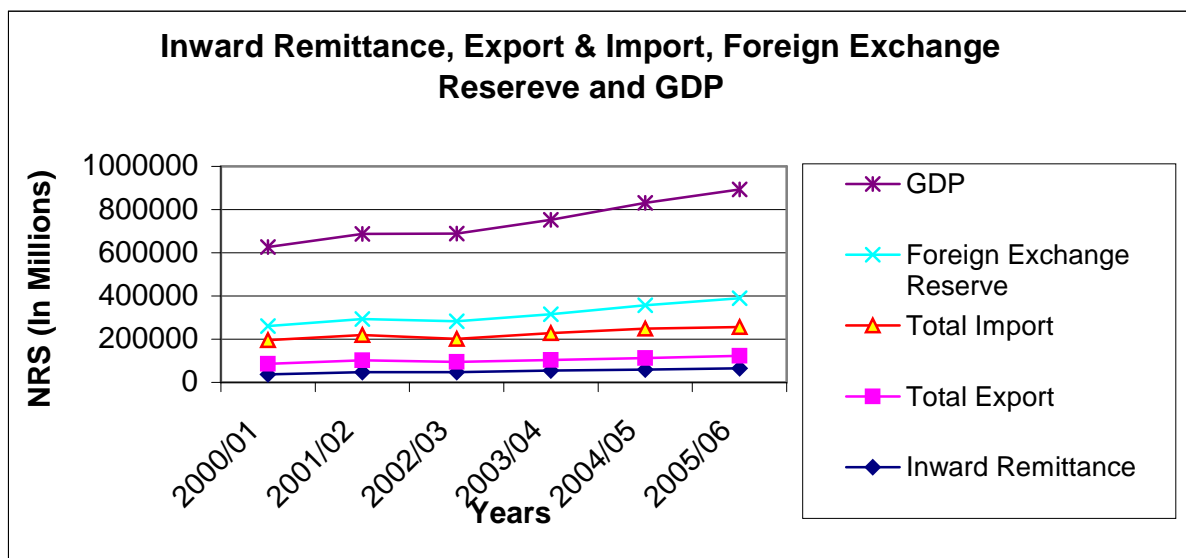
Nepal, what we find is that its contribution to total export, total import, foreign exchange reserves and GDP have increased significantly over the years. As the flow of remittances heavily influxed from the beginning of FY 1990/91, its contribution to these variables rose tremendously over the years. For the purpose of this study, we have only taken into consideration the figures from 2000/2001 to 2005/06 i.e. a period of six years (Table – 4.14).

**Table – 4.14: Remittances Flow, Total Export, Total Import, Foreign Exchange Reserve and Gross Domestic Product (GDP)**

Years	Inward Remittance (Remt)	Total Export (T.E.)	Remt as % of T.E.	Total Import (T.I.)	Remt as % of T.I.	Foreign Exchange Reserve (FER)	Remt as % of FER	GDP	Remt as % of GDP
2000/01	36818	49822.7	73.90	108504.9	33.93	65650.1	56.08	366251	10.05
2001/02	47216.1	55654.1	84.84	115687.2	40.81	75125.4	62.85	394052	11.98
2002/03	47536.3	46944.8	101.26	107388.9	44.27	80699.5	58.91	406138	11.70
2003/04	54203.3	49930.6	108.56	124352.1	43.59	86966.1	62.33	437546	12.39
2004/05	58587.6	53910.7	108.68	136277.1	42.99	107911.9	54.29	474129	12.36
2005/06	65416	58236.2	112.33	132186.8	49.49	133810.7	48.89	504101	12.98

Source: Field Survey at various places, 2007

**Figure – 4.14: Comparison of Inward Remittance with Export, Import, Foreign Exchange Reserve and GDP**



In 2000/01 the contribution of remittance to the total export and import were 73.9 percent and 33.93 percent respectively which went up to 112.33 percent and 49.49 percent respectively in 2005/06. 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 10.05 in 1999/00 and subsequently to 12.98 percent in 2004/05. The ratios of remittance have been found to be significant in proportion to the country's foreign exchange reserves too. For example, in 1990/91 its share was just 16.1 percent which rose to 56.08 percent in 1999/00 and since then has been experiencing ups and downs as to its contribution in country's foreign exchange reserves and was 41.88 percent in 2005/06. 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-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 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, 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 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.

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, 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.

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 favourable Balance Of Payment position.

### **4.3 Major Findings of the Study**

#### **4.3.1 Characteristics of Labour Migration Trend**

According to the class of people, people migrate to foreign countries. The trend of foreign labour migration is seen to have increased after 1990 when democracy was restored in Nepal. Now a days manpower agencies are growing rapidly and initiating to supply manpower in the Gulf States.

#### **4.3.2 Motives behind Labour Migration**

Dream of people going abroad differs accordingly to the class of the family. The only motive behind labour migration of lower class family is money for paying debts; enroll children into the school, jewelries for women members of the family, general medical expenses and a bit comfortable life than previous one. Similarly middle class family expects more than lower class family. They would like to buy land in Terai areas, buy a house in the city and to earn some money for running a small enterprise after returning back from their work abroad. Whereas higher class family are ready to bear high risk and their motive is to own a house and a car in Kathmandu and invest rest of the money for business work.

#### **4.3.3 Benefiting Factors of International Labour Migration**

Nepal is still without a vibrant industrial, financial, agricultural and service sector. As a result, skilled, semi-skilled and unskilled workers are leaving the country in masses to work and earn. According to an unofficial report, with the insurgency taking a heavy toll, about 300 – 500 Nepali workers leave for foreign lands everyday. Statistics from NRB reveal that the Nepali economy in 2004/05 earned over USD 922 million in remittances from overseas workers – accounting for 12.4 percent of national GDP. With 30 to 50 percent of these remittances being transferred through informal channels, total remittances for that year could easily top USD 1.5 billion.

#### **4.3.4 Problems of Labour Migrants in Home Country and the Country of Destination**

Nepalese migrant workers are basically exploited in three ways. The first exploitation is from the manpower agencies here in their country of origin i.e. Nepal, the second is from the manpower recruitment agency of labour receiving country and the third one is the massive exploitation by the companies where they work.

#### **4.3.5 Problems in Government and Policy Level**

There is lack of adequate human resource in the government. Labour official provide work permission on the basis of submitted document but government doesn't have a proper mechanism that verify the eligibility of the document. Lack of demand verification system, lack of follow-up activity from the government level, lack of labour attaché, lack of training or counseling to the outgoing labour migrants are other problems in government and policy level.

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

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 12.39 percent in fiscal year 2003-04, from 10.05 percent in 2000-2001. 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 58.91 percent in 2002-03 from just 9.2 during 1999-2000.

#### **4.3.7 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. 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. Inward remittance singly claims 50 percent contribution in reducing poverty.

#### **4.3.8 The Remittance Network**

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. To encourage remittance business in the country, the Central Bank i.e. Nepal Rastra bank provides 15 paisa as commission for every US Dollar brought in the country through banking channels by the licensed companies. However this incentive should be increased gradually for the better remittance coverage.

#### **4.3.9 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. Bringing more remittance money through formal channels is critical, as there is no actual flow of currency through informal channels.

#### **4.3.10 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.



## CHAPTER 5

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

### 5.1 Summary

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:

There are more than 500 thousands documented Nepali labour migrants who have left the country in search of foreign employment since last twelve years. The trend of labour migration in the Gulf States and Malaysia is increasing gradually. Ongoing conflict and the loss of employment opportunity are found to be the major reason to the increment of international labour migration. 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.

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. 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. 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. 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.

Manpower agencies are not fare in their business deal. 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. 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. Earning of migrants is not coming back to the home country safely. There is also the lack of capitalization of their money. 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.

It is also found that government has a lack of proper vision and working mechanism to address the issue of international labour migration. 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. 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. 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.

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. 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. 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.

## 5.2 Conclusions

Failure to transform our economy from subsistence agriculture sector to industry, service, tourism, trade, etc. is the main reason attributable for the slow growth of employment opportunities in Nepal. Tenth Plan has set quantitative targets with reference to foreign employment under which it would be effortful to send some 550,000 persons abroad for employment so as to raise the contribution of this sector to our overall national income.

Both the developed as well as developing economies have much to gain from an increased flow of workers. The oil exploration and other development activities in West Asia provided opportunities to the labour exporting countries of South Asia to export their manpower to the Middle East in large number involving at its peak in the early 1980s and over a million temporary workers a year.

International labour migration mostly in Gulf States, Malaysia and other South East Asian countries is a new phenomenon of migration in the Nepalese context and that only have about 30 years long history. Unexpectedly the foreign labour migration has developed in such a way, which has shifted the agricultural based economy towards remittance based economy. The figure of government authority says that there are more than 500 thousands documented migrant workers abroad where as other estimated figure says that there are more than one million Nepalese migrant workers including 100 thousand female migrant workers. This figure does not include the migrated population towards India. Remittance sent by the Nepalese labour migrant is estimated to be 100 billion rupees each year which includes women's share of 11 percent.

Numbers of people going abroad for work has been on an increasing trend, especially after the origination of armed conflict in Nepal. Major concentration of Nepalese migrant workers was in the Gulf States till 2000/01 but the dynamics has changed as more people are seen to have been migrating towards Malaysia since 2001/02. The total number of Nepalese going abroad has stood at 137,678 in 2005/06 and 105,223 during the six months in 2006/07 of which 53.9 percent were clustered in Gulf countries and 45.2 percent were found to be in Malaysia. It is estimated that of the total Nepalese working abroad, some 24 percent are in India however there is no evidence of confirming the same due to the open border between India and Nepal. As more Nepalese are also going abroad via informal channels, the figure could be as high as official figure.

There are various problems faced by the migrant workers both in home country and the country of destination. Unless addressing the problems of migrant workers from the policy level, solution is far behind. Nepalese Government on one hand has not been able to properly implement the existing policy whereas on the other hand there are several things that need to be done regarding the regulation and management of foreign labour migration. Basic things that need to be improved are amending the existing laws, promotion of labour market through the labour diplomacy, management of manpower agencies and welfare activities to best benefit the labour migrants.

The current need is for more effective migration management to reduce the vulnerabilities of migrant workers and safeguard the rights of migrant workers. On the other hand inward remittance is another major concern associated with the foreign employment. It is so because of its contribution in the economic development of the country. On the basis of the field survey conducted at various places where the concentration of Nepalese going abroad is higher it was found that major portion of the recipients of the inward remittance have been able to uplift their way of living. Though initially it is used for the settlement of the loans that the remitter had taken while going abroad the later transfers are mostly used to meet the household expenses.

The topic remittance became focal issue of research and discussion in 1990's decade. In 2001, worker's remittances represented some 42 percent of total Foreign Direct Investment (FDI) flows. South Asia is also one of the premier remittance recipient region, remittances amount to her GDP has stood at 2.5 percent. Of the total remittances flow in the world, South Asia received nearly 20 percent. Among the South Asian nations, India is receiving the largest amount of remittances followed by Pakistan, Bangladesh, Sri Lanka and Nepal.

The remittance amount received by Nepal reached up to Rs.65,416 million in 2004/05 which is approximately 13 percent of Nepal's GDP. Its share to total exports, total imports and foreign exchange reserves has stood at 112.33 percent, 49.49 percent and 48.89 percent respectively in 2004/05.

Sending remittances from abroad to the remitter's country of origin is not as easier as it may sound. With the banks shutting down their operations from most of the parts of the country due to the Maoist activities and the threat of being looted, people at such places have even been deprived of the basic banking facilities. It was only after the Central Bank of Nepal, Nepal Rastra Bank (NRB) gave approval to the private sectors to facilitate in the business of inward remittances, sending and receiving money have

become easier in comparison to what it used to be earlier. Still dominated by the informal channels of sending money in the remittance business, NRB's step has to a larger extent contributed in diverting the inward remittance from the informal channels to the formal channel.

With the increase in the number of workers, the inflow of remittances has also taken an upswing. Moreover, because of the policy steps taken for enhancing the inflow of remittances to the country through the official mechanism the share of remittances coming through official channel has gone up.

With over 200 sub-agents appointed at various parts of the country by these private money-transfer companies like International Money Express (IME) Private Ltd., Prabhu Money Transfer Private Ltd. etc. people wanting to send their savings to their families back home have greater options in selecting the nearest location from where the remitted fund could be collected. Unlike banks, these private money-transfer companies can only facilitate in delivering the remitted fund to the concerned beneficiary whereas banks allow the beneficiary to open an account where the surplus amount can be deposited.

Remittances, the portion of international migrant worker's earning sent back from the country of employment to the country of origin, play central role in the economies of many labour sending countries including Nepal. Meaningful use of remittances at micro level boosts macro activities and there by raises socio-economic status. It has to some extent played a vital role to alleviate poverty and sustain the desired level of development goal set by the nation. Monetization in the economy is possible with the meaningful use of remittance amount. Additionally, increase of the flow of remittances paves the way for the economies like ours to keep Balance of Payment (BOP) position in a healthy state. The flow of remittances lessens dependence on foreign borrowing and aid too.

With equal volume of remittance entering inside the country through informal channels, it has become a challenge for the Government to bring the remittance entering inside the country to official fold to the extent possible. 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.

The advantage of migrant workers goes beyond the immediate monetary gains.

The returning migrants increase social capital through exposure to new technology, ideas, languages and people and produce intangible but important benefits to societies. Remittance money represents the most essential of family values: hard work, thrift, sacrifice and hope for a better. However, social mobilization and awareness are necessary requisites for effective use of remittance money which were lacking during the field survey conducted at various places.

Remittances, to some degree have been quite successful to support the fundamental building blocks towards sustainable economic development. They have played an important role in current account dynamics by offsetting high trade account deficits and volatility. The development potential of remittances can obviously be improved by increasing the total flow of remittances, lowering the transfer costs and offering more attractive investment alternatives. Considering the fact that there are fewer opportunities to work within the country, the export of Nepalese labour will continue to take an upward trend. This is bound to lead to an upsurge in remittances.

While the system of remittances in Nepal is growing, the challenge lies in harnessing their enormous potential to help build a strong, equitable, and dynamic national economy. Remittances have the potential to help this internal transformation and should be looked at as a means toward developing an internal engine of growth in Nepal.

International labour migration is an intricate issue, emanating from a combination of push and pull factors, including poverty, unemployment, demand of the labour market, political conflicts, improved communications and transport, among others. It has been one of the most dynamic phenomena of the last four decades and will be an ever-challenging issue in this era of globalization.

In Nepal's case, one of the country's major exports is labour, and most rural households now depend on at least one member's earnings from employment away from home. Nepalese workers have sought foreign employment as both the agricultural and non-agricultural sectors struggle to create new employment opportunities. Currently, the Maoist insurgency in the country has also prompted people to look for overseas employment. As a result, many workers have seen foreign employment as their only viable option. Moreover, out-migration seems to have eased the unemployment situation to some extent and has ameliorated the living conditions of migrant workers' dependents.

As depicted in the above presented figures we have reached to the conclusion that

with the rise in the number of migrants and the consequent rise in remittances, the NRB has been able to build official reserves to adequate levels, reducing its vulnerability to external shocks. In FY 2004/05, workers' remittances amounted to Rs. 65.4 billion, a rise of 11.7 percent from Rs. 58.6 billion in FY 2003/04. Besides, about Rs. 12.5 billion in foreign exchange was received as pension.

The rising remittances have created a surplus in the current account, subsequently strengthening the overall balance of payments position. For instance, the share of remittances in total current account receipts went up to 33.7 percent in FY 2004/05 from 27.4 percent in FY 2000/01.

The effect of remittances on poverty reduction at the national level has been positive. According to the second Nepal Living Standards Survey (NLSS), remittance flows were, to a large extent, responsible for the reduction in poverty from 42 percent in FY 1995/96 to 31 percent in FY 2005/06. To conclude, the country needs to capitalize on the huge reservoir of labour through a consistent policy, especially foreign employment policy. Earnings from foreign employment could change the development status of the country by substantially contributing to poverty alleviation, which is the cynosure of the Tenth Plan.

## **5.3 Recommendations**

### **5.3.1 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:

- a. 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.

- b. 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. The promotional policy should 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.
- c. 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.
- d. 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.
- e. 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.

- f. 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.
- g. 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.

### **5.3.2 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:

- a. 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.

- b. 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.
  
- c. 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.

- d. 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:
- i. Clear information about the price and other features of the services.
  - ii. Easy access to remittance services.
  - iii. 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:

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

- e. 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.

### **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.

## **POLICY CONSIDERATION AND RESEARCH NEEDS**

This overview can be concluded by making a few suggestions that would assist in the formulation of the policies regarding foreign employment of the country. The skill and the resources of the returned migrants are assets of the country which can be used for development of the economy. The productive use of these skill and asset would automatically result in their rehabilitation (Zachariah et. al., 2002). This requires investigation into their numerical dimensions, skill and accumulated wealth, their investment and saving behavior, and reasons for not utilizing their asset for productive purposes.

Longitudinal macro economic and micro economic case studies of migrant households' consumption could be conducted and analyzed to examine their short and long run consumption behavior in order to explore the precise relationship between their average and marginal propensities to consume. On that basis, one could estimate the volume of potential saving and investment that could be generated from households dependent on remittances to design appropriate financial packages (bonds, equity and mutual funds) for their saving and investment needs. Fiscal and refinance policies further could be tailored to support the effective use of remittances. A recent World Bank report has listed a variety of programs implemented by various countries to promote formal transfer of remittances and to mainstream the remittances for development programs (World Bank 2006). While making policy decisions, one should consider the best practices of other countries, particularly the Asian countries (Akhtar, 2007 and Afsar, 2007). The schemes like business counseling, entrepreneurship development program and

concession on the import of the machineries and equipments and supplementary loan to establish manufacturing establishment can be launched. Identification of the development projects in which the returnees have assurance of reasonable return could be a key to the success of the utilization of saving/expertise of the returned migrants. The government should give all possible incentives to encourage official transfer of remittance. In this regard the lesson learned from other countries could serve as guidelines. For example in Sri Lanka and in the Philippines, no charge is levied on the renewal of passport, if the application is attached with the voucher of bank transfer of remittance (World Bank, 2006 and Mambo and et al, 2005). Philippines and Mexico introduced pension plans for returned migrants. Loans are also given to immigrant workers' families whose repayment could be made with the remittance sent by the migrants abroad. Credit is provided to the migrant workers at the time of departure, secured through solidarity groups. Thailand offers investment schemes and business set up advisory services through a foundation. India has given preferential access to capital goods and raw material imports for recent returnees starting productive activities.

Implementing different support programs ensuring conducive environment for returnees to invest their income and skill in productive purposes is just as important as developing effective migration and effective remittance policies. Higher domestic investment from remittance income can be facilitated through long term saving and facilitating credit plans to finance small business start-ups.

Opening up of new missions in countries with substantial Nepalese workers, equipping the missions with additional personnel, budget, and modern tools such as satellite telephones and computerized database of Nepalese working in a particular country and their home addresses, emergency funds for crisis/rescue operation, etc. are urgently needed to meet the future challenges.

Lobbying for the safety and protection of the rights of Nepalese workers and their better pay and working conditions is also crucial. Bilateral Labor Pact between Nepal and Qatar which came into force from January 20, 2008 ensures better pay and lessens the cost of migration to Qatar. It can be expected that this pact, if implemented with commitment from both the governments, will ensure the rights and safety of large number of Nepalese migrant workers in Qatar. The government should sign such types of agreements with other major labor importing countries. The current plan seeks to negotiate labor agreement with at least five labor importing countries on priority basis.

Designing pro poor policies requires identification of the factors associated with migration such as caste ethnicity, economic status, education/ training, age, sex, marital status, occupation, household asset like land holding. It is also necessary to document the information on the destination, types of work available abroad, average salary, and the problems encountered in the process of migration.

Language barriers and lack of awareness on banking channels may hinder the migrant workers from using the banking channels for transfer. Carefully designed financial education program can help migrants to overcome the problem and use formal financial institutions (World Bank, 2006 and NRB, 2007).



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**Appendix I**  
**Questionnaire**

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. Age, Educational Qualification & Duration of contract to work.  
Age:  
Educational Qualification:  
Duration of Contract to work:
  
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 amount paid to the Manpower Agency for all the matters related to going abroad for foreign employment?  
(a) NRs.50000-100000          (b) NRs.100000-150000          (c) NRs.150000-200000  
(d) More than NRs. 200000
  
7. What were the expenses incurred while going abroad for Foreign Employment?  
.....
  
8. Types of work Nepalese People are involved into.

(a) Labour Class Jobs            (b) Clerical Jobs            (c) Highly Qualified Jobs

9. What is the monthly income of your remitter working abroad.  
(a) Upto 15,000            (b) 15,001 – 30,000            (c) 30,001 – 45,000            (d) 45,001 – 60,000  
(e) Above 60,000
10. 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
11. What are the mostly used mode of transferring of funds from abroad.  
(a) Banks            (b) Paying Agents            (c) Individual Persons            (d) Hundi/Hawalas
12. 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
13. How often do you receive the funds?  
(a) Every Month            (b) Quarterly            (c) Biannually            (d) Yearly            (e) Not regular
14. 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
15. 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
16. 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.

17. In what figure range does your remitter send money to you (equivalent NRs.)?

- (a) 10000-25000
- (b) 25001-50000
- (c) 50001-100000
- (d) More than 100000

18. 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

19. 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

20. 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.)

- (i) 1000 – 5000
- (ii) 5000 – 10000
- (iii) 10000 – 25000
- (iv) More than 25000

21. Are you aware of any investment opportunities other than Land/Building that you could invest your savings into?

- (a) Yes
- (b) No

22. Have you invested your savings in any of the big/small scale business?

(a) Yes            (b) No

23. Do you intend to invest your savings in any productive sectors that you feel could multiply your savings?

(a) Yes            (b) No

24. 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

25. 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***