

## **CHAPTER –I**

### **INTRODUCTION**

#### **1.1 Background of the Study**

Nepal's development expenditure is heavily financed by foreign aid and it has become an integral part of Nepal's political economy. Besides foreign aid, tourism sector has also remained one of the lucrative sectors for Nepal. But in FY 2001/02 Nepal's major economic activities tourism, manufacturing, investment, export, etc reported major downslides and even agricultural production and imports slackened. Since then the source of earning's for sustaining Nepalese economy remained either foreign aid or remittance that has been paving the way from the economic disaster. Employment abroad has not only helped Nepal in minimizing ever growing unemployment problem, it has also injected much needed foreign currency into our economy to fill up foreign exchange and investment gap, thereby helping Nepal to avoid a major BOP crash (Sigdel, 2005: 26). In spite of common consensus within the government and development agencies that there is greater potential of the overseas migration as a safety value in the view of gloomy economic scenario, the remittance economy of Nepal has generally either ignored or underestimated by economists, academics and policy makers (Srivastava and Chaudhary, 2007 : 28).

Migration is a major determining factor of Nepali economy which has suffered from prolonged conflict, political instability and unrest. The number of Nepalese going overseas in search of job alongside their income has been growing marginally. Similarly, a few migrants have been bringing in new technology and skill. Remittance income through formal banking alone is substantial and makes nearly 23.6% of Nepal's gross domestic product. As the economy continues to suffer from decline in agriculture and industrial production, remittance is described as soon as it has prevented economy from virtual collapse (Nepal Migration Year Book, 2009:1).

Workers' remittances have recently attracted much attention in research and policy circles, owing to their scale and properties. As global aggregate, workers' remittances are the largest source of financing after FDI, exceeding both official development assistance and portfolio investment by a wide margin. In 2005, officially recorded remittance to India, China, Philippines and Mexico alone amounted to \$ 81 billion

compared to \$ 107 billion in official development assistance worldwide for a number of developing countries, remittances beat merchandise exports as well as the prime foreign exchange earner and some 20 countries reported remittances equivalent to 10 percent of GDP or more. Remittances are much more stable overtime than, private capital flows and exports, making them a very attractive source of foreign financing. In addition, they are unrequited transfers which, unlike other capital flows, do not create obligations in the future (Lueth and Arranz, 2007:1).

Remittance as a major source of foreign currency to the developing nation has become a substantial component of making current account surplus in the balance of payments. It is argued that many workers from Nepal going abroad for employments are no doubt young, energetic laborious and enthusiastic. They do hand work for earning large remittance income to support their families. However the downslide of remittance reflects the view that remaining young generation for long time outside without family may increase their vulnerability and ultimately they will have a tendency to leave their homeland. Thus, in order to recover the loss of economic active labor force to the domestic economy, they should be encouraged to come back again with skilled knowledge for utilizing their savings and working experience for development to the productive areas in accordance with the priority of the national development plans (Gaudel, 2006: 9).

During the last two decades or so the economic analysis of remittance has experienced a dramatic renewal, applying and sometimes. First of all, the microeconomic of remittances has focused since the early 1980s on the role of information and social interactions in explaining transfer behavior. This resulted in a deep change in the way economists look at the determinants of remittances, with familial and strategic motives being increasingly acknowledged for alongside more traditional motivations. From a more macroeconomic perspective, new growth theories have also profoundly altered the directions for research on the impact of migration and remittances. While previous research in the 1970s and 1980s was short run effects of international transfers, mainly within the framework of static trade models, the focus gradually shifted to long run conditions, notably the role of remittance in the dynamics of inequality and development (Rapport and Docquier, 2005:4).

It is a well known fact that our youths are migrating abroad for their livelihood. The percentage of households receiving remittance has increased from 31.9% in 2003/04 to 55.8% in 2010, with the annual average growth rate of 9.8% .The total amount of remittance received has increased from Rs. 45 billion in 2003/04 to 310 billion in 2010. It is not a surprising amount that Nepal's has received during that period as million of our youths are working in the countries of East Asia, South Asia and Middle East and over 1500 Nepalese youths leave daily to these places for work.

The most pertinent question about the use of remittance is the where and for what purpose this amount has been channeled. Data reveals that 79% of the remittance is consumed. Household property, loans, education and capital formation bagged 4.5%, 7.1%, 3.5% and 2.4% respectively. It shows that over 95% of the remittance has been used in the non productive sectors of the Nepalese economy (Dhungel, 2010).

The country's economy is gradually becoming consumption oriented due to remittance income and other factors thereby causing hopeless plunges in savings & investment rates. Consumption to GDP that stood at 88.3% in FY 2000/01 has gone up to 93.3% by FY 2010/11 (Economic Survey, Fiscal Year 2010/11: XXIV).

Nepalese economy is passing through the critical phase of low level equilibrium trap circumscribed by poverty and stagnation. Moreover the economy is the manifestation of an acute disguised unemployment and subsistence farming with limited prospect for mechanization where foreign aid continued to play a critical role over the years in sustaining the economy (Dahal et al. 2004:167).

Remittance can generate a positive effect on the economy through various channels such as savings, investment growth, consumption and income distribution. These inflows can also contribute to stability by lowering the probability of current reversals. Since they are of cheap and stable source of foreign currencies, remittances are likely to stem investor panic when international reserves are taking downward trend or external debt is rising.

At the community level, remittances create multiplier effects in the domestic economy, producing employment opportunities and spurring new economic and social infrastructure and services, especially where effective structures and institutions have been set up to pool and direct remittances (Pant, 2011:1).

## 1.2 Statement of Problem

Million of youth are compelled to heading for overseas seeking employment due to failure in creating employment opportunities within the country. Statistics for the last three years shows on average 250,000 people leaving the country annually for foreign employment and the number is on rise. This major social and economic trend has for too long, been ignored by economists, academics and policy makers alike (Economic Survey, 2010/11: XXIV).

One of the Nepal's major exports is labor, and most rural households now rely on at least one member's earnings employment away from home. Nepalese workers have sought foreign employment for away from home. Nepalese workers have sought foreign employment as both the agricultural and non agricultural sectors struggle to generate new employment opportunities with limited arable land, landlessness is pervasive and the number of landless households has steadily increased in the agricultural sector. In the non-agriculture sector, the slowdown in growth, especially since 2000/01, due to the Maoist insurgency and exogenous shocks has further retarded the pace of employment creation. The conflict had also, until recently, created difficult living and security conditions, especially in the rural areas (Pant, 2011:11).

The Eight 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. Since then Nepalese people are going aboard and they are sending foreign currency in large scale exchanging with their knowledge, skill etc.

The rate of foreign employment has ever been increasing in developing country after globalization. Nepal is also one of the developing countries. The acceleration is experienced in Nepalese case also. Various causes like over a decade long conflict sets the economy in trouble. Due to inadequacy in making proper human resources planning and fails to improve education system, people have compelled to start their career by migrating to other countries. Nepalese economy gets remittance exchanging with active working force. The economy of Nepal now depends heavily on remittance for better off or worse.

At present, remittance provides significant source of foreign exchange, finance imports increases national income and contributes to BOP. The contribution of remittance never be under estimated as it plays a significant role to improve livelihood of the receiving households. But some research paper have revealed that foreign employment has negative impact on the economy in long run as it does not give proper direction of country's economy rather helping to have status quo condition.

It is obvious that no developing economy can progress in long run without the proper use of her resources. Being a most reliable resource at present, the importance of remittance is very much crucial in Nepal. But various issues such as volume of remittance, trend, and impact on various indicators have not been successfully known to Nepalese economy.

Similarly, the government policies regarding foreign employment may contain lots of lacunas to manage the remittance money. The government programs and policies need to be revised to address the various problems related to foreign employment and use of remittance income in the present context of global scenario. No study have been conducted to know the trend of foreign employment, impact of remittance in Nepalese economy and the status of government policy .In this context, the study analyses the issues associated with the various facts of foreign employment i.e. trend of foreign employment, contribution in national economy and problems in policies and come out with some measures for its promotion as well. Therefore, in this study, the following issues have been raised.

- ) What is the situation of foreign employment and remittance inflows?
- ) What is the contribution of remittance in the economy?
- ) What are the current policies and practices of government in the field of foreign employment?

### **1.3 Objectives of the Study**

The general objective of the study is to analyze the foreign employment and workers' remittances in Nepalese perspective. However, the specific objectives are:

- ) To present the trend of foreign employment in Nepal.

- ) To assess the inflow of remittance and its contribution in Nepalese economy.
- ) To analyze the government policies and practice on foreign employment.
- ) To suggest for improvement in foreign employment and remittance in Nepal.

#### **1.4 Significance of the Study**

For millennium people have migrated in search of economic opportunity. In the nineteenth and early twentieth century's, technological advances and untapped natural resources drove movements of population from Europe and Asia to the Americas. International migration generates enormous improvements in people's lives. Immigration enjoyed high wages, countries of destination profited from increased supply of labor (The World Bank, 2006).

Over a long conflict of more than ten years, Nepalese economy has experienced a great shock even experiencing at present. Most of foreign currency resources generating sectors tourism and export of certain commodities, such as carpet have declined significantly. In this time, workers remittance helps to give proper direction for the economy. In this scenario, study of trend of foreign employment and remittance and its overall impact is very essential. But most of studies cover small areas and they are confined to micro level. This study is crucial as it covers overall economy. This study is expected to contribute for the interested readers and researchers to widen their knowledge and conduct the further study related to it.

#### **1.5 Limitations of the Study**

This study is meant for fulfilling partial requirement for the degree of Master of Arts (MA) in Economics. It has the following limitations.

- ) Overall study has been carried out based on published secondary data, which are published by various bodies of government as well as Nepal Rastra Bank.
- ) The research is confined only in the direct effect in the Nepalese Economy.
- ) People going abroad through approved of GON only covers the foreign employment data but there exist a large number of people going through illegal way i.e. without approval to government and at the sometime having open boarder with India is also creating difficulties to identify the authentic migrant record. Similarly, a large number of migrant workers have still used

informal channel for sending their earnings. So, official record of remittance may not represent the true volume of money entering to the country.

- ) The contribution of remittance to the national economy has not been analyzed in detail but is confined to the indicators namely GDP, domestic saving, consumption, poverty etc.

## **1.6 Organization of the Study**

The study is divided into five chapters. The format of each chapter is given below.

Chapter I: This is an introductory part of the present study. It includes background of the study, statement of problems, objectives, significance, limitations and organization of the study.

Chapter II: This chapter is meant for literature review. For this purpose, various books, and articles have been reviewed under this heading.

Chapter III: In this chapter, the research methodology has been discussed.

Chapter IV: This chapter presents the situation of foreign employment, trend & contribution of remittance in different variables like GDP, consumption, poverty, GDS etc.

Chapter V: This chapter incorporates the summary, conclusion and suggestions.

The bibliography and appendices are given at the end of the thesis.

## **CHAPTER – II**

### **REVIEW OF LITERATURE**

The present study aims to analyze the trend, contribution of foreign employment and remittances entering inside the country. Furthermore, it aims to analyze the policy adopted by the government regarding foreign employment. For this purpose, a review of related literature is must which help me to get clear ideas, opinions and other concepts. This chapter emphasizes about the literatures which were concerned in this connections. Therefore an attempt has been made so as to make clear theoretical part, national and international development.

#### **2.1 Theoretical Review**

The decision to migrate is the outcome of human psychology and behavior. Any universal and uniform law can't define human behavior but many studies relating to migration have tried to find out some pattern and order in migration decision of an individual.

E.G. Ravenstein (1885:167-235) was the first person to attempt forming migration theory. Ravenstein's "laws of migration" is also known as, push-pull factors of migration; still predominates as framework of migration analysis. Push factors are land tenure system, unfavorable form of trade, wide dispersion of poverty and income, pressure of rural poverty in income; pressure of rural poverty in general and so on. Pulls factors are employment, education and other facilities are opportunities known as bright light of the towns. On the one hand push factors push the migrants from their place of origin and on the other hand pull factors pull the migration to the place of destination.

W.A. Lewis (1954:139-191) distinguishes subsistence sector and developed sector within the economy. The first is agro-based, underdeveloped or rural area and second is industrial, developed urban territory. The prime reason for migration is due to wage differences. Unlimited supply of labor force prevailing at low wage rate are attracted into industrial sector until subsistence sector i.e. migration exists whenever wage differential exists and elimination of such differential causes to end labor mobility.



The theory of remittance or its relations with different variables has not been yet established. This is because there is no perfect relationship of it with other variables. The causes of migration, place of destination, types of work engaged in destination, environment of destination, family causes and a lot of variables affect. Volume of remittance and its use and impart. However, any model has not been a fit, different scholar academicians have tried to theorize their empirical researches in a conclusive frame.

M.P. Todaro (1976:361-402) stated that migration is stimulated primarily by rational economic consideration of relative benefit which is mostly financial. Decision to migrate is influenced by the difference between expected incomes between two places. The probability of getting job in new area is inversely related to unemployment rate in the new area.

Elbadwi and R. Rocha (1992) synthesized the old researches in two categories: 'endogenous migration and international workers' remittance concerns the income differential and wage rate between two place, there is 'required' level of remittance which must be equal to average income of family and community, on the other hand portfolio approach to international workers' remittance suggests volume of remittance depend upon decision whether to save in host country or remit to the home country. The volume of remittances is affected by relative rate of return of interest rate, foreign exchange, real estate values and rate of inflation and difference in the black market exchange rate and official exchange rate. The first approach considers income and demographic variables as the main determinant and economic policy influences less and so it is long run analysis, and second insists on macroeconomic policies, economic and social environment for higher remittance and short run treatment.

What Elbadwi and Rocha (ibid) found conducting research in 6 labor exporting countries of Africa and Europe: Algeria, Morocco, Portugal, Tunisia, Turkey, Yugoslavia in 1980s that the stock of worker abroad, level of income in the host country proxy for length of stay domestic inflation exchange rate premium in the parallel market, special incentive scheme designed to attract IWR (International Workers Remittance) determine the volume of remittance of a country.

Ray Chaudhauri (1993) has quoted five different researches conducted by i) H. Remple, R. Lobdell ii) G.E. Jonson and W.E. Whitelaw in Kenya iii) Remple and Cobdell in Pakistan iv) B. Banrjee in Delhi v) ILO and presented by A.S. Oberai and HKM Singh. Their common idea is propensity to remit of all migrants and proportion of remittance is equal and depends on the types of work received abroad, level of education of migrants, marital status, origin of migrant rural or urban. The proportion of income remitted is more or less same of all types of migrants, but the amount of remittance certainly is not equal. Ray Chaudhari (1993) studied in his own research about the use of remittance. He concludes that first, initial consumption pattern largely affect the use of it. If the recipient is below the poverty line his/her elasticity of demand on necessary thing is high, i.e. it encourages local consumption expenditure. If he/she is above the poverty line; it makes him/her rise in income status, so consumption pattern shifts to goods for facility and luxury. Secondly, expenditure of remittance in receiving household depends upon availability of desired commodities or services too. If they are not available they lead to establish wholesale and retail unit. Thirdly, the use of it depends on propensity to save and it is affected by level of income and ceremonial duties like marriage. If they are high one's propensity to invest reduce. The fourth element proposed by Chaudhari that affects the use is value system and attitude towards different types of occupation.

Barham and Boucher (1998:307-331) published the article entitled "Migration, Remittance and Inequality: Estimating the Net Effects of Migration on Income Distribution" which focuses on the changing impact of migration on globalization. Until the first war, international migration played a migration of workers contributed to economic and social integration between countries south and north. During both these periods, labor hand in hand with capital mobility, and migration was key factor in the globalization of economics. International migration now seems to be excluded from the new process of globalization.

Seddon et al. (2001), in their book, "Foreign Labor Employment and Remittance Economy of Nepal" show the history of labor migration from Nepal. Data backs at least to the beginning of the early 19<sup>th</sup> century and closely linked to British imperial politics. Recruitment of so called "Gurkha" soldiers into the (British) India army was institutionalized in 1816 after Nepal had lost the war with the British East India

Company. Prior to that some Nepalese had sought employment in the army of the Sikh ruler Ranjit Singh in Lahore and other joined them after the defeat of the Nepalese army by the British. This tradition, until today is reflected in the name "Lahure' for soldiers. But today it is regulated by the "Foreign Employment Act". With the enactment of foreign employment act, Nepalese started to migrate beyond India particularly to the Gulf, where oil boom had created massive demand for foreign labor. There was significant growth of Nepalese migrants in East Asia, South East Asia and the Gulf.

Nepal has opened its door for foreign employment adopting Liberal economy. Since then, it has become one & major occupation for Nepalese youths. The massive unemployment in inside the country is the main reason behind the rapid growth of the workers migration to the other country.

UN (2002) in its report on international migration concluded that over the past three decades, policies in the area of labor migration have developed along four on major paths: growing restrictiveness and selectiveness in the admission of labor migrants in developed 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 adoption of regional agreements on the free movement of persons.

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 is aboard 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 labor organization and constituents .

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, remittances play a pivotal role in case of Nepal to stabilize the economy even in 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 existing employment opportunities have been worsened due to the deteriorating law and order situation as several industries have closed down under such circumstances. 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 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 in such a way 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.

Shrestha (2006:27-35) in his article published in NRB publication entitled "Foreign Remittance: A Panacea for Nepalese Economy" has stated that remittances are important to Nepal at the both micro and macro level as the income of the recipient and the foreign exchange reserve of the country. He argues that remittances generate

positive multiplier effects in output if they are consumed and contribute to economic growth productively. He states that bringing more remittance money through formal channels is critical. Furthermore, when the informal sector is utilized, any direct or indirect tax revenues the government would gain from this transaction are lost. In his study he found that remittance money can create real-estate bubbles and tends to support overvalued exchange rates. Beyond this, he suggests that social mobilization and awareness are necessary requisites for effective use of remittance money. Thus, the government should enhance coordination and implement innovative micro-credit programs and incentives to increase migrants' investment in local community development projects. He finally states that, this is not a battle one can win today; it requires a lot of attention, goodwill and complete enforcement strategy.

On the report published by World Bank (2006), despite major barriers to migration, irregular migration has grown in recent years in Asia due to, among others, restrictive labor migration policies which are not in line with labor 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.

Many developing countries governments encourage international labor 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 currently remittances. The consequences of international migration for development in countries of origin and destination remain hotly debated.

UNIFEM & NIDS (2006) jointly did a research work entitled "Nepali Women and Foreign Labor Migration" concluded that the scenario of migration has been changing in Nepalese context. For about 200 years as Nepali men, and to a lesser extent women, have been leaving homes to seek employment abroad. But both the scale and the nature of migration have changed significantly over that period.

During the oil boom in the 1970s, the Labor surplus economies to meet the growing labor demands in the Middle East Asia, although Nepal was a late entry in taking advantage of labor demands. The more formal and temporary migration began after

people started to work in British Army following the Sugauli Treaty that was signed on December 2, 1815. This Treaty permitted British Gurkhas for military service. From last two decades the scope for out-migration for military services has declined and more and more people have migrated for other types of jobs. It was only after the 1990s that policy makers and academicians began to fully acknowledge the importance of remittance send by Nepalese employed abroad for enhancing the livelihoods of the households, including those in rural regions (Pant, 2006). Nepalese had fled from excessive taxation, compulsory and unpaid forced systems and fear of land appropriation by state authorities during and after the unification of the country. The large part of migration triggered by 'Push factors' associated with the harsh socio-economic conditions and state policy.

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 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 labor 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.

According to World Migration Report (2011), the world is changing at an unprecedented speed, challenging societies to that with adaptability and creativity. Migration is one of the ways in which the exchange of talent, services, skills and a diversity of experience is achieved. Yet migration remains politically sensitive and publicly misunderstood, in contradiction to the way our societies and economies are evolving. Recent events in Norway and elsewhere over the past two decades only serve to reinforce the need for the international community to urgently address the issue by promoting an informed, open and honest debate on matters of concern to all migrants-whether immigrants, emigrants or returnees to the societies of origin and destination with which the migrants interact.

Public perceptions and opinions about migrants are not formed in a vacuum. They are influenced by socio-economic and demographic factors such as age, level of education, type of employment, and political learning. Furthermore, there are external factors such as periods of economic recession when unemployment levels are high, moments of political turmoil or conflict triggering sudden outflows of migrants, and uncertainties about national's security in the wake of a terrorist attack, which can create doubts about the value of migration. But these concerns, even when strongly felt, are also time sensitive, and they typically recede when conditions improve one of the greatest challenges for those who to foster a rational debate is to prevent migration from becoming the convenient surrogate cause for other political, social and economic issues that create discomfort in societies faced with change in a globalizing world. It is fairly apparent that migration is often the catch-all issue that masks the fears the uncertainties beneath the public' concerns be they unemployment, housing or social cohesion (in countries of destination) or loss/waste of human capital and economic dependency (in countries origin).

## 2.2 Research Review

Kanskar (1982) in his research, "Migration, Remittance and Rural Development", reviewed proceeding of migration with reference to remittance. He found the origin of Nepalese emigration to be after the Anglo Nepali War in 1814 and was totally for recruitment in the army. The Indian Army was not only open to Nepalese soldiers for recruitment but also managed for their permanent settlement. Government had no official policies to encourage it. The Prime Minister, Bir Samsar JBR, encouraged the people to join the British recruitment. About 200,000 Nepalese males joined the British regiment even during the First World War. The Anglo-Nepal convention held on 15<sup>th</sup> May 1815, created alternative labor market to the Nepalese in India. The emigration to India accelerated because of disequilibria in labor growth and employment opportunity growth and miserable day to day life of Nepalese hilly areas.

The research study conducted by the UN ESCAP in 1987 finds out the causes and consequences of migration from developing countries to developed countries especially in the Middle East. The findings of the study are also applicable and relevant in the present situation. Though the study is designed in the end of 80s, the studies have found that after the heavy rise in price of oil in 1973, resulted in a massive inflow of financial resources into the oil exported countries of Middle East over a short span of time which exported the construction programmers' such as infrastructure development etc accelerate their economic and social development, which in turn give rise flow of labor migration into these regions.

Khanal and Kanel (2005) in their study entitled, "Remittance Income and Minimization of Economic Fluctuations" which was sponsored by IPRD, Kathmandu, found that during 1996-2004, remittance income increased by more than three and a half folds. Also, among the remittance –receiving households, the share of remittance income went up to 31.9 percent from 23.4percent during the same period. The share of remittance income in private consumption and import of goods reached 14.6 and 41.8 percent respectively in 2003. The large inflow also helped to overcome the worsening current account deficit. In view of imports from third countries and private consumption being highly influenced by remittance income, remittance income has contributed considerably to raise revenue, stabilize prices and augment output in the economy. Thus, a detailed empirical analysis evidently proved that remittance income



is playing a crucial role in minimizing the vulnerability of the economy and also supporting long term growth to some extent.

Bhatrarai (2005) conducted a research on "Migration of Nepalese youths for Foreign Employment: Problems and Prospects" with the aim of evaluating the Nepalese government policies and programs related to the regulation of and management of foreign employment profession in Nepal on the basis of various analyses. The researcher came out with the following conclusion: International labor 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 labor migration has developed in such a way, which has shifted the agricultural based economy towards remittance based economy. As a result of conflict, growing unemployment problems, numbers of people going aboard for work have been increased for the last few years, especially after the origination of armed conflict in Nepal. Though the number of workers left the country for Malaysia has been increasing sharply in recent years, but aggregate figure shows that Gulf States are still most favorable zone for employment. A class division also play role for choosing destination. i.e. poor people to India, Gulf States and Malaysia and rich people towards Japan, South Korea, North America and Europe International provisions are labor friendly and applicable to protect the sights of governments in both sending and receiving countries does not seen sincere to the domestication of the spirit of international instruments, conference, recommendation and plan of action. 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 the lack of working mechanism to address the issue related to international migrant 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 labor 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 to safeguard the rights of migrant workers.

Gaudel (2006:9-17) in his article "Remittance Income in Nepal: Need for Economic Development" concludes that remittances and grants are claimed as important sources of increasing foreign exchange earning in Nepal. Moreover, remittances may be dependable source of national income for economic development if there is job guarantee for the workers with the wage equivalent to the residence of foreign country. Furthermore, the young and energetic generation remaining outside should be attracted to come back again with skilled knowledge and experience and to provide the way for utilizing their remittance in productive sector. Thus, remittance received so far taken by the country is considered as boon, and the government should pay attention to make workers confidence to deal with whatever anomalies arise in working places. Besides, the policy of providing permanent residence in outside for retired workers should be amended to continue the source of increasing remittance flow in Nepal.

Sigdel (2006:26-30) 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 has 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 favorable. 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 remittance.

Koechlin et al. (2006) have provided comprehensive empirical evidence on the relationship between international remittances and income inequality in their research work entitled "International Remittances and Income Inequality: An Empirical Investigation." Using several cross section techniques, instrumental variables, as well as panel data methodologies that address the problems of endogeneity and serial correlation, they have found robust evidence of an inverted U-curve between these variables.

Their research works provide empirical support for previous theoretical work on endogenous migration costs. These theories explain how the formation of migrants' networks in the foreign country has the effect of lowering the migration costs for low income potential migrants, making the relationship between remittances and inequality as one, shaping an inverted U curve. The intuition behind the existence of an inverted U curve is that, in the initial stages of migration history, with high migration and information costs, the opportunity cost of the migration decision can only be afforded by people in the higher stances of income distribution. The remittances sent by these migrants have the effect of increasing levels of income inequality. As noted in several sociological studies, migrants in each country tend to establish a community that keep close relation with their home communities. These networks have the effect of lowering opportunity costs for new migrants due to connections in the labor market, and settlement and information costs, for example. The network effects will then make migration affordable for households in the lowest levels of income distribution. When this happens, the migration and remittances sent by these migrants will tend to reduce income inequality.

The paper uses data drawn from the 2002 Albania Living Standards Measurement Survey to investigate whether the receipt of migrant remittances has an effect on the

consumption patterns of recipient households. The paper also tests whether the receipt of remittances from a migrant within Albania has the same effect on consumption behavior as the receipt of remittances from abroad. It estimates budget share equations for four broadly defined categories controlling for a number of variables including those capturing whether or not the household receives remittances from within Albania or abroad. The four categories of commodity considered are food, non-food, durables and utility. The estimated coefficient corresponding to the variable capturing the receipt of internal remittances is not statistically significant in any of the reported budget share equations. In contrast, the estimated effect for the receipt of international remittances is found to be statistically significant for all categories except non-food. They estimate that compared to those households which receive no remittances at all, the average budget share of expenditure on food for households in receipt of external remittances is 4.5% lower, *ceteris paribus*. The receipt of external remittances, on the other hand, induces an increase of over 25% in the household's budget share of durables and an approximate 16% increase in the household's budget share for the utilities category, *ceteris paribus*. However, an analysis of the marginal propensities to consume shows that even the effect of international remittances is relatively modest. Migrants who move within Albania may not be employed in well paid jobs and, as a consequence, tend to remit less. Therefore, one would not anticipate a sizable effect of such remittances on consumption behavior. In contrast, the higher amounts of remittances from external sources may be expected to make a significant difference to the overall welfare of the receiving households.

The research work carried out by Lokshine et al. (2007) for World Bank attempts to explain the role of migration and remittances in reducing poverty in Nepal between 1995 and 2003. They compared the observed poverty and inequality rates with the rates calculated under counterfactual scenarios. To construct these Counterfactuals they estimated the model of household consumption expenditure identifying observed and unobserved differences in the returns on household characteristics based on migration status.

The results show that almost 20 percent of the decline in Poverty in Nepal between 1995 and 2004 can be attributed to increased work-related Migration and the resulting remittances sent back home. In the absence of migration, the Poverty rate in Nepal

would increase from the currently observed 30.0 percent to 33.6 Percent and the mean per capita expenditure would decline from 15,000 to 14,000 NPR. Migration and remittances have only a marginal impact on income inequality in Nepal.

Migration and remittances have a strong impact on the living conditions of households with a migrant. The poverty rate among households with a member who migrates within Nepal would be twice as high as current levels if the migrant had stayed home. The poverty rate for households with a migrant working abroad would also be substantially higher had their members not migrated.

Their findings have important implications for public policy. They emphasize the role of migration for work and remittance inflows in raising the living standards of recipient families and reducing aggregate poverty in Nepal. Hence, strategies for economic growth and poverty reduction in Nepal should incorporate various aspects of the migration dynamics. Results demonstrate that policies promoting both domestic migration and the export of labor-if such export were accompanied by remittances could also have an important effect on poverty reduction in Nepal. Given that Nepal has such a plentiful supply of labor, migration for work provides employment and earning opportunities for a significant segment of the labor force. Unless the labor market situation changes dramatically, increasing numbers of Nepali men and women will seek job opportunities outside Nepal; migration and remittances could be expected to play even a greater role in the future economic development of the country.

According to UN IFAD (2007) remittances provides self insurance to the recipient households during economic crises and natural disasters. These flows also provide steady employment and livelihoods for its people at time of uncertainties. The study further points out that remittance are the "lifeline" that helps millions of families around the world and lift out of poverty. The USAID supported that international migrant income in cash as well as in kind helps their families over 5% of urban households in Zimbabwe to withstand the economic crisis.

Nepal Migration Year Book (2010) published by NIDS has focused on how the foreign employment becomes lifeline for the Nepalese economy. The study reveals that foreign labor migration is a growing sector in terms of volume of labor migrants

going overseas and its contribution to the national economy. Even though there is a slight decrease in the number of people going overseas in 2008/09, it has been growing consistently since 1993/94. The trend in the first six months of 2009/10 shows that it is recovering fast. In 2008/09, about 640 individuals went overseas daily to foreign countries for work taking the government permission. Considering both formal and informal migration for foreign employment, the rough calculation would show that there would be about 0.35 million Nepali workers migrating to foreign countries in 2010. In the absence of employment opportunities locally mainly due to political instability, insecurity and transitional nature of socio-political systems in the country, foreign labor migration has helped in absorbing youths that come to labor market every year. If this foreign labor migration was not there, there would have been economic and political problems created by unemployed youths. It also reveals that foreign labor migration has become second important sector in terms of its contribution through remittance on GDP – next to agriculture.

There are other ways that the foreign labor migration has been contributing to the national economy which do not come to discussion. This sector contributes to government tax and non tax income. The sector contributes to government income through passports, airport tax, registration and renewal fee of recruitment agencies and many others. No doubt foreign labor migration has many negative impacts on the socio-cultural, political and economic sectors of the nation; positive role in the present context of Nepal cannot be ignored.

Singh and Hari (2011) have concluded that the impact of remittances has been tremendous for both the household as well as the economy like India which is characterized by persistence of abject poverty and lack of opportunity for the able one in every aspect of their life. Remittances, as a result of International migration, have emerged as one of the most fruitful panacea to get rid of such economic problems. Since this study is concerned more of the trend and the analysis of remittances on various macroeconomic variables like GDP, private final consumer expenditure, saving, investment, balance of payment, exchange rate, FDI etc, the focus is basically on the potential macroeconomic and developmental impact of remittances at macro level. It was shown that there has been increasing trend in the remittances for the period 1971-2008. These increasing trends can be attributed to various factors like the

shifting from informal channels to formal channels, increase in the volume of international migration due to the economic reform of government of India and changes in the regulatory framework regarding international migration. These increases in remittances have influenced the foreign exchange reserve of India significantly which have the potential to affect many of the macroeconomic variables (analyzed in terms of percentage). It was also seen that in a capital scarce country like India, remittances are not simply foreign exchange reserves which can be used to finance the balance of trade deficit or the current account deficit but also a counterpart in terms of source of external development finance (mechanism already discussed). It means remittances within the control of the government should be utilized to finance higher level of investment rather than consumption, if the objective is to maximize development benefits. But for this to be applicable in reality there is a need of the appropriate government policies on mobilizing and attracting migrant's remittances and redirecting them to formal channels. The government policies might be regarding providing fiscal incentives such as removing restrictions on repatriation of profits and eliminating needless licensing requirements. Apart from that there is also another important policy option for maximizing the development benefits of remittances is to channel remittances to small and micro enterprises through financial intermediaries as deposits rather than expecting migrant's to directly invest. In this case, the policy focus might be to induce micro finance institutions to capture remittances to be in turn used to fuel productive activities.

Apart from that, there is also a need to improve the infrastructure (Physical as well as Human) of the country so that remittances to reach at higher level trajectory. The higher level trajectory is needed for the capital and technological scarce economy like India. With the presence of adequate remittances as foreign exchange reserve, India can finance its need capital of capital for its economic development.

Migration and Remittance Fact Book (2011) published by The World Bank emphasized on the importance of remittance in the developing economy. There are more than 215 million international migrants in the world. Recorded remittances received by developing countries, estimated to be US \$ 325 billion in 2010, far exceed volume of official aid and constitute more than 10% of gross domestic product (GDP) in any developing countries. Remittances used to increased investments reduce in

health, education and small business. At the same time, the loss of skills associated with migration can hamper development and delivery of basic services in sending countries. The diaspora of developing countries can be a source of capital, trade, investment knowledge and technology transfers.

According to Pant (2011:1-20) in 2009/10, remittance aggregated Rs. 231.73 billion a rise by just 10.5 percent compared to its significant growth of 47 percent in the previous year while both in 2007/08 and 2008/09 the upsurge in remittance was responsible for the surplus in the current account and BOP, in 2009/10 the deceleration in the growth of remittance led to a current account deficit of Rs. 32.35 billion, thereby weakening the overall BOP which also registered a deficit of 2.62 billion. Analogously, the gross foreign exchange reserves were adequate for financing merchandise imports of only 8.6 months and service imports of 10.3 months as at mid July 2010 compared to 2009.

He concluded that remittance flows are a crucial policy concern since they are very large in size, are relatively stable and provide a cushion for economic shocks and are unique in providing direct benefits for households. However, remittance do not automatically contribute to national development to carry out effective and efficient public policies to channel remittance into productive projects, the government has to look at what motive Nepalese is to send money home particularly beyond remittances, and craft its policies to take advantage of it. While the policies and initiatives undertaken so far to augment the impact of remittances are primarily aimed at encouraging the sending of remittance through official channels.

Dhungel (2012) in the article entitled 'Nepal's Remitnomics' pointed the importance of remittance for Nepal. Since the First World War, Nepalese youth have continually migrated to foreign countries in search of livelihood. The growth of migration rapidly accelerated in the last two decades after Nepal underwent policy changes conducive to opening up and liberalizing the economy. Nepal experienced a decade long armed conflict since the late 1990s. It is estimated that the conflict cost the nation around 2.5 percent of GDP growth per annum since 2000. All the factors further added to the migration trend. A significant number of Nepalese youth, over two million, work in different countries of the world, particularly India, East Asia and the Middle East. These youth send remittances to their families. It is believed that



remittances play a pivotal role in providing livelihood to the majority of people who live in rural areas. Over 1100 Nepalese leave the country everyday in search of greener pastures. The country could be in trouble if there is a mass return of foreign workers. The bulk of inflow of remittance in Nepal has been increasing over the years. The expenditure trend of the remittance received indicates that it may have significant role in reducing poverty. Of the total remittance received, 78.5 percent is spent on daily consumption. This trend indicates that lack of employment generation due to the unproductive use of remittance will definitely hit the economy in the long run as the country is now caught a remittance trap.

Though elasticity coefficients of remittance is positive but less than one which implies that the change in GDP associated with the change in remittance income is not proportional. This is due to utilization of earnings in unproductive sectors. It is necessary to take policy favorable for export oriented growth together with remittance. In conclusion, all the economic variable at least in short run are greatly affected as a result of upsurge of remittance in Nepal. In particular, the amount has played role in providing livelihood to the majority of people in Nepal.

The research conducted by NRB in 2012 in Dhanusa district to find the impact of remittance on socio-economic condition of remittance receiving family. The result is found to be positive. A significant number of people have been receiving remittance to finance their expenditures in home consumption, health and children's education. The controversy, however, revolves around how remittances affect households' socio-economic aspects. There is no conclusive answer that remittance always throw positive effects on all dimensions' of people's economic and social life. Remittance contribute positively for children's better educational opportunities in one hand whereas children's education suffered because of the absence of their mothers and fathers. On the other hand, remittance recipient households spend more on consumption, land purchase. Likewise, the ownership of television, agriculture income, daily television watching and the household decisions regarding education and financial transactions received gain after remittance started coming into the households.

According to Migration and Remittance Fact Book published by World Bank in 2010, the largest recipients of remittance in South Asia in 2010 were India, Bangladesh and

Pakistan, Sri-Lanka and Nepal were also running behind. In 2010, India received US \$ 55 billion work remittance followed by Bangladesh US \$ 11.1 billion, Pakistan US \$ 9.4 billion Sri-Lanka 3.6 billion.

Nepal stood in first position in remittance recipients' country in terms of percentage of GDP in South Asia. Nepal has got 22.9 percent of GDP from remittance followed by Bangladesh (11.8%), Sri-Lanka (7.9%), Pakistan (6%), India (3.9%) and Maldives (0.2%).

### **2.3 Research Gap**

Many studies have been carried out to find the impact of worker's remittance on the economy of Nepal .Most of them is micro level study covering only VDC and district. But in international level numbers of scholars have been doing their best to link remittance with national's key indicators viz. GDP, Poverty level, foreign currency reserve etc. In Nepalese scenario there is still gap of research work that depicts the linkage between remittances and national's indicators. Besides this, there is lacking of trend analysis of foreign employment situation in Nepal.

## **CHAPTER – III**

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

An appropriate choice of research methodology is a difficult task, which is very necessary to support the study in realistic term with sound empirical analysis. This study comprises analytical as well as descriptive type. Foreign Employment and Remittance in the Nepal: trend analysis to highlight the trend of foreign employment and remittance in the country.

#### **3.1 Research Design**

Quantitative information is collected to observe the trend of foreign employment and remittance in Nepalese context. The descriptive type of research methodology is adopted for the study to make the results more meaningful and useful for the people.

#### **3.2 Population**

The population for this study comprised of all the Nepalese people going abroad for foreign employment. Only official data available from government agencies is used for analysis.

#### **3.3 Nature and Sources of Data**

This study is based on secondary data covering the period FY 1996/97 to FY 2010/11. Secondary data obtained from the various published and unpublished sources of

government and private organizations are used for the analysis and interpretation of the subject matter under study. For making study more reliable, facts and figures of only authorized organizations have been used. Various Economic surveys published from Ministry of Finance, GON are used. Similarly, Quarterly Economic Bulletin, occasional paper of Nepal Rastra Bank has also been used. For getting information regarding migrants and policies, publication of Ministry of Labor and Transport Management is useful for the research. The World Bank Fact book 2010, 2011 are useful to know the issue at international level. Furthermore, the book entitled Nepal Migration Year is useful to know trend of migrant workers in the Nepalese context.

### **3.4 Data Collection and Presentation**

The sources of data are basically various departments and ministries of GON. GDP, GDS, Consumption level, CFE and remittance over the period of 1996/97-2010/11 have been collected through Economic Survey of 2010/11. For this purpose NRB publication is also useful. The number of foreign employed people and their destination has been collected through websites of department of foreign employment; labor ministry of GON. The changing situation of poverty over the study period has been taken from NLSS III of CBS. Similarly, international trend of remittance has been abstracted from the data available in fact book 2010 and 2011 of World Bank. The collecting data have been presented in tables, diagrams according to the necessity.

### **3.5 Method of Analysis**

This study has been carried out descriptive and analytical research design and is based on secondary data. Tabulation, trend lines, correlation coefficient have been used as the tools of analysis on the basis of requirements. Appropriate tables and diagrams are made to clear the objectives of the study. The trend line is also used to clarify the objectives under study.

Various Acts and policies associated with the foreign labor employment have been reviewed and analyzed by the desk study to meet the objective of the research, tracing their features. The provision as well as implementation situation of the Foreign Employment Act 2007 and others have been analyzed.

## **CHAPTER – IV**

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

#### **4.1 Foreign Labor Migration from Nepal**

According to the World Migration Report (WMR) 2010, the number of international migrants in the world has exceeded 214 million, which is unprecedented compared to just 191 million in 2005. If the pace of migration continues at the same rate as in the last 20 years, the number of international migrants worldwide could exceed 405 million by 2050 (Nepal Migration Year Book, 2010:1). Labor migrant for overseas employment has rapidly increased particularly after globalization. The Nepalese economy is increasingly becoming dependent on remittance sent home by migrant workers. At a time when the country's major economic indicators don't display a good result, remittances have played a vital role in keeping the economy afloat.

The country's growth rate is limited to 3.5% due to sluggishness in the economic activities of non agriculture sector. Causes like labor issues, reduced electricity supply, decrease in expansion of bank credits, and dawdling remittance flow adversely affected economic activities of this sector (Economic Survey, 2010:XII). The overseas migration and remittances have been instrumental in poverty alleviations as well as for improving the living standards of people.

#### **4.2 Foreign Labor Employment: Trend and Composition**

Migrants for the developing countries have been a source to fill up the labor shortages in the developed nations under the guest worker policies, during the post war period (Martin, 1999:64). A large number of Turks migrated to Germany, Pakistanis to Saudi Arabia and the Mexicans to the United States. During the first half of country migration was largely for the purpose of settlement in North America, Latin America and the Western Europe. The character of the migration has changed over the course of twentieth century. Since the world war II, the settlement migration of the labor. The labor migrates mostly from developing to developed countries as guest, seasonal or contract workers. After the oil boom in the gulf, destination of migration from Asian developing countries changed. The oil fuelled the demand for the labors in the Gulf countries, particularly from Pakistan, Yemen, Bangladesh, India, Philippines,

Thailand, Turkey, Sri-Lanka etc. Every year on average 6 to 7 million people migrate from one country to another country particularly from developing to developed countries in search of foreign employment (Shrestha, 2004:404).

After the restoration of democracy in 1990, Nepal has opened door to the international labor market for Nepali labor force. Labor migration has maintained steady and strong trends among the Nepali Youths. According to the Department of Foreign Employment (2010), some 1.2 million Nepali migrant workers left for foreign employment in the last five years when Nepal was transformed from monarchy to the world's youngest federal democratic republic (Kantipur, June 5, 2011).

#### **4.2.1 Situation of foreign employment**

Foreign employment has proved as an alternative source of employment for the Nepalese. According to the data provided by the ministry of labor and employment, department of foreign employment in fiscal year 2000/01 total of 55,025 people went for foreign employment. It increased and went up to 1, 04,736 at 2001/02 and 2, 04, 533 people including 390 females had gone for the foreign employment.

Similarly FY 2011/12 no of people went for foreign employment was 23, 84,665 including 33,958 women. Though the government of Nepal has permitted 108 destinations for foreign employments (see Appendix A). Nepalese job seekers mostly go to India, Saudi, Arabia, Malaysia, Qatar, UAE, Bahrain, South Korea, Oman, Kuwait, Cyprus, Canada, Russia etc.

Even as India hosts the largest number of Nepali workers anywhere in the world, figures are not available because there is no system visa or work permit between the two countries. Even data on the movement of people in each of two neighboring countries is not maintained. Most Nepali work in India in manual jobs and the number of Nepali migrant workers in India is 1,347,000 male and 153,000 female. There is no consistent seasonally or for longer stays in India, but it is mostly agreed their number approximately 2 to 3 million (Nepal Migration Year Book, 2010:11).

On the basis of the data provided by the foreign employment department of Nepal, the following trend of the number of going for the foreign employment emerges.

**Table 4.1: Situation of Foreign Employment**

<b>F.Y.</b>	<b>Nepalese for Foreign Employment</b>	<b>Percentage Change</b>
1996/97	3259	-
1997/98	7745	137.6
1998/99	27796	258.8
1999/00	35543	27.87
2000/01	55025	54.81
2001/02	104736	90.34
2002/03	105043	0.29
2003/04	106660	1.54
2004/05	131718	23.49
2005/06	165252	25.46
2006/07	204533	23.77
2007/08	249051	21.77
2008/09	219965	-11.68
2009/10	294094	33.70
2010/11	354716	20.60

Source: Foreign Employment Department, GON, 2011(www.dofe.gov.np) .

Table 4.1 has clearly been displayed the number of Nepali going foreign country for employment in fiscal year 2001/02 and onwards. The number is ever increasing except in FY 2008/09 where the number was decreased by 11.68 percent. Decreasing migration for employment somehow associated with economic recession. Countries from Middle East also have accelerated their development works as a result a sharp rise of migration of Labor has been started since 2009. During the last ten year period the highest number of workers going for foreign employment is accounted as 354716 in the year 2010/11.

While observing the growth rate of each year companying to the former year's number of workers going abroad, the trend is discontinuous. The highest growth rate of 33.70% was maintained in the year 2009/10. The minimum growth rate is 0.29 which obtained in the Year 2009/10 which was 33.70%. The minimum growth rate is 0.29 which obtained in the year 2002/03 in comparison to previous year.

Nepal received negative growth rate of 11.68% in the year 2008/09 because of recession in the world economy. The above figure and facts show that foreign employment has become one of the unavoidable phenomena in the Nepalese context. So there is need of the provision of the skill development trainings to develop foreign employment as the major source of national income.

#### **4.2.2 Country-wise foreign employment**

The government of Nepal, Ministry of Labor; Department of Foreign Employment has opened 108 countries where Nepalese workers can go for employment. Out of them, 92 countries have been recognized after the year 1997/98. The country has very much poor database. Even though all the required data is not available with the official agency and departments of the country; the available records shows that Nepalese people have spread all over the world from South Asia to America and Africa.

According to the report kept by Department of Foreign Employment in its websites, the number of people gone abroad for employment is displayed in table 4.2.



**Table 4.2: Country-wise out migrants from FY 1993 to 2011/12**  
(Cumulative figure) country wise

<b>Countries</b>	<b>No. of People</b>	<b>Percentage</b>
Malaysia	773940	31.39
Qatar	690395	28
Saudi Arab	492896	20
UAE	313461	12.71
Kuwait	64219	2.60
Bahrain	33076	1.34
Omen	17083	0.69
South Korea	15707	0.63
Lebanon	10124	0.41
Israel	7261	0.29
Afghanistan	5764	0.23
Japan	5396	0.21
Others	36377	1.47
<b>Total</b>	<b>2465699</b>	<b>100.00</b>

Source: Foreign Employment Department, GON, 2011 ( [www.dofe.gov.np](http://www.dofe.gov.np)).

Table 4.2 has shown number of migrant workers by destination. The table comprises the no. of workforce has gone for employment by government approval from FY 1993/94 to 2011/12. Malaysia and Gulf countries of Saudi Arabia, Qatar, United Arab Emirates and Bahrain remain major destinations for Nepali migrant workers.

Malaysia remains at the top of Nepalese destination during this period in which 31.39% migrant have gone to Malaysia followed by Qatar (28%), Saudi Arab (20%), UAE (12.71%), Kuwait (2.6%), Bahrain (1.34%), Omen (0.69%), South Korea (0.63%), Lebanon (0.41%) and Others.

If the number of Nepali migrant workers in Gulf countries is taken into account, they make the largest concentration in the region anywhere in the world. The Gulf region has continued to be the popular destination for Nepali migrant workers mainly because of the construction boom that has been revived in the Gulf countries. Out of Gulf countries Qatar stood in first position accounting 28% followed by Saudi Arab

(20%), UAE (12.71%), Kuwait (2.6%) and others where Nepalese had went to get off their continuous unemployment or in search of better life.

Most of Nepali migrant workers have gone developed countries as student especially significant number has gone to Australia, USA etc. They take permission from Ministry of Education. Because of this, there is no record found on Department of Foreign Employment.

The researcher looks into the growth of emigrated labor force, it seems fluctuating but the trend increasing. But fiscal year 2008/09 the no. of foreign employee has decreased by 11.68%. The highest growth rate have ever achieved was in FY 2009/10 when growth rate was 33.70%. These results have clearly suggested that more and more people are seeking foreign employment with further results in the growth of remittance in the economy.

#### **4.3 Remittance and Nepalese Economy**

Remittance has become a major source of foreign exchange in Nepal. As GON highlights that the remittances are functioning as safety value in the Nepalese economy .It also reveals that remittance have emerged as out of the prime sources of foreign exchange that remittances contribute substantially to maintain macroeconomic stability. According to the review of three year interim plan the encouraging in private sector remittance inflow contributed not only in meeting trade deficit but also resulted in a surplus in the current account every year. Ratio of current account surplus to the GDP during the period averaged at 1.9 percent.

As a result of remittance income received by developing countries like Nepal continue their balance of payment situation favorable. Most of the part of remittance is spent on consumption. Its major sectors of consumption are education, health, food items etc.

Nepalese economy has got benefit from remittance especially to cope with economic crisis, improve their credit ratings and help to reduce the poverty situation. Remittances can also improve recipient country's creditor's families. This is because such inflows would effectively reduce the country's indebttness relative capital markets.

The remittance funds are used for varieties of investment such as building school and dealing with local emergencies such as famine etc, both works are crucial for human capital formation. Similarly, poverty reduction, reduction of inequality between haves and have not.

According to Nepal living standard survey (III) the level of poverty has been reduced significantly. A simple comparison of poverty in 2010/11 (25.2%) with the estimate in the past for 1995-96 (41.8%) and 2003/04 (30.8%) shows that poverty has been on declining pattern in figure.

The country has been struggling post war conflict in present situation in different names. In such situation there must be remittance that helps to reduce poverty level from 30.8% in 2003/04 to 25.2% in 2010/11.

#### **4.3.1 Worldwide situation of remittance in 2010**

Table 4.3 shows the world's top ten remittance receiver countries with the amount in the year 2010. The top ten remittance countries in the world were India, China, Mexico, Philippines, France, Germany, Bangladesh, Belgium, Spain and Nigeria. Out of the developing countries India, China, Mexico, Philippines, Bangladesh, Nigeria were the top receiver.

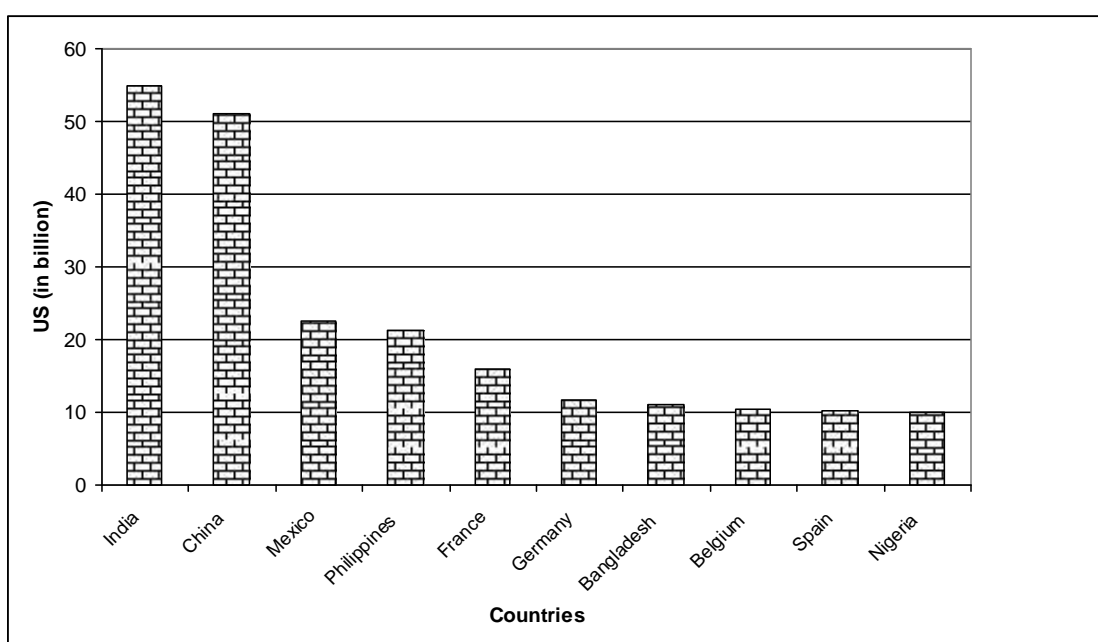
**Table 4.3: Top Ten Remittance Receiving Countries in the World in 2010**

<b>Countries</b>	<b>US (in billions )</b>
India	55
China	51
Mexico	22.6
Philippines	21.3
France	15.9
Germany	11.6
Bangladesh	11.1
Belgium	10.4
Spain	10.3
Nigeria	10.1

Source: The World Bank, Fact Book, 2011:13

In the year 2010 India is the highest remittance receiving country in the World and then China is second largest country to inflow Mexico, Philippines, France are the succeeding countries to inflow the remittance. Developing countries received 325.5 billion in 2010. India, China and Mexico got more than one third of total remittance similarly, one interesting fact reveals from the table that European countries like France, Germany, Belgium and Spain and also in the list of top ten remittance receiving category.

**Figure 4.3.1: Share of remittance of different countries of the world in 2010**



Source: The World Bank, Fact Book, 2011:13

### 4.3.2 Remittance inflow in Nepal

In terms of share of remittance, on GDP in 2009 Nepal stood in 5<sup>th</sup> position. In the present situation of Nepalese economy, remittance provides, not only significant portion of GDP but it also contributes in savings and investment. The growth of remittance depends on the Labor force working outside the country, the level of earnings and the portion of income that is sent to home. Other sources of remittance are as government transfers, investment made by nations in other countries. The size of remittance also determines the availability of foreign currency in the country. Nepal Rastra bank and Ministry of finance public data related to remittance. The category of other remittance included the money remitted by the labor employed in

foreign land. Because of difficulty in measuring amount entering by informal channel amount enters only formal channel can take into consideration. The growth of remittance and percentage change of remittance is given in the table 4.4.

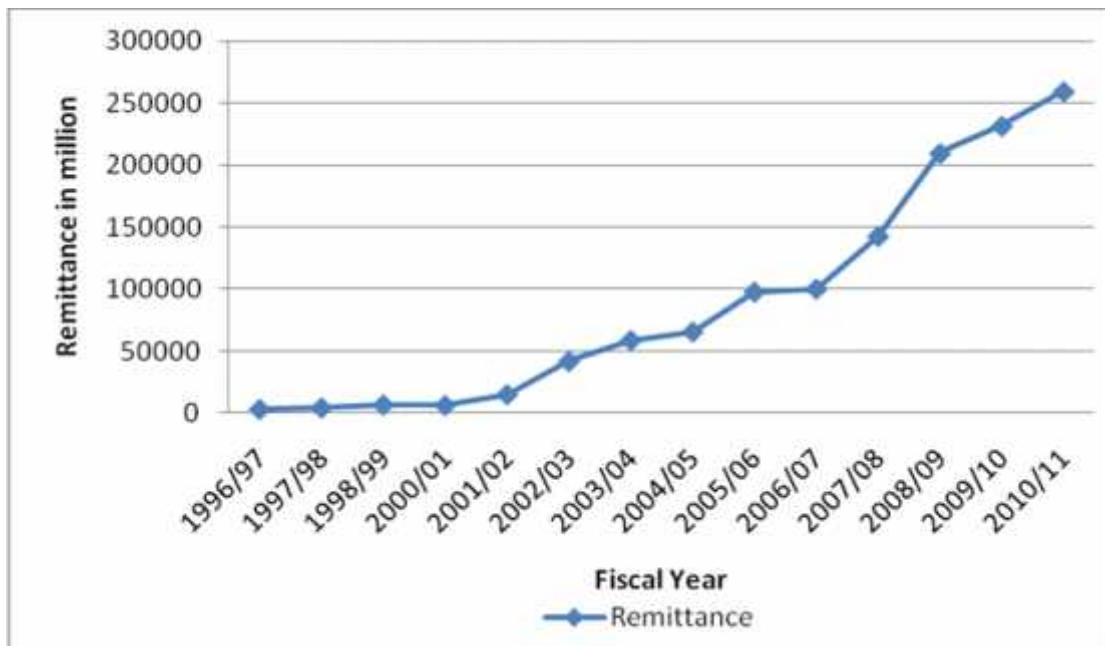
**Table 4.4: Trend of Remittance Inflow in Nepal**

<b>FY</b>	<b>Remittance(in millions)</b>	<b>Percentage Change</b>
1996/97	2938	10.4
1997/98	4084	39
1998/99	6520	59.6
1999/00	6031	-7.5
2000/01	9797.6	62.4
2001/02	14859.8	51.6
2002/03	41630	180
2003/04	58587.6	40.7
2004/05	65541.2	11.8
2005/06	97688.5	49
2006/07	100144.8	2.5
2007/08	142682.7	42.4
2008/09	209698.5	46.9
2009/10	231725.3	10.5
2010/11	259530	12

Source: Economic Survey, 2010/11(Vol. I): XXII, MOF; GON

Table 4.4 depicts the total remittance entering to the country and percentage change in remittance in comparison to the previous year. The trend line plotted on basis of the table clarifies rising tendency of remittance inflow in different FY.

**Figure 4.4.2: Remittance flow since FY 1996/97**



Nepal has got momentum of receiving remittance since the time when Nepal adopted open economic policy especially after restoration of democracy. Since then, many Nepalese people have left the country and sent money back to country as remittance.

The trend of growth of remittance is found to be positive from the trend line with some exceptional case. The remittance in the FY 1996/97 was 2.94 billion increased and became 4.08 billion in FY 1997/98. The growth rate was 39% during the period. The negative growth rate was achieved in FY 1999/00 when growth rate was – 7.5%. During the period of FY 2000/01 – 2002/03, comparatively higher growth rate was maintained. In the FY 2002/03, the highest growth rate of 180% recorded. Then, growth rate in FY 2008/09, 2009/10, 2010/11 was found to be positive and increasing in decreasing order. This clearly gives an idea that remittance is still pivotal to Nepalese economy waiting for good alternative in place of remittance.

### **4.3.3 Remittance and poverty level**

Poverty reduction and income distribution effects of remittances are significant (Barham and Boucher, 1998). Generally, the recipients of the remittance in the poor countries are often from the low income households. It helps the household to increase their consumption level enables better health care, nutrition housing and education (The World Bank, 2006). Migration and remittances influence the

consumption through different mechanism such as via higher local wages, higher demand for the services and locally available goods, higher investment in family health and education.

**Table 4.5: Comparison of Poverty and Remittance (2003-2011)**

<b>Years</b>	<b>2003/04</b>	<b>2008/09</b>	<b>2010/11</b>
Poverty %	30.85	25.39	25.16
Remittance (in millions)	58587.6	209698.5	259530

Source: Economic Survey, 2010/11(Vol.I): XXII, NLSS III: 21; GON

According to estimate made in 2003/04 based on NLSS 1995/96 conducted for measuring poverty incidence, poverty rate has declined. Major reason for this decline is: remittance income, and increase in average wage in the agriculture sector. The poverty rate was 30.85 percent in the fiscal year 2003/04 was come down to 25.39 percent in the fiscal year 2008/09. Similarly, the result of NLSS III reveals that poverty percent has still been decreased and become 25.16 in FY 2010/11. Amount of remittance received in FY 2003/04, 2008/09 and 2010/11 were 58.6, 209.7 and 259.5 billion respectively. Both the indicators have increased simultaneously. This result clearly reveals us that remittance has played a key role to reduce poverty in Nepal.

#### **4.3.4 GDP and remittance structure**

Table 4.6 shows the situation of GDP, Remittance and their percentage ratio over the study period.

**Table 4.6: GDP and Remittance Ratio**

<b>FY</b>	<b>GDP at current price</b>	<b>Remittance</b>	<b>R/GDP(in percentage)</b>
1996/97	280513	2938	1.0
1997/98	300845	4084	1.4
1998/99	342036	6520	1.9
1999/00	379488	6031	1.6
2000/01	413428	9797.6	2.4
2001/02	430396	14859.8	3.5
2002/03	492230	41630	8.5
2003/04	536750	58587.6	10.9
2004/05	589410	65541.2	11.1
2005/06	654080	97688.5	14.8
2006/07	727830	100144.8	13.8
2007/08	815660	142144.8	17.5
2008/09	988050	209698.5	21.2
2009/10	1171900	231725.3	19.8
2010/11	1346810	259530	19.3
<b>Total</b>	<b>9469426</b>	<b>1251459</b>	<b>13.2</b>

Source: Economic Survey, 2010/11(Vol. I): XIX&XXII, MOF; GON

Table 4.6 clearly reveals that degree of relationship between Nepal's GDP and remittance. In FY 1996/97 remittance was just Rs 2.9 billion which was only 1.0% of the country's GDP. GDP was Rs 280.5 billion in the same year. The trend continued in between 1996/97 to 2001/02 managing average ratio of these variables is below 2%. From the result, it is easy to predict that the above mentioned period was not remittance dominated period.

In the FY 2002/03 GDP of the country became Rs 492.2 billion and remittance received was Rs 41.6 billion making ratio 8.5% of these two variables. Being high ratio, it is drawn conclusion that the race of remitnomics have started in the country. Since then, the volumes of both GDP and remittance have increased till at the end of study period's fiscal year. In FY 2008/09, the highest remittance GDP ratio was 21.2% achieved. During the overall study period total GDP at current price is



found to be about Rs 9469.4 billion and that of remittance is about Rs 1251.4 billion. The average ratio of these two is found to be 13.2 which is quite higher figure. Despite the negligible effects on early fiscal years of study, the impact has risen sharply since 2002/03. The ratio was dropped slowly from FY 2009/10 after it had started rising from FY2002/03 significantly. The dropping of ratio supports the opinion driven by GDP has not been very much supportive but rather making people to spend their income on unproductive sector. Though the remittance does not include in counting the GDP of a country but it brings momentum on all sectors of economy of the developing country like Nepal.

#### Correlation coefficient between GDP and Remittance

For finding correlation coefficient between GDP and remittance, GDP is assumed to be X and that of remittance be Y.

From Appendix A

Total GDP ( X ) = Rs 9469426 million

Total Remittance ( Y ) = Rs 1251459 million

$$X^2 = 5.318 \times 10^{12}$$

$$Y^2 = 2.122 \times 10^{11}$$

$$N = 15$$

Now,

$$\bar{X} = \frac{X}{N}$$

$$= \frac{9469426}{15}$$

$$= 631295$$

$$\bar{Y} = \frac{Y}{N}$$

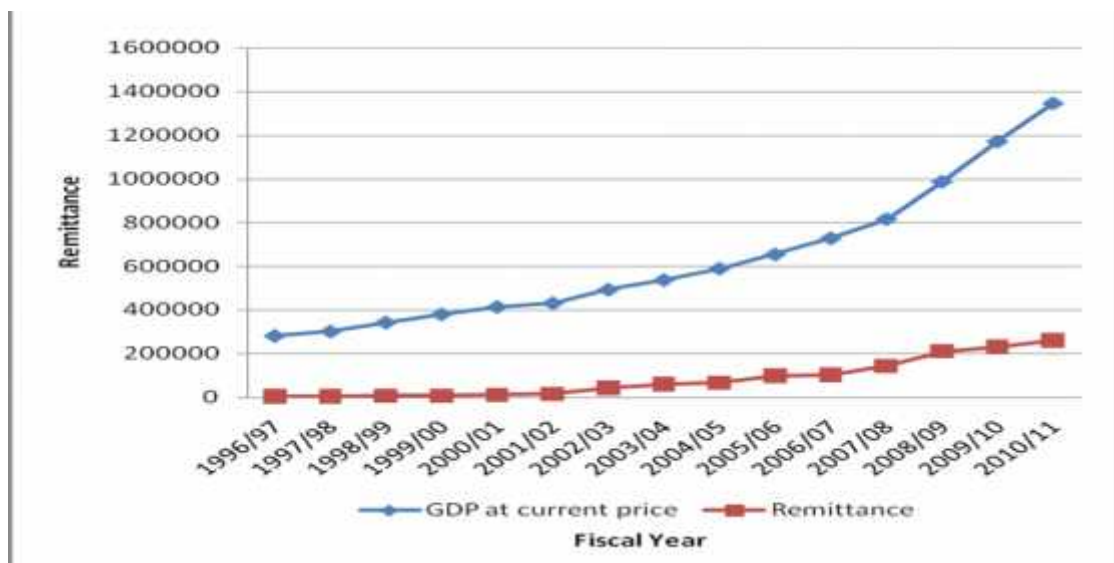
$$= \frac{1251459}{15}$$

$$= 83430.6$$

$$\begin{aligned} \text{Correlation coefficient } r_{XY} &= \frac{XY \sum n \overline{XY}}{\sqrt{X^2 \sum n (\overline{X})^2} \sqrt{Y^2 \sum n (\overline{Y})^2}} \\ &= \frac{1.1618 \mid 10^{12} \sum 7.9 \mid 10^{11}}{\sqrt{3.325 \mid 10^{12}} \sqrt{1.077 \mid 10^{11}}} \\ &= \frac{3.718 \mid 10^{11}}{1823458.25 \mid 328176.78} \\ &= \frac{3.718 \mid 10^{11}}{5.984 \mid 10^{11}} \\ &= 0.62 \end{aligned}$$

The closer the value of r is to 1, the closer the relationship between the variables (Shrestha and Kansakar, 2056:276). Here the correlation coefficient of GDP and remittance is found to be 0.62 which is more than 0.5. This figure clearly indicates its closeness to 1. So, it is no doubt that GDP and remittance are correlated each other. In other words, as a result of increase in remittance in flow in the country, the increasing trend of GDP has also been observed in country's economy.

**Figure 4.6.3: Trend of remittance and GDP**



In the figure 4.6.3, the trend of remittance and GDP is displayed. Here, as the remittance increases, GDP is also increased over the study period in most of the fiscal years. So, there is positive relationship between remittance and GDP. But there was reduced of R/GDP ratio in FY 2006/7 and same trend observed in FYS 2009/10 and 2010/11 Show that in recent year contribution of remittance has been decreasing on GDP.

#### 4.3.5 Remittance and Consumption

The trend of Consumption along with Remittance over the study period has been displayed in table 4.7.

**Table 4.7: Ratio of Remittance and Consumption**

Rs in million

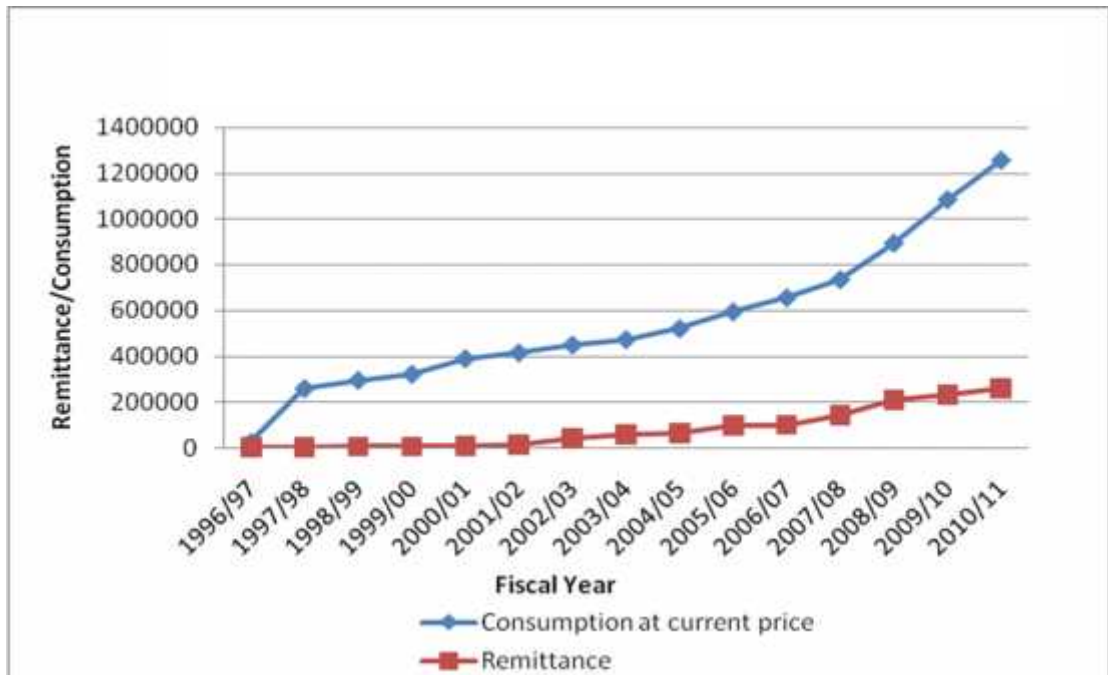
<b>FY</b>	<b>Consumption (at current price)</b>	<b>Remittance</b>	<b>R/consumption</b>
1996/97	24135	2938	1.2
1997/98	259407	4084	1.5
1998/99	295473	6520	2.2
1999/00	321911	6031	1.8
2000/01	390017	9797.6	2.5
2001/02	415843	14859.8	3.5
2002/03	450090	41630	9.2
2003/04	473685	58587.6	12.3
2004/05	521301	65541.2	12.5
2005/06	595327	97688.5	16.4
2006/07	656374	100144.8	15.2
2007/08	735470	142682.7	19.4
2008/09	895042	209698.5	23.4
2009/10	1085292	231725.3	21.3
2010/11	1257179	259530	20.6

Source: Economic Survey, 2010/2011(Vol.I &II): XXII&14-16, MOF; GON

Table 4.7 clearly shows the interrelationship between remittance and consumption pattern of the country. Both the variables have ever been increasing. In the FY 1996/97 the country received 2.9 billion and consumption was 241.3 billion at current price. At that time, remittance consumption ratio was 1.2. This ratio shows that remittance was not so significant for consumption behavior of Nepalese people. Since then the volume of both remittance and consumption has been increasing. But the ratio of remittance consumption has not been increasing continuously. Rather it increased during the period of 1996/97 to 1998/99. But in the fiscal year 1999/00, this ratio decreased even though the volume of both remittance and consumption have risen but not enough to balance incremental ratio of these two variables. After that, the ratio has been increasing trend till FY2008/9. During this period the ratio increased and became 2.5 to 23.4 percent showed that influential impact of remittance on consumption level of the country. The ratio has slightly been decreased in 2009/10 and 2010/11 accounting 21.3 and 20.6 percent. The result reveals that the future of consumption pattern of the economy would not be managed without having proper knowledge of remittance because of growing impact of remittance on national's economy.

From the table, it has revealed that at the beginning the ratio was not significant till FY2001/2. During the period 1996-2001/02, the volume of remittance was small. Because of small amount impact was not effective. Nepal has opened its door for foreign employment after the restoration of democracy in 1990. But the momentum for no of workers going abroad and payment made on workers at international market have significantly increased after FY 2002/03 outburst the cash flow even in rural areas. According to NLSS-III, 56 percent people have got remittances and 78.9 percent of it spent on consumption. The results from NLSS-III as well as result obtained from the table clearly indicate the high dependency of Nepal's consumption pattern on the remittance.

**Figure 4.7.4: Relationship between remittance and consumption**



From the trend line 4.7.4, it is clearly observed that both consumption and remittance have been increased during the study period. But the increment in consumption is higher in recent years reveals that Nepalese people's capacity to consume goods and services is in increasing trend. The trend reveals that remittance is a key to manage consumption pattern of the country.

#### **4.3.6 Use of remittance received**

About 79 percent remittance has been used for consumption since it is basically substantial income of rural Nepal where remittance stands as only believable force. Health, education, loan repayment are other major sectors for spending remitted money. The table 4.8 shows the area of remitted money expenditure.

**Table 4.8: Use of Remittances Received**

<b>S.N.</b>	<b>Area of Use</b>	<b>Percentage</b>
1	Daily consumption	78.9
2	Education	3.5
3	Capital formation	2.4
4	Business	0.5
5	Household property	4.5
6	Saving	0.6
7	Repay loans	7.1
8	Others	2.5

**Source:** NLSS III: 79-80, CBS; GON

Table 4.8, it is clear that the chunk of money is spent on consumption and then loan repayment and education gradually which shows that remittance money is not properly invested on productive sectors except education. Foreign exchange is obtained by the country selling its labor of youths. But hard currency to obtained has still not been utilized properly rather to increase only consumption habit of Nepalese people.

#### **4.3.7 Remittance and convertible foreign exchange**

Table 4.9 depicts the change of remittance and convertible foreign exchange over the study period.

**Table 4.9: Ratio of Remittance and CFE**

Rs in million

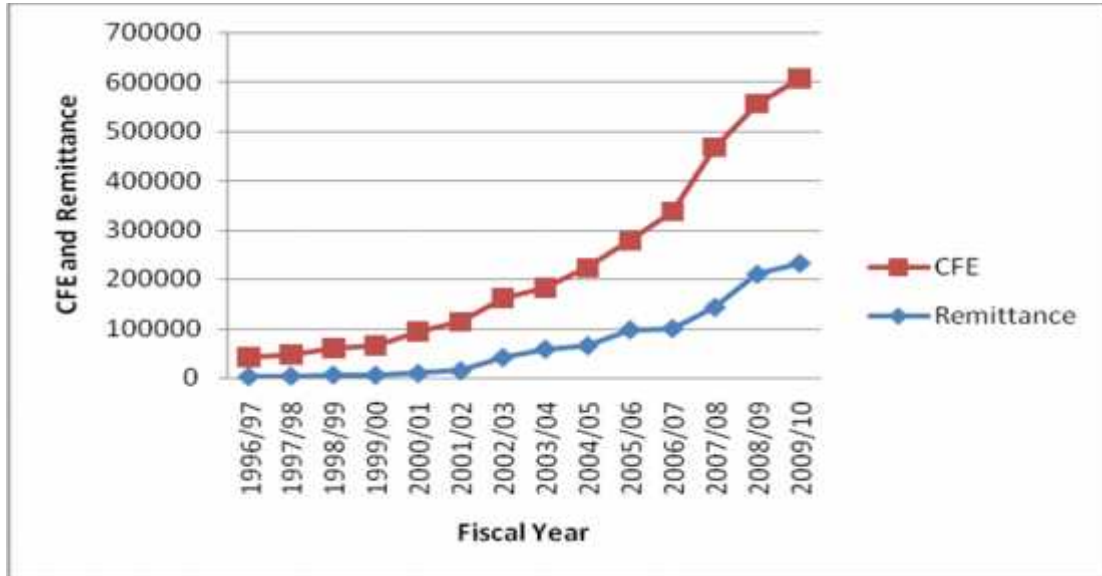
<b>FY</b>	<b>Remittance</b>	<b>CFE</b>	<b>R/CFE(in percent)</b>
1996/97	2938	38280	7.6
1997/98	4084	42185.6	9.6
1998/99	6520	53046.2	12.2
1999/00	6031	59506.8	10.1
2000/01	9797.6	83583.1	11.7
2001/02	14859.8	98682.5	15
2002/03	41630	120643.0	34.5
2003/04	58587.6	123268.4	47.5
2004/05	65541.2	157297.5	41.6
2005/06	97688.5	179967.6	54.2
2006/07	100144.8	236927.1	42.2
2007/08	142682.7	324391.9	43.9
2008/09	209698.5	346370.8	60.5
2009/10	231725.3	375599.8	61.6
2010/11	259530	179627.8	144.4

Source: Economic Survey, 2010/2011(Vol.I &amp; II): XXII&amp;109-110, MOF; GON

Table 4.9 clearly shows the overall changed occurred in remittance and CFE and their ratios in percent. In FY 1996/97 remittance was Rs 2.94 billion and that of CFE was Rs 38.3 billion making ratio of 7.6 of these two. Both of them have ever been increasing in the study period. The CFF available in the country increased Rs 38.3 billion to Rs 375.6 billion in FY2009/10. Due to unavailability of data of CFE for whole fiscal year, data of only fix have been used for the year of 2010/2011. During the period between 1996/97 to 2001/02, CFE was quite higher figure in comparison to remittance. During this period an average remittance/ CFE ratio of 11.78 percent (calculated from table no 4.) obtained shows the remittance was not key for CFE availability in the country. But other sectors tourism, foreign aid etc might be key for CFE in the country. Since then the movement has gained for remittance receiving and contribution on CFE of Nepal. In FY 2009/10, Rs 231.7 billion remittances were

received by the country whereas CFE was Rs 375.6 billion making their ratio 61.6p.c. The ratio shows that there has been a growing impact on CFE in recent FYS.

**Figure 4.9.5: Remittance and CFE**



Share of remittance in CFE was only 7.67 percent in FY 1996/97. Since then, its contribution has considerably been increased. Similarly FY 2008/09, the contribution was 61.78 percent on CFE. The change of percentage over the periods clearly indicates the increasing dependency of Nepalese economy on remittance for CFE.

The figure 4.9.5 reveals none other than remittance can become effective in earning the valuable CFE. The trend line drawn shows the share of remittance in the convertible foreign exchange. The trend line shows that remittance has become very important to increase convertible exchange. The results clearly depicts that the growth in remittance tends to increase the growth of convertible exchange.

#### **4.3.8 Gross Domestic Savings and remittance**

Table 4.10 clearly shows the change in domestic saving as well as remittance received over the study period.



**Table 4.10: Remittance and GDS**

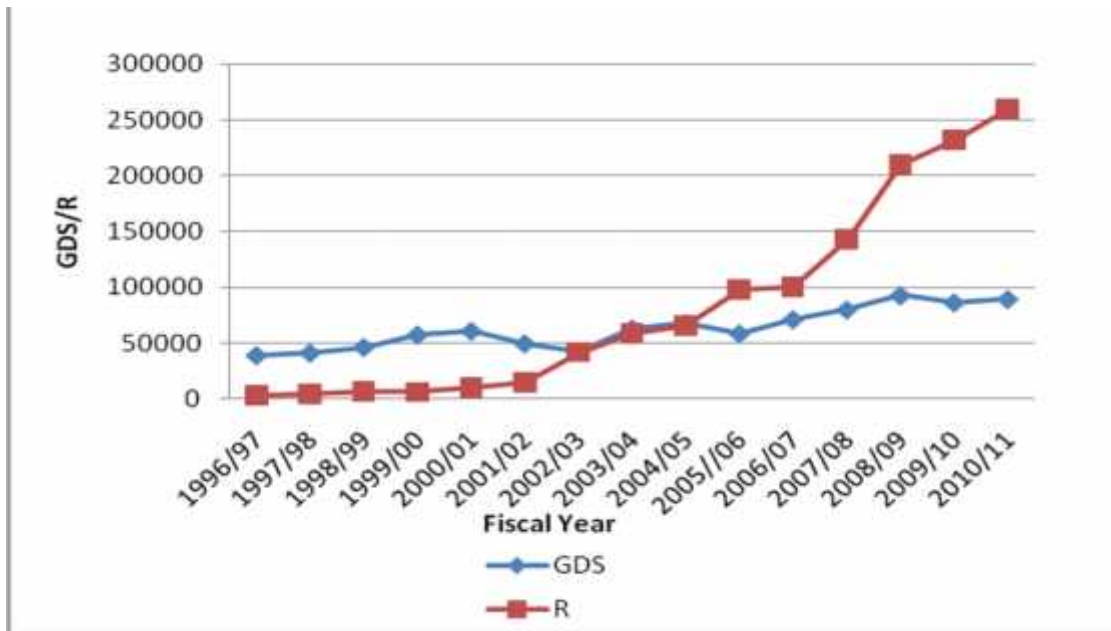
Rs in million

<b>FY</b>	<b>GDS</b>	<b>R</b>	<b>R/GDS(in percent)</b>
1996/97	39162	2938	7.5
1997/98	41438	4084	9.8
1998/99	46563	6520	14
1999/00	57577	6031	10.4
2000/01	61030	9797.6	16
2001/02	49807	14859.8	29.8
2002/03	42141	41630	98.7
2003/04	63064	58587.6	92.9
2004/05	68110	65541.2	96.2
2005//06	58727	97688.5	166.3
2006/07	71453	100144.8	140.1
2007/08	80188	142682.7	177.9
2008/09	93011	209698.5	225.4
2009/10	86613	231725.3	267.5
2010/11	89636	259530	289.5

Source: Economic survey, 2010/2011: XIX&amp;XXII, MOF; GON

Table 4.10 reveals the situation of gross domestic saving in the country. In the FY 1996/97 GDS was Rs 39.16 billion whereas remittance was Rs 2.94 billion making ratio of 7.5 percent. The result indicates that there is no such strong relationship exists between them in this fiscal year. Same type of trend was observed up to FY2001/02. One of the interesting result observed from the table is that GDS remains five digit number throughout the study period but remittance increases from four digits to six digits. The growth of GDS is found to be steady in comparison to remittance. In 2010/11 GDS was Rs 896.4 billion and remittance was Rs 259.5 billion. Overall figures from GDS and remittance it is clear that GDS have gradually increased but remittance increased rapidly. Thus, it is difficult to say that remittance contributes GDS. But both the figures are in increasing order. Leaving some exceptions help to make decision that remittance contribute GDS.

**Figure 4.10.6: Remittance and GDS**



In the figure 4.10.6, behavior of remittance and GDS has been displayed. The figure clearly shows that increment in domestic saving is quite small in comparison to remittance. Thus, there is nominal effect of remittance on GDS.

#### 4.4 Policy Issues and Implementation

Foreign employment has become one of the central pillars of the Nepali economy. According to the World Bank Report 2011; remittance constitutes 20 percent of the country's GDP. Even at the household level, labor migration has become one of the main livelihood means and a major contributing factor for the reduction of poverty. Labor migration is not a new phenomenon in the context of Nepali society. Nepali nationals have been migrating in search of income and livelihood opportunities for the past 235 years.

The government has initiated process to formulate a foreign employment policy. It is trying to make the policy more worker-friendly by accommodating new concerns in line with the changed scenario in both the source and destination countries. To fulfill the objective of making foreign employment safe, decent and systematic, the government has promulgates the Foreign Employment Act and Regulations.

The Act and Regulations have been enforced primarily to respond to an increased amount of exploitation at various levels of migration. The Act and Regulations

provide a great deal of protection to migrant workers and have provisions of punishment for the wrongdoers (ekantipur.com, 2012).

The overview of the past acts and policies and the recent acts and policies with their analysis are presented here.

#### **4.4.1 Foreign Employment Act - 1985**

The foreign employment Act-1985 was the very important work for regulating the foreign employment. This Act was included and addressed 44 matters related to the foreign employment which need to play a significant role.

The main idea of this Act was to regulate the overall dimension of foreign employment and recognized government, manpower agencies were main actors that should play their own role significantly for the promotion of foreign employment with a safe manner.

##### **i) Acts and policies after Foreign Employment Act**

The Foreign Employment Act 1985, and given a lot of authority to the government to control and regulate foreign employment. It had the provision that the government has the full authority to act in favor of the labor welfare. The provision of license began since 1986. The National Labor Policy 1992 mainly focused upon the promotion and reliability of the international labor migration. It added some bricks upon the Foreign Employment Act 1985. The policy stated that special attention shall be made for the institutional development of the foreign employment service. It had also addressed upon the employment promotion trainings and human resource development.

'The Labor Employment Act 2005' introduced the long term goal of existing Nepal's employment policy to create indiscriminate, exploitation free, disciplined safe and fair working environment to the active labor force. Moreover, it also addressed towards the equal access of female, Dalits, indigenous people and displaced people to employment, eradicating child labor and along with the effective and capable administration (NLFS, 2008).

#### **4.4.2 Government policies under various periodical plans**

The government has been focusing for the betterment of employment situation creating opportunities inside and outside the country. The following provisions have been made for foreign employment:

- ) The main objective of the eighth plan was to mitigate unemployment and under employment conditions, provisions for the production of the skilled labor force, protection of the basic rights of Nepali laborers and promotion of employment opportunities both inside and outside.
- ) The ninth plan focused upon the protection of the rights and interests of the workers, social security, skill and technical orientation, self employment opportunities and promotion of employment opportunities both inside and outside.
- ) The tenth plan had proposed the facilities to workers skill development, involvement of the backward groups and remote areas. The labor sector had planned to include an ambitious target to expand the number of the foreign employers from 104,739 in 2001-02 to 550,000 in 2006/07.
- ) The eleventh plan set the objective of making safe and systematic foreign employment as well as searching new destination for employment. For this purpose, constructive role from diplomatic mission would be expected. Similarly, labor contract would be done with the countries where Nepali labor force was in abundance. A course has been designed and implemented to train people about legal provision, security situation and many other aspects (Various Periodic Plans, NPC; GON).

#### **4.4.3 Interim constitution**

Interim constitution of Nepal, 2007 provides fundamental rights which are also applicable in the case of migrant workers. The interim constitution has provision of equality before law, and non discrimination on the basis of gender, freedom of profession, employment and freedom of movement. Similarly, the constitution has guaranteed right to work, right against exploitation and against slavery or forced labor and every citizen has right to employment (Nepal's Interim Constitution, 2063).

#### **4.4.4 Foreign Employment Act 2007**

Foreign Employment Act 2007 has progressive provision for the protection of the rights of the migrants working through facility to agency, aiming to protect rights of the migrants workers, equal opportunity to men and women and the provisions of reservation for the women, Dalit, Janajati and people from the remote areas, compulsory life insurance for any time of deaths of the migrant workers in the labor receiving countries and the provisions of foreign employment welfare fund are important aspects of the new Act. The new Act has removed all gender based discriminatory clauses. The Act has made provision of using only national airport for sending labor as well as making labor desk in national airport and labor attaches in the countries. As per the act, only the license holder can undertake foreign employment dealings and the government can regulate the manpower agencies. The worker must be sent through the national airport only.

But the question can be raised on the implementation and government willingness to apply the provision honestly. The government's working to address the issues of the labor migrants in the implementation level is weak in terms co-ordination capacity, labor diplomacy and allocation of resources.

#### **4.4.5 Analysis of provision of Foreign Employment Act-2007**

- ) The preamble of the foreign employment act has expressed its aim to protect rights and well being of the migrants' workers of Nepal through the facilitative role of the government .Similarly, this Act has end the situation of discrimination against women.
- ) The Act has taken positive discrimination policies for women through reservation system. This will be helpful in mitigating gender gap.
- ) The Act has made several provisions such as provisions of compulsory contract and insurance, maintenance in case of not sending worker after payment of the records of the worker, monitoring of the service charge etc but has not been implemented effectively.
- ) The criminal justice system of Nepal is indifferent towards victim. The clause 43 of the foreign employment act 2007 provides that out of the total amount paid by workers 50 percent more fine is to be taken as penalty and travel

expense should be provided to the worker .However, this provision is implemented in case of not sending worker after payment and there is no provision for mental compensation.

- ) The provision of separate tribunal in foreign employment case through brief procedure will be supportive for the access to justice of the victim .However, government attorney's service has not been reached in providing advisory service and non-governmental sectors have not been effective in extending their outreach to remote areas.
- ) The provision of the investigation of the fraud case related to the Foreign Employment Act 2007, only on the basis of valid documentary evidence will not be able to address the problem related with foreign employment.
- ) The investigation, prosecution and justice delivery has not been effective on the case related to foreign employment. The new Act has introduced 3lakhs to 5lakhs penalty and 3 to 7 years imprisonment in fraud case in foreign employment. The wider discretionary power of judge has been utilized in better way. There is the provision of keeping the accused under custody for days with prior permission of case hearing authority. However, lacks of efficient human resources, capacity gap is prevalent in DLEP.

#### **4.4.6 Gaps of the Foreign Employment Act 2007**

- ) No provision of government grant on the welfare fund.
- ) Non representation of workers in the board.
- ) Lack of victim and witness protection.
- ) Silent about migrants' workers in Nepal.
- ) Act does not address the migration process towards India.
- ) Concentration for remedy process.

#### **4.4.7 Government policies in budget speech FY 2011/12**

- ) Access of remote and deprived classes will be ensured for secured and dignified foreign employment. High level task force with appropriate investment proposal aimed at national investment action plan will be formed with the objectives of mobilizing remittance income into productive capital formation activities.

- ) Training to enhance skill and knowledge will be provided to the foreign employment seeker youths to make them efficient and competent up to the international demand. In this program special privilege will be given to the youths below poverty line, backward region, gender, caste and conflict affected areas.
- ) New labor agreement and review of existing labor agreement will be done as per the requirement of the highly potential foreign employment destination countries. The monitoring of agreement between the foreign employees and employers will be done to ensure the compliance to agreements.
- ) Strict legal action will be taken to control the malpractices in foreign employment such as forgery. Rapid rescue operation will be done for the unattended Nepalese laborers. Labor reintegration program will be conducted for such returned foreign employees to create working environment within the country (Budget speech FY 2011/12).

#### **4.4.8 Government policies implementation situation**

Foreign Employment, being an integral part of the Nepalese Economy has been taken seriously by the government. Foreign Employment Act 2007 is itself also one of the great move of the government to manage and promote the sector. The Department of Foreign Employment and the Foreign Employment Promotion Board under the Ministry of Labor and Transport Management are main bodies that propose and implement various initiatives of the government in the sector.

Samriddhi (2011:1-24) in its discussion paper entitled "Foreign Employment for Economic Growth" has highlighted the government policies implementation situation by taking reference of Under Secretary of the Ministry of Labor and Transport Management. The major works of government in the field of foreign employment are:

- ) Department of Labor and Department of Foreign Employment have been established to look after the internal and external labor issue respectively which was earlier one department.
- ) Establishment of Foreign Employment Promotion Board for the promotion of foreign employment activities

- ) Provision of Labor Attaché / Labor Management Officer in 5 countries which receive Nepalese labor high in number. They are Malaysia, Saudi Arabia, Qatar, UAE and South Korea
- ) Financial Support Scheme for those who returned home due to global economic crisis:
  - Returned within 6 months: 40 % expenses
  - 6 to 12 months: 25 % expenses
- ) Diplomatic initiatives and high level visits to different countries in April 2009: A team led by the Minister for Labor and Transport Management visited Saudi Arabia, UAE and Qatar.
- ) Similarly, another team led by the Secretary of the Ministry of Labor and Transport Management visited Bangladesh, Malaysia and the Philippines
- ) Support to the Nepalese Embassy/Mission for foreign employment promotion activities through the Foreign Employment Promotion Board.
- ) Provision of contributing one thousand Rupees from each migrant worker to the Labor Welfare Fund for labor support activities.
- ) Start of sending industrial worker to Japan as trainee under the Japan Industrial Technical Cooperation (JITCO) program.
- ) Efforts underway to sign labor pact with other countries.
- ) The Government of Nepal has established a Labor Desk at the international airport to examine whether workers proceeding for foreign employment are going for employment in accordance with the Foreign Employment Act 2007 or not. The workers are expected to show the labor permit, orientation certificate, receipt or voucher of payment of money as well as necessary documents at the desk.
- ) The Ministry of Labor and Transportation Management with International Organization for Migration (IOM) have established a center to provide information and counseling to potential migrant workers to increase their access on information regarding various aspects of foreign employment. It was launched in February, 2010.
- ) As mentioned in the Foreign Employment Act, 2007, the government has fixed a quota on foreign labor migrants. According to this policy, the



recruiting agencies should allocate 10% of the total positions available to women, Dalits, Janajatis and to those affected by the political conflict.

- ) Foreign Employment promotion board under the Ministry of Labor and Transport Management has been working on implementing various provisions in the Foreign Employment Act, 2007 such as providing financial aid to the family of those who died or were disabled during their employment abroad, welfare returnees who have been victims of fraud, radio programs, public service announcements, publication of informational materials and distribution etc.

#### **4.5 Major Findings**

- ) Huge mass of workforce have left their home country for employment. The case of Nepal is also same to other part of world. Rapid growth rate of foreign employment has been observed during study period. In FY 1996/97 only 3259 went for foreign employment according to official record and it became 104736 in 2001/02. In FY 2011/12, 384, 665 people left the country managing 8.44 percent growth rate in comparison to previous year. The trend of foreign employment during the period of 1996/97-2010/2011 clearly indicates Nepalese People were in hurry for leaving country in the study period.
- ) Government of Nepal has opened its door for foreign employment in 108 countries. But Malaysia and Arabian countries from Middle East were the major destinations of Nepalese workforce during study period.
- ) The official data released by World Bank in 2011 showed that India was at the top followed by China and Mexico in the list of receiving more remittance in the world and in 2010 India, China and Mexico received Rs 55,51 and 22.6 billion respectively. Nepal did not take its position within top ten. But Nepal stood 9<sup>th</sup> position in terms of share of remittance on GDP in 2009.
- ) In FY 1996/97, Nepal received Rs 2.9 billion remittance managing 10.4 percent growth rate in comparison to previous year. During the period between 1996/97-2000/01, Nepal got nominal growth rate. Afterwards remittance getting trend have been increased. The growth rate was moderate in FYs 2009/10 and 2010/11 clearly suggests that remittance is still pivotal to Nepalese economy waiting for good alternative in place of remittance.

- ) Poverty reduction is associated with remittance. Since both of them are rural phenomenon. The poverty reduced and became 25.16 percent from 30.85 percent during the period of 2003-2011. The reduction of poverty was possible during the period as a result of increasing remittance from Rs 58.6 billion to Rs 259.5 billion. The goal of poverty reduction has been successfully implemented as a result of flow of remittance basically in rural areas.
- ) In FY 1996/97, total of Rs 280.5 billion GDP was recorded whereas Rs 2.84 billion remittance received during the same year. The ratio was 1 percent which shows that at beginning of study period remittance had very less effect on the GDP. Since then, most of ratios have been increasing trend indicates that the increasing the status of remittance in country's economy. Between FYS 1996/97-2002, an average of below 2 percent remittance GDP ratio was observed. This indicates that the period was not remittance dominated. Since then both remittance and GDP have been increased managing high value of remittance- GDP ratio. A highest of 21.2 percent was observed in FY2008/2009. An average of 13.2 percent remittance- GDP ratio has been observed which clearly indicates the growing impact of remittance on GDP of the country. Karl Pearson's Coefficient of Correlation between these variables is also found to be 0.62 which reveals that these two variables are correlated.
- ) Consumption has increased from Rs 241.4 billion to Rs 1257.2 billion throughout the study period and in the similar way remittance has also increased from Rs 2.94 billion to Rs 259.5 billion. A highest ratio of 23.4 percent recorded between these variables in FY 2008/9 shows the growing impact of remittance on the consumption behavior of the Nepalese people. Consumption is key economic activity brought by remittance. According to Nepal living standard survey III, 78.9 percent of total remittance is used for consumption. Out of total remittance 3.5 percent is used in education which would be key sectors where remittance has been used.
- ) During the study period CFE has increased from Rs 38.3 billion to Rs 179.6 billion (for first 6 months). In fiscal year 2009/10, remittance of Rs 231.7 billion recorded whereas CFE of Rs 375.6 billion was available in the same FY managing 61.6 percent of their ratio. The trend line also supports the growing impact of remittance on CFE availability of the country.

- ) In FY 1996/97 GDS was Rs 39.2 billion and became Rs 89.6 billion in 2010/11 shows that slow increase in GDS despite the huge increment in remittance. Both the figures are in increasing order indicates the impact of remittance on GDS but impact might be small.
- ) Government has tried to make foreign employment safe and systematic by making various provisions in their budgets, periodic plans and other activities. Despite the effort of the government, the sector has still remained controversial on various issues of migration cycles. The government as well as workers themselves should work hand in hand to make foreign employment sector problem free sector.

## **CHAPTER-V**

### **SUMMARY, CONCLUSION AND SUGGESTIONS**

#### **5.1 Summary**

Undoubtedly, foreign employment and the flow of 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 in the country, whereas on the other hand it has contributed to a large extent in strengthening Nepalese economy.

The whole study has divided into five chapters. First chapter has given the introduction about the research topic, statement of problem, objectives of the study and limitation of the study. Second chapter is literature review in which different related books; articles have been reviewed in the significant way. The third chapter is meant for research methodology. Descriptive type of research design has been adapted to analysis the facts and figures obtained from different sources.

Huge mass of working forces have left their home country for employment. The case of Nepal is also same to other part of world. Rapid growth rate of foreign employment has been observed during study period. In FY 1996/97 only 3259 went for foreign employment according to official record and it became 104736 in 2001/02. In FY 2011/12, 384,665 people left the country managing 8.44 percent growth rate in comparison to previous year. The trend of foreign employment during the period of 1996/97-2010/2011 clearly indicates Nepalese People were in hurry for leaving the country in the study period. The official data released by World Bank in 2011 showed that India was at the top followed by China and Mexico in the list of receiving more remittance in the world and in 2010 India, china and Mexico received 55, 51 and 22.6 billion respectively. Nepal did not take its position within top ten. But Nepal stood 9<sup>th</sup> position in terms of those of remittance on GDP in 2009. In FY 1996/97, Nepal received Rs 2.94 billion remittance managing 10.4 percent growth rate in comparison to previous year. During the period between 1996/97-2000/01, Nepal got nominal growth rate. Afterwards remittance getting trend have been increased. The growth rate was moderate in FYs 2009/10 and 2010/11 clearly suggests that remittance is still pivotal to Nepalese economy waiting for good alternative in place of remittance.

Poverty reduction is associated with remittance. Since both of them are rural phenomenon. The poverty reduced and became 25.16 percent from 30.85 percent during the period of 2003-2011. The reduction of poverty was possible during the period as a result of increasing remittance from Rs 58.6 billion to Rs 259.5 billion. The goal of poverty reduction has been successfully implemented as a result of flow of remittance basically in rural areas.

In FY 1996/97, total of Rs 280.5 billion GDP was recorded whereas Rs 2.84 billion remittance received during the same year. The ratio was 1 percent which shows that at beginning of study period remittance had very less effect on the GDP. Since then, most of ratios have been increasing trend indicates that the effect have risen over the periods. Between FYS 1996/97-2002, an average of below 2 percent remittance GDP ratio was observed. This indicates that the period was not remittance dominated. Since then both remittance and GDP have been increased managing high value of remittance- GDP ratio. A highest of 21.2 percent was observed in FY2008/2009. An average of 13.2 remittance- GDP ratio has been observed which clearly indicates the growing impact of remittance on GDP of the country. Karl Pearson's Coefficient of Correlation between these variables is also found to be 0.62 which reveals that these two variables are correlated.

Consumption has increased from Rs 241.4 billion to Rs 1257.2 million throughout the study period and in the similar way remittance has also increased from Rs 2.94 billion to Rs 259.5 billion. A highest ratio of 23.4 percent recorded between these variables in FY 2008/9 shows the growing impact of remittance on the consumption behavior of the Nepalese people. Consumption is key economic activity brought by remittance. According to Nepal living standard survey III, 78.9 percent of total remittance is used for consumption. Out of total remittance, 3.5 percent is used in education which would be key sectors where remittance has been used. During the study period CFE has increased from Rs 38.3 billion to Rs 179.6 billion (for first 6 months). In fiscal year 2009/10 remittance of Rs 231.7 billion recorded whereas CFE of Rs 375.6 million was available in the same FY managing 61.6 percent of their ratio. The trend line also supports the growing impact of remittance on CFE availability of the country. In FY 1996/97 GDS was Rs 39.2 billion and became Rs 89.6 billion in 2010/11 shows that slow increase in GDS despite the huge increment in remittance.

Both the figures are in increasing order indicates the impact of remittance on GDS but impact might be small.

Government has tried to make foreign employment safe and systematic by making various provisions in their budgets, periodic plans and other activities. Despite the effort of the government, the sector has still remained controversial on various issues of migration cycles. The government as well as workers themselves should work hand in hand to make foreign employment sector free sector.

## **5.2 Conclusion**

Migration of Nepalese youth for foreign employment increased rapidly after restoration of multi party democracy process in 1990. In recent years, remittance has emerged as one of the premier sources of foreign exchange. It could be instrumental to give a new lease of life to ailing Nepalese economy.

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 labor 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 labor 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 labor migration has developed in such a way, which has shifted the agricultural based economy towards remittance based economy.

During the study period, foreign employment has established as major sector of economy of Nepal. The number working abroad has been increased from 3259 to 384665 maintaining positive growth rate in comparison to previous FY except in FY 2008/09. Despite the country has opened door for 108 countries; Malaysia, Middle East were the major destination of Nepalese job seekers. The amount of remittance has increased from Rs 2.94 billion to Rs 259.5 billion during the study period shows the growing importance of foreign employment.

The average remittance-GDP ratio during the study period has been found to be 13.2 that show the importance of remittance to overall economic activities of the country. The correlation coefficient of these two variables is found to be 0.62 which shows that the closer relationship between these variables. Consumption has sharply increased and become Rs 1257.2 billion in FY 2010/11 along with remittance clears linkage between these two variables. Poverty and remittance both are basically rural variables that have strong association with each other. Poverty level has decreased from 30.85 percent in FY 2003/04 to 25.16 percent in FY2010/2011. Such achievement would not be possible without upsurge of remittance in rural Nepal. In FY 2009/10, remittance-CFE ratio become 61.6 percent shows the importance of remittance on CFE availability of the country. Various policies have been launched by the government to manage foreign employment sector well in its budget speech, periodic plans, laws etc. But the government has still failed to give information regarding provision made for people going abroad. The government should emphasize on effective implementation of existing policies rather to run for making only new policies.

### **5.3 Suggestions**

The following suggestions have been made which would help the concerned authorities to take necessary steps to overcome the problems of foreign employment and remittance in Nepal:

- ) Foreign employment sector should be made more reliable in the years to come. Diplomatic missions abroad should be effortful to have at least a foreign employment promotion section. The task of such section would be to disseminate the fact and events concerning foreign employment opportunities especially for the Nepalese.
- ) Nepalese 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 favor of the worker going abroad, which include the protection and promotion of the rights of the migrant workers. The basic things that must be addressed in the policy level for the welfare of worker are pre-departure orientation, effective information dissemination system; administrative processes involved in the departure should be minimized. The government should also develop

reintegration process of migrant workers in their respective community and for the holistic development of the country. Capital accumulated and skills gained by migrant workers need to be used properly when they return back after their work.

- ) Nepalese government need to ratify the International Convention of the Protection of the Rights of Migrant Workers and Members of their Families. Ratification of this UN convention by the Nepalese government will also assist to increase their bargaining power with the labor receiving countries to protect the rights of Nepalese labor migrants. Ratification of UN convention by the labor sending country will create moral pressure to the labor receiving country for the ratification of the convection.
- ) Nepalese government has to carry out an in-depth study identifying the problems of migrant workers in home countries as well as in the potential countries where they are going for work. The study will assist to lobby in the government level regarding the problems facing migrant workers. Nepalese government also needs to establish a department in major worker receiving countries that could help solves the problems of migrant workers in time.
- ) Government should initiate in providing appropriate trainings for the potential labor 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 labor 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 labor agreements is therefore desirable step.
- ) Categorization of manpower companies is very much essential at present context. Companies with better grade should be awarded or given incentive from the government so that it would assist them to promote their business in an organized way. The incentive can be tax free, recognition of authorized manpower agency for a certain period of time and authority to handle the monitoring work of labor migrants abroad. Specialization of man power companies is also very much essential. Government has to design such a



policy which permits the man power companies to supply workers either in a single country or for specific work.

- ) Nepalese trade union organizations and their local 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 all the society has to change their attitude towards migrant workers. Foreign labor occupations need to be established as dignified occupation.
- ) Improving knowledge about remittances is critical for the assessment of policies, which directly impact the developing role of remittances in the economy. 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 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.
- ) Workers have still used informal Channels to transfer money because of rate applied by the banks. 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. 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.

- ) 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.
- ) Having seen the end use of the remitted fund, 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 estate 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 labor exporting countries, aimed at rationalizing the exchange rate mechanism, is expected to bring more remittances through banking channels.

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## Appendix A

### List of Countries Officially Open for Foreign Employment

S.N.	Country	S.N.	Country	S.N.	Country
1	Afghanistan	37	Guyana	73	Nicaragua
2	Albania	38	Holysee	74	Nigeria
3	Algeria	39	Hongkong	75	Norway
4	Argentina	40	Hungary	76	Oman
5	Armenia	41	Iceland	77	Pakistan
6	Australia	42	Indonesia	78	Panama
7	Austria	43	Iran	79	Peru
8	Azerbaijan	44	Iraq*	80	Poland
9	Bahrain	45	Ireland	81	Portugal
10	Bangladesh	46	Israel	82	Qatar
11	Belarus	47	Italy	83	Republic of Korea
12	Belgium	48	Japan	84	Republic of Slovak
13	Bolevia	49	Jordan	85	Romania
14	Bosnia Herz Govina	50	Kazakhstan	86	Russia
15	Brazil	51	Kenya	87	Saipan
16	Brunei Darussalam	52	Kosovo	88	Saudi Arabia
17	Bulgaria	53	Kuwait	89	Singapore
18	Canada	54	Laos PDR	90	Slovenia
19	Chile	55	Latvia	91	South Africa
20	China	56	Lebanon	92	Spain
21	Columbia	57	Libya	93	Sri Lanka
22	Cambodia	58	Luxzemburg	94	Sweden
23	Costarica	59	Macau	95	Switzerland
24	Crotia	60	Malaysia	96	Sychelese
25	Cuba	61	Maldives	97	Tanzania
26	Cyprus	62	Malta	98	Thailand
27	Czech Republic	63	Mecedonia	99	The Philippines
28	Denmark	64	Mexico	100	Tunetia
29	Egypt	65	Moldova	101	Turkey
30	Estonia	66	Mongolia	102	Uganda
31	Fiji	67	Moritus	103	Ukrain
32	Finland	68	Morocco	104	United Arab Emirates
33	France	69	Mozambique	105	United States of America
34	Germany	70	Myanmar	106	Venezuala
35	Great Britain (UK)	71	Netherland	107	Vietnam
36	Greece	72	New Zealand	108	Zambia

Source: Foreign Employment Department, MOLATM; 2011

## Appendix B

Figures are in Million

<b>FY</b>	<b>GDP (X)</b>	<b>Remittance (Y)</b>	<b>X<sup>2</sup></b>	<b>Y<sup>2</sup></b>	<b>XY</b>
1996/97	280513	2938	$7.8 \times 10^6$	$8.6 \times 10^6$	$8.2 \times 10^8$
1997/98	300845	4084	$9 \times 10^{10}$	$1.6 \times 10^7$	$1.2 \times 10^9$
1998/99	342036	6520	$1.1 \times 10^{11}$	$4.2 \times 10^7$	$2.2 \times 10^9$
1999/00	379488	6031	$1.4 \times 10^{11}$	$3.6 \times 10^7$	$2.3 \times 10^9$
2000/01	413428	9797.6	$1.7 \times 10^{11}$	$9.5 \times 10^7$	$4 \times 10^9$
2001/02	430396	14859.8	$1.8 \times 10^{11}$	$2.2 \times 10^8$	$6.3 \times 10^9$
2002/03	492230	41630	$2.4 \times 10^{11}$	$1.7 \times 10^9$	$2 \times 10^9$
2003/04	536750	58587.6	$2.8 \times 10^{11}$	$3.4 \times 10^9$	$3.1 \times 10^{10}$
2004/05	589410	65541.2	$3.4 \times 10^{11}$	$4.2 \times 10^9$	$3.8 \times 10^{10}$
2005/06	654080	97688.5	$4.2 \times 10^{11}$	$9.5 \times 10^9$	$6.3 \times 10^{10}$
2006/07	727830	100144.8	$5.2 \times 10^{11}$	$1 \times 10^{10}$	$7.3 \times 10^{10}$
2007/08	815660	142682.7	$6.6 \times 10^{11}$	$2 \times 10^{10}$	$1.1 \times 10^{11}$
2008/09	988050	209698.5	$9.7 \times 10^{11}$	$4.3 \times 10^{10}$	$2 \times 10^{11}$
2009/10	1171900	231725.3	$1.3 \times 10^{13}$	$5.3 \times 10^{10}$	$2.7 \times 10^{11}$
2010/11	1346810	259530	$1.8 \times 10^{12}$	$6.7 \times 10^{10}$	$3.4 \times 10^{11}$
<b>Total</b>	<b>9469426</b>	<b>1251459</b>	<b><math>5.318 \times 10^{12}</math></b>	<b><math>2.122 \times 10^{11}</math></b>	<b><math>1.16182 \times 10^{12}</math></b>