

# **ROLE OF REMITTANCE ON POVERTY REDUCTION:**

**A case study of Deumai Municipality-6 of Ilam District**

**A Thesis**

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**By**

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## Declaration

I hereby declare that the thesis entitled **Role of Remittance on Poverty Reduction: A Case Study Deumai Municipality-6, Ilam District** submitted to the Department of Rural Development, Tribhuvan University Mahendra Ratna Multiple Campus Ilam, is entirely my original work prepared under the guidance and supervision of my supervisor. I have made due acknowledgements to all ideas and information borrowed from different sources in the course of preparing this thesis. The results of this thesis have not been presented or submitted anywhere else for the award of any degree or for any other purposes. I assure that no part of the content of this thesis has been published in any form before.

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17-02- 2021 A.D

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### RECOMMENDATION LETTER

The thesis entitled **Role of Remittance on Poverty Reduction: A Case of Study Deumai Municipality-6, of Ilam District** has been prepared by **Bharat Rai** under my guidance and supervision. I hereby forward this thesis to the evaluation committee for final evaluation and approval.

.....

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## **ABSTRACT**

*This study entitled "Role of Remittance on Poverty Reduction" A Case Study of Deumai Municipality-6, Ilam district was conducted with the objectives of analyze the role of remittance in rural livelihood, access the contribution of remittance in poverty reduction in rural area and analyze the factors related to the use of remittance in Deumai Municipality-6, of Ilam District. This study is mainly based in the primary information and the data were collected using the techniques of household survey with the help of questionnaire and interview.*

*Improvement in the foreign migrant workers households going for better health check up in private hospital and started to sent their children in school, colleges and universities after receiving the remittance in the study area.*

*From the study area we can conclude that all the households who were receiving remittance are getting benefit. Their access to health and education and economy has increased. Likewise it also helps in net saving. The remittance is not using properly in productive sector if the households properly invest in productive sector it will help to develop rapidly which helps in rural development. All households were very positive towards remittance income.*

*In the study area, remittance income has become an effective approach in reducing the poverty. The living standard of the people is gradually changing. People are now getting the proper health facilities and their educational status is also gradually increasing. The income of the family has been raised up ultimately uplifting the living standard of the people living under the poverty line.*

*Some recommendation from our side like the income coming from remittance should be utilized in productive sector like business, agriculture, etc. there should be some vocational training institution in the local area for their skill development and so on. Result of the study suggests that remittance helps to reduce rural poverty and helps in rural development.*

## Abbreviation and Acronyms

A.D	Anno Domini
BOP	Balance of Payment
CBS	Central Bureau of Statistics
EPS	Employment Permit System
EU	European Union
GDP	Gross Domestic Product
IMF	International Monetary Fund
ICRG	Intrastarture for Climate Resilient Grouch International Co operation Review Group
IFAD	International Fund for Agricultural Development
IOM	International Organization for Migration
LDC	Least Developed Countries
MOF	Ministry of Finance
NRB	Nepal Rastra Bank
NSLS	Nepal Standard Living Survey
OLS	Ordinary Least Squares
SGMM	System Generalized Method of Moments
SLC	School Leaving Certificate
SPSS	Statistical Package for the Social Sciences
UAE	United Arab Emirates
UK	United Kingdom
USA	United States of America
USSR	Union of Soviet Socialist Republics
WB	World Bank

## TABLE OF CONTENTS

<b>Title Page</b>	<b>Page No.</b>
Declaration	ii
Recommendation Letter	iii
Approval Letter	iv
Acknowledgements	v
Abstract	vi
Table of Contents	vii
List of Table	viii
List of Figures	ix
Acronyms/Abbreviations	x
<b>CHAPTER-I</b>	
<b>INTRODUCTION</b>	1
1.1. Background	1
1.2 Statement of the Problem	2
1.3 Objectives of the Study	3
1.4 Significance of the Study	3
1.5 Limitations of the Study	4
<b>CHAPTER-II</b>	
<b>LITERATURE REVIEW</b>	6
2.1 Current status of remittance in Nepal	6
2.2 Concept of foreign employment and remittance	11
2.3 Foreign Employment and Remittance	14
2.4 Remittance and Poverty Reduction	19
2.5 Remittance and Growth	20
2.6 Nepalese Context	22
2.7 International Perspective	23
2.8 Empirical Studies	23
2.9 Theoretical Studies	32
<b>CHAPTER-III</b>	
<b>RESEARCH METHODOLOGY</b>	
3.1 Research Design	37
3.2 Sample Size and Sampling Method	37



3.3	Nature and Source of Data	37
3.4	Data Collection Tools and Techniques	38
3.5.	Interview	38
3.6	Data Presentation, Analysis and Interpretation	38

#### **CHAPTER – IV**

	<b>DATA PRESENTATION AND ANALYSIS</b>	39
4.1	Gender Description of Foreign Employment	39
4.2	Educational Level of Migrant Workers	40
4.3	Country -Wise Employment Situation	41
4.4	Caste and Ethnicity	42
4.5	Age Group of the Migrant Workers	43
4.6	Main Income Sources of the Migrants Households	44
4.7	Causes of Foreign Employment	44
4.8	Ways to Send Money	46
4.9	Change in Income Pattern	46
4.10	Expenditure Patterns of Respondents	47
4.11	Range of Remittance Earned by Household	48

#### **CHAPTER-V**

#### **SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

5.1	Summary of Findings	50
5.3	Conclusions	50
5.3	Recommendation	51

References

Annex-I

Annex-II

## LIST OF TABLES

<b>Table No.</b>	<b>Title</b>	<b>Page No.</b>
Table No. 4.1	Gender Description of foreign Employment	39
Table No. 4.2	Educational Level of Migrants	40
Table No. 4.3	Country – Wise Employment Situation	41
Table No. 4.4	Caste survey of the respondents.	42
Table No. 4.5	Age group of the respondents.	43
Table No.4.6	Main Income Sources of Respondents	44
Table No. 4.7	Causes for Going to Abroad for Employment	45
Table No. 4.8	Ways to Send Money	46
Table No 4.9	Change in Income Pattern	47
Table No. 4.10	Expenditure Patterns of Respondents	48
Table no 4.11	Range of Remittance Earned by Surveyed Households through Remittance (Yearly in Nepalese rupees)	48

## LIST OF FIGURES

<b>Figure No</b>	<b>Title</b>	<b>Page No.</b>
Fig No. 4.1	Gender Description of foreign Employment	40
Fig No 4.2	Country – Wise Employment Situation	41
Fig No. 4.3	Caste survey of the respondents.	42
Fig No. 4.4	Age group of the respondents.	43
Fig No. 4.5	Main Income Sources of Respondents	44
Fig No. 4.6	Causes for Going to Abroad for Employment	45

# CHAPTER-I

## INTRODUCTION

### 1.1. Background

Remittance sent by international migrants to their countries of origin has now grown to be substantially higher. Nepal has been one of the greatest shareholders of global remittance but the issue is how such flows have been used in the livelihood of remittance-recipient households. The objective of this study is to identify how remittances impact various socio-economic dimensions of remittance-recipient households.

Nepal is a small developing country with a very unique geographical setting. It is a land lock country surrounded by India in South, East and West and by China in north. It covers an area of 54,326 sq. miles runs along 500 miles from the East to the West and 80 to 150 miles from north to south. The most important assets of the country includes the land with the wide climate and altitudinal variations the perennial rivers and the Himalayas. The total population is 2,66,20,809 according to the population census, 2011.

Remittances consist of goods or financial instruments transferred by migrants living and working abroad to residents of the home economies of the migrants. It is limited to transfers made by workers that had stayed in foreign economies for at least one year. Stayed transfers from migrants that are self employed are excluded (IMF, 1999)

Foreign employment is a traditional "Lahure" pattern in Nepal for 176 years when we observe to the period from 1814 to 1990. In terms of number and education, its characteristic has been in change but it is very limited to the countries including the British and India. The economic policy could not respond it with economic aspects. Therefore, it seems to be a non-policy preference and response. The remittance was important but not thought as at present. It was limited in the household economy. Lack of generalization, limited its scope and its contribution to national economy was very insignificant. Therefore, it was not well discussed about it. Therefore it could not receive specific attention. (Bista, 2008).

Remittance income in developing countries has become a life line for economic development. By remittance we mean sending income in terms of money or goods in

home by the migrants or the workers who have their earnings outside their home countries. Nowadays, this source of foreign income has been growing rapidly in each year in developing countries. Since long time in Nepal, many migrants have been transferring their incomes through the unofficial channels. Today, due to the establishment of different agencies like western union, international money express remittance as major component of current account plays a vital role in increasing the current transfers in balance of payment. The basic factor of determining current transfers is grants, worker remittance, pension and other including excise refund also. Initially, the share of remittance was found 1.74 % in mid –July 1991. This share increased sharply (9.38%) after the period of mid July 1991 and eventually reached to 12.03 % in mid-July 2005. On an average, the share of remittance to GNP was 11.03% during the review period from mid-July 2000 to 2005 due to the increased trend of Nepali worker going to Malaysia and Gulf countries for employment (MOF 2006). During that period, the grants and pension also increased by 7.72 % and 58.06 % respectively. Thus, from this analysis it is clear that the remittance income has become an important contributor (64.72%) to the transfers in balance of payment of Nepal. (JONBS,2006)

## **1.2 Statement of the Problem**

Emigration of Nepalese people for recruitment in the foreign armed force has been the first ever recorded emigration of Nepalese population. Growing population has increased labor force and lack of employment opportunities within the country have been the reason behind the recruitment to the foreign migration. In the recent years, the war of globalization has induced the Nepali youth for better living standard, which is the important pull factor for emigration. But unemployment, food scarcity, is the strong push factors. Similarly, existing conflict due to the political instability is also being the cause of it. About 450,000 Nepalese enter into the job market every year (labor survey 2008), but hardly one fifth get jobs in the country or are self employed. There is no option for Nepalese other than to go to abroad for employment. Because of the high rate of unemployment, Nepalese people are interested to go outside of the country for seeking job either being student or as a labor.

Unemployment is one of the most challenging problems of our country. This study tries to show the importance of remittance in Nepalese economy. Some economist

says that Nepalese economy is based on the remittance business. It is the second source after the agriculture which plays vital role in GDP. Remittance can contribute for the economic development if it is mobilized in productive field.

The major portion of the remittance is used for meeting household consumption and paying off loans borrowed to go abroad. Only very few migrants use remittance in direct productive sector like agriculture and manufacturing. Major investment is on education of the children, re-involvement of the remittance for the migration and for lending money. very small investment is directed for small business and trade. On this ground, this study is designed to address the following research question related to overseas employment and remittance:

- i) What is the trend of overseas employment and remittance?
- ii) What is the pattern of remittance use?
- iii) Does the remittance have positive economic impact?
- iv) How much remittance invested in productive sector?
- v) What are the policies and programs of the government for enhancing foreign employment?

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

The general objective of this study is to analyze the impact employment and remittance on Deumai Municipality-6, Ilam are follows.

- i. To explore the situation of foreign employment and remittance in the study area
- ii. To identify whether migrant workers use their remittance earnings in productive or non productive areas.
- iii. To identify how migrant workers send their money in their country.

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

Remittance has reduced the share of poverty and unemployment to a certain extent. The life style of the household who succeeded in going for overseas employment has changed. But they have not been able to utilize and invest the whole remittance in the productive sector. Therefore investment and utilization of the remittance has emerged

as a major problem in the field of overseas employment. Government has also encouraged the private institute to run skill development program to address increased demand of Nepalese workers in overseas countries as well as to make them capable to increase their salary and wages.

This study sketches the outline of the condition of foreign employment in Deumai Municipality-6, Ilam. So it is not only useful to those who want to know about the condition of foreign employment in Deumai Municipality- 6, Ilam but also to those who are keen interested to know about the situation of foreign employment of our country as a whole. This study will provide a significant insight to the different agencies of the society which plays a key role for the development of the society. Similarly, it clearly states the economic status of the people of that society before and after the flow of remittance.

Considering the huge, 231.7 billion (NRB, Current Macro Economics Situation: August 2010) amount of remittance coming into Nepal from foreign labor migration and its important role in the Nepalese economy, it is hoped that this study will provide some understanding as to the factors contribution to the prospects, potentialities and promises from the foreign labor migration and the problems and issues constraining the effective management and monitoring of the labor migration for the benefit of the migrant and their household as well as the nation. Therefore, it is expected that this study will assist in formulating appropriate policies rules and regulations to make foreign labor migration as an important economic policy and planning for development of these areas.

This study differs from the previous study because it inclusively studies the situation of foreign employment of different ethnic group, culture, creed and religion. It reflects the situation of foreign employment in Deumai Municipality in relation to economic condition, flow of remittance, utilization of the remittance, human development condition and the condition of economic activities as a whole.

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

Although there is a need of analyzing overall trend, impact of remittance on the whole economy, due to lack of time resource, money availability of data constraints, this study has confined within limited things, which is known as the limitations of the study. Study area covers only Deumai Municipality -6 of Ilam district. Emigration for

permanent settlement has not been the subject of the investigation in this study

- i) Most of the analysis is based on primary and secondary data. So any distortion of the reality from this study may be due to the biasness of the respondents.
- ii) This study only concerns in overseas for foreign employment but not concern in India & China.



## **CHAPTER-II**

### **LITERATURE REVIEW**

#### **2.1 Current status of remittance in Nepal**

International migration has become one of the main sources for earning foreign currency and it has played pivotal role in minimizing the unemployment problem in Nepal. Earning of migrant labors called 'remittance' entered into Nepal long ago when Nepalese youths joined British Army known as 'Gurkhas'. But the Labor Act 1985 came as a boon for facilitating foreign employment and opening up avenues for the private sector (Shrestha, 2008). Enactment of foreign Employment Act 1985, provision of distributing passport from related district administration offices and high demand of labor in foreign labor market, especially in Gulf countries added fuel to the growth of international migration of Nepalese labor force. According to CBS (2008), out of the 23 percent of the households receive remittance and per capita remittance in Nepal is 4,042 Nepalese rupees. Following detail shows short snap-shot about the fact of remittance in Nepal.

Today the term remittance has taken a central place in debates among development experts all over the world owing partly to the fact that its volume is growing at an exponential rate in recent years. The renewed debate started particularly after 1990s when it was observed that the dependency theory and structural views on remittances, which dominated the decades of 1970s and 1980s and maintained a pessimistic view on remittances, witnessed a downfall. The dependency theorists were of the view that remittance never contributes to the development of underdeveloped countries mainly for the reason that international migration encourages brain drain from the developing countries depriving them of the human capital that they desperately need to meet their development goals. Prior to the dependency and structural views, however, the developmentalist and neoclassical thinkers during 1960s and 1970s had maintained optimistic views on remittances believing that capital and knowledge transfers by migrants would help achieve development needs of least developed countries in the world. The same views have taken incarnation at the start of this century bringing back the debate about remittances on the floor once again. Neoclassical economics: macro theory (arguably the body of theory most familiar to World Bank staff) views geographic differences in the supply and demand for labour in origin and destination countries as the major factors driving individual migration decisions. Among the assumptions of this model are that international migration will not occur in the absence of these differentials, that their elimination will bring an end to international movements, and

that labour markets (not other markets) are the primary mechanisms inducing movements. Government policy interventions affect migration by regulating or influencing labour markets in origin and destination countries.

Neoclassical economics: micro theory focuses on the level of individual rational actors who make decisions to migrate based upon a cost-benefit calculation that indicates a positive net return to movement. In this approach, human capital characteristics that raise the potential benefits of migration, and individual, social, or technological factors that lower costs, will lead to increased migration. Differences in earnings and employment rates are key variables, and governments influence migration through policies that affect these (e.g. through development policies that raise incomes at the point of origin, decrease the probability of employment at destination, or increase the costs of migration).

The new economics of migration views migration as a family (i.e., group) strategy to diversify sources of income, minimize risks to the household, and overcome barriers to credit and capital. In this model, international migration is a means to compensate for the absence or failure of certain types of markets in developing countries, for example crop insurance markets, future markets, unemployment insurance, or capital markets. In contrast to the neoclassical models, wage differentials are not seen as a necessary condition for international migration, and economic development in areas of origin or equalization of wage differentials will not necessarily reduce pressures for migration. Governments influence migration through their policies toward insurance, capital, and future markets, and through income distribution policies that affect the relative deprivation of certain groups and thereby their propensity to migrate.

World systems theory focuses not on labour markets in national economies, but on the structure of the world market--notably the "penetration of capitalist economic relations into peripheral, no capitalist societies," which takes place through the concerted actions of neo-colonial governments, multinational firms, and national elites. International migration is generated as land, raw materials, and labour in areas of origin is drawn into the world market economy and traditional systems are disrupted. The transports, communications, cultural and ideological links that accompany globalization further facilitate international migration. In this view, international migration is affected less by wage or employment differentials between

countries than by policies toward overseas investments and toward the international flow of capital and goods.(Russell-1995).

Revenstein (1985) was the first person to attempt forming migration theory. Revenstein's law of migration is also known as push-pull factor of migration, still predominates as framework of migration analysis, push factor are: land tenure system, unfavourable form of trade, wide dispersion of poverty and income, pressure of rural poverty in income, pressure of rural poverty in general and so on. Pull factor are employment, education and other facilities are opportunities known as 'bright light' of the towns. On the other hand push factor migrant from their place and origin and on the other hand pull factors migrant to pace of destination.

Remittance business is created by the foreign employment that has the long experience in Nepal. For the foreign employment Nepalese people are engaged before some centuries. The Nepalese people were earned "Brave Soldier" in the history of the world before some decades. Nepalese people were earned a name and fame for the fighting and victory in the war so that they are called as "Bir Gorkhali". Due to that reason, the demand of Nepalese people for the foreign soldier was highly attractive in the past time so they earned money in the foreign countries and brought in Nepal. The common name of Lahure is called to Nepalese people because they employed and earned money in Lahor which is in Pakistan now. Some of the Nepalese were earned money in Malaysia so they were called "MalayakoLahure". (Source: [www.nepalnews.com/np/ntimes/issues169/economy](http://www.nepalnews.com/np/ntimes/issues169/economy))

According to International Monetary Fund (IMF) remittances denote “household income from foreign economies arising mainly from the temporary or permanent movement of people to those economies. Remittances include cash and noncash items that flow through formal channels, such as via electronic wire, or through informal channels, such as money or goods carried across borders. They largely consist of funds and noncash times sent or given by individuals who have migrated to a new economy and become residents there, and the net compensation of border, seasonal, or other short-term workers who are employed in an economy in which they are not resident” (IMF, 2006)

The history of remittance began after the British-India and Nepal war during 1814,

Since then, Nepalese youths used to be recruited in the British national army (Thieme, 2004) . The volumes of remittance increased only after 1995, when the civil conflict destroyed the local labor markets and people started looking for overseas employment. The political turmoil blocked the industrial expansion and halted plenty of small medium enterprises (SMEs) all over the country reducing job opportunities (Müller &Thieme, 2007). As a result, 250,000 people on averages leave the country annually in search of job since 2007 (MoF, 2011).

Nepal's development expenditures are heavily financed by foreign aid and it has become an integral part of Nepal's political economy. Besides foreign aid, tourism sector also remained one of the lucrative sectors for Nepal. But, in FY 201/02, Nepal's major economic activities: tourism, manufacturing, investment, exports etc. reported major downslides and even agricultural production and imports slackened. The recent Barpak Quake has further put setback in the tourism industry. All these factors have contributed in economy to be dependent on either foreign aid or remittance. 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 avoid a major balance of payment crises (Sigdel, 2005). Despite of common consensus within the government and development agencies that there is great potential of the overseas migration as a safety valve in view of gloomy economic scenario, 'the remittance economy of Nepal' has generally been either ignored or underestimated by economists, academics and policy makers (Srivastava& Chaudhary, 2007). In true sense, the contribution of remittance to the national economy is much larger than what is reflected by official data and information. The Purpose of this article is to examine the role of remittance in economic development of Nepal.

Dahal and Maharjan (2018) investigated on the productive use of remittances in Nepal. The study mainly focused on a detailed desk review of rural investment policy, schemes and products and successful approaches for productive remittances in South Asia. The study stressed to finalize on approach that was workable and bankable for topping remittances in case of rural investments. It is also found out that the labour permits issued to Nepalese seeking employment abroad increased by 137 percent over the period of 2008-09 to 2014- 15. Besides this, in 2014-15 around 1,500

people left Nepal daily to various destinations. The country received remittances of NPR 450 billion in the first eight months of the FY 2016-17 and estimated to receive NPR 699 billion in FY 2017-18. The growth rate is 5.3 percent which is much lower in compared to a growth of 15.2 percent in last year. The average remittance of households also rose from US\$ 262 (26.6 percent of total household income) in 2010-11. So it is stated that remittances are also considered to be a major contributor to poverty reduction, from 42 percent to 30 percent between 1995-96 and 2003-04, and down to 25 percent in 2010-11. The result of the study suggested approaches for tapping remittances for rural investment at macro-, meso- and micro-levels. These interventions might be instrumental in attracting more remittances from migrant workers, and will help to boost rural investment in local development.

World Bank (2016) highlighted that more than 247 million people or 3.4 percent of the world population, live outside their countries of birth. Number of international migrants rose from 175 million in 2000 to more than 247 million in 2013 and it increased in 251 million in 2015. The top remittances recipient's countries are India, Philippines, Mexico and France in 2015. As a share of GDP, however, smaller countries such as Tajikistan (42 percent), Kyrgyz (30 percent), Nepal (29 percent), Tonga (28 percent) and Moldova (26 percent) are the largest remittance recipients. The study revealed that the high income countries are the main sources of remittances, USA is the largest with an estimated \$56.3 billion outflows in 2014. Saudi Arabia as 2nd largest followed by Russia, Switzerland, Germany, UAE, and Kuwait. The six Gulf countries accounted for \$98 billion in outward remittances flows in 2014. Thus, WB focused on overall volume of remittances in the world. DOFE (2014) published national reports on labour migration for foreign employment from Nepal, with an outcome of collaboration effort between the Government and development partners to measure the recent trends and practices. This report intended to inform various levels in the country to take initiatives in Nepal and countries receiving Nepali workers to make strategic decisions, strengthen policies, improving the migration management mechanisms and focuses on national governance structures on promoting safe and empowered labour migration. The study highlighted that an increasing number of Nepalese people were migrating every year for work and the amount of remittance is substantial. In this concern, it was estimated that poverty would increase from 19.3 percent to 35.3 percent if remittance is stopped. Major

achievements of the study report in 2014 was that the Government inaugurated its “Labour Village“ in Kathmandu which is expected to contribute towards a smoother and more transparent migration process by consolidating the range of services under one roof. Also focused on the skills training and pre-departure orientation training of the “Foreign Employment Promotion Board” for raising awareness on labour migration and encouraging skilled migrants for migration, which is the aim of the increasing migrant’s effectiveness. Shafqat, Ashfaq and Bano (2014) stressed on the promotion of economic growth in remittance recipients countries which is widely effected by the workers remittances. He highlighted to provide productive ideas to policy makers for taking best decisions regarding management of these flows in the way that it would give productive output in terms of investment. In order to explore the relationship between worker remittances and economic growth, multiple regression analysis was used in the study. Several tests and multiple regression analysis conducted revealed that workers remittance positively and significantly contributed in economic growth. Thus, it was examined that remittance was the best source of income in terms of foreign exchange from developed countries to under developed countries.

## **2.2 Concept of foreign employment and remittance**

Foreign Employment can be define as the form of the dependent relationship of an employee on an employer outside the territory of the country where the employee pursues activity according to employer’s instructions at the time and in the place determined for that purpose by the employer for the remuneration agreed upon in advance. Similarly, Remittance is the process of sending money to remove an obligation. This is most often done through an electronic network, wire transfer or mail. The term also refers to the amount of money being sent to remove the obligation. On the other words it is the process of sending money, cheques etc to a recipient at a distance or money or its equivalent sent from one place to another.

“Pursuant to employment regulations, foreign employer means a legal or natural entity with its registered office outside the territory of the Czech Republic, with no permanent business presence in the Czech Republic, where such entity posts its employees to the Czech Republic to implement a commercial or other contract entered into with a domestic legal or natural entity. The posted employees are in an

employment relationship with this foreign employer and, after they complete the job for which they have been posted by that employer to the Czech Republic, they return to the employer's registered office. Compliance with the requirements associated with the posting of employees is the responsibility of the legal or natural entity to which the foreigner will be posted by the foreign employer.”(mpsv.cz)

"India received the highest remittance in 2013 compared with any other country in the world,"(Asia outlook, 2013)World Bank data also points to the fact that India receives the highest remittance, followed by China (\$51 billion) and Mexico (\$22.6 billion), Philippines(\$21.3 billion) and France (\$15.9 billion).(India times).

Though there was a slight dip in remittance from 2008 to 2009, it bounced back in 2010 to a level higher than in 2008. Kerala and Punjab are currently among the states which receive the highest remittance from overseas residents. Didar Singh believes the increase in remittances has much to do with a great degree of faith in the Indian banking system, coupled with a lack of faith in US banks. "Remittance may be in a number of forms, such as domestic consumption, property, health and education. This is real money that is very much a part of the local economy, and is not money that is simply parked in a bank," he adds. Just how much do the 27 million global diaspora, scattered across 190 countries around the world, contribute to the Indian economy? World Bank figures show a dramatic increase of almost 162% in the remittance that India receives from overseas Indians over the last eight years. While India received nearly \$21billion from overseas India since 2003, the figure jumped to \$55 billion in 2010. (India times)

The present paper revisits the debate and attempts to reach some consensus on the use of remittances from overseas by origin communities. Supporting evidences are gathered from the primary data collected from a sample of 402 (201 each from the States of Punjab and Tamil Nadu in India) semiskilled and unskilled migrant laborers, working in Lebanon. The country is undergoing an ambitious reconstruction programme after a protracted period of war and civil strife that lasted from 1975 to 1991. The importance of the present study is twofold: 1) No study on Indian migrant workers has been undertaken in Lebanon in the past to the best of knowledge of researchers, 2) The study provides a comparison of remittance utilization patterns of Punjab and Tamil Nadu households, the two states located in extreme northern and southern parts of India, with a contrast in their socio-economic and cultural

backgrounds. The study utilizes a multivariate regression model to estimate the factors affecting remittance utilization by family recipients at the origin using an Index of Remittance Use constructed giving suitable weights for different uses of remittances, as dependent variable. Although the results on remittance use patterns broadly tallied with those found all over the world, there was little evidence of remittances being frittered away on wasteful consumption. Remittances were mainly utilized for living expenses, debt repayment, marriage expenses, and improvement in housing /purchase of land for house or buying a new house and furthering emigration of other family members. In a few cases, however, part of remittances was invested in agricultural land and equipments as well as small business ventures to augment the family income. The remittance use pattern was mainly dependent upon three factors, namely; i) Socio-economic background of the migrants; ii) mode of financing the emigration; and iii) duration of stay in host country. (<http://iussp2005.princeton.edu/papers/52493>)

World Bank, (2008) states that, Remittance constitute workers remittance, compensation of employees and migrant transfer, migrant remittances are defined broadly as the monetary transfer that a migrant makes to the country of origin. International migrant remittances are the second largest source of external finance in developing economics, next to foreign direct investment international migrant remittances received by developing countries are estimated to be approximately us & 167 billion in 2005 and have doubled in last five years.

(IMF,1993), As stated in the BOP manual (9th edition), states workers remittance cover current transfer by migrants who are employed in new economics and considered residents there. A migrant is a person who comes to on economy and stays or in expected to stay for a year or more. Workers remittance often involved related persons. Persons who work for and stay in new economies for less than a year are considered non-residents; their transactions are appropriate mainly to the component for compensation of employs.

Stark and Bloom(1985); in American Economic Review, studied international migration in the case of Mexico to the USA and found empirical evidences that the initial relative deprivation of household in their village reference group plays a significant role in migration controlling for initial absolute income and the expected income gains from migration they showed that the prosperity of household to



participate in international migration is directly related to the household initial relatives deprivation.

### **2.3 Foreign Employment and Remittance**

Gurung and Adhikari,(2004), concluded that, in their article "The New Lahures", After democratic movement in 1990, it has become easier to obtain travel documents and passport. The increasing flow of information and the liberalization in travel led to a surge in the migration of Nepali citizens for employment. Again, because of the political conflict since 1995, the trend of foreign employment has dramatically increased. This situation has compelled Nepalese youths to look for overseas employment. This conflict has also resulted in increased flow of migrants from the mid west to India.

As per the information from Department of Foreign Employment, a total of 58710 Nepali workers are found to have gone to different countries for foreign employment by second trimester of 2011/12. Large number of people is estimated to have gone to third countries via India through unauthorized means taking advantage of open boarder with India. A separate Foreign Employment Department was established on 31 December 2008 which has been carrying out foreign employment related activities. An Employment Permit System (EPS),Korea Section is established in the Department while a separate Japan International Trading Corporation Organization(JITCO)unit has been formed in fiscal year 2009/10, for sending workers to Japan. A total of 250829 are male while this number stood at 354716 until the end of previous fiscal year of which 344310 are male and 10416 are female.

Economic Survey (2011/12) states that the Nepali youth groups are attracted to foreign employment due to dearth of adequate employment opportunity in the country. The number of Nepali workers going for foreign employment is growing every year. According to various reports, large numbers of Nepali workers have gone for foreign employment without securing government permission as well. Based on the official and unofficial records as of now, more than 3 million people have gone for foreign employment. The foreign employment has supported in bringing economic prosperity in rural Nepal and reducing poverty. The contribution of foreign employment to reducing unemployment situation and poverty and enhancing

Nepalese economy should be considered significant. The foreign Employment Act, 2008 has already been issued and enacted for promoting the business of foreign employment while safeguarding the rights and interests of workers and foreign employment entrepreneurs by making it a safe, well managed, and dignified profession.

Bista, (2008), presents in his book entitled "Nepalese Economy and Development", In recent years, the growth of out flowing for overseas employment opportunities is estimated. Therefore state and structure of foreign employment is found encouraging and diversifying. By country wise Nepalese labor legally go to overseas employment for more countries like (Saudi Arabia, Qatar, UAE, Baharain, Kuwait, Hong Kong, Malaysia, Korea etc). Traditionally and leally India is another dominating country absorbing large size of labor. In addition Nepalese are working in developed countries like USA, UK, EU, Japan etc after higher education.

JONBS, (2006) states that,Initially remittance in Nepal was introduced with "Gurkha" remittance "the Gurkhas" were renowned for good qualities of soldiers. That is why British India formally recruited Nepalese youth as a regular army, which later divided into British and Indian army. Nowadays, Nepalese going abroad are not only for armies but also spread all over the world for work and mostly they are concentrated in gulf areas in civilian front (Kshetry, 2003). Any Nepali to go for work legally, he/she needs to get permission from the department of labor under the ministry of labor and transport of the government of Nepal. From the official report of the labor department it is known that 107 countries are at the government list where Nepalese are allowed to go for work. But still some people are found going abroad without permission and working in the government restricted areas too. Because of this trend, data on foreign employed workers are not available in exact form. Majority of those who have left home for overseas job are eager to earn foreign currency by hardworking to support their families.

Sapkota (2009), in his researches presented their analysis on the remittance market in Nepal. The presentations and a policy note are very informative. This blog post draws in information from their analysis. Around two to five millions Nepalese workers are working abroad. Officially recorded new migration increased dramatically during the last decade, from 36,000 in 1999/2000 to 229,000 in 2007/08. On official estimates of

stock of Nepali migrants range from 400,000 in Malaysia, 300,000 in Qatar, 60,000-70,000 in South Korea, and two to five million in India. 125,000-275,000 Nepali migrants are estimated to be working in United Arab Emirates (UAE), of which half are in construction, hospitality, tourism and security. An estimated one-third of male population is working abroad. It constituted 17% of GDP in 2008(\$2.3 billion). Remittance has also had large multiplier effects on sectors such as construction, cement and furniture. Migration plays a crucial role in reducing poverty between 1994 and 2004. The WB estimates it to contribute between one-fifth to one-half of the decline in poverty. Within South Asia, remittance as a share of GDP is highest in Nepal.

Seddon,( 2003) The major portion of the remittance is used for meeting household consumption and paying off loans borrowed to go abroad (Seddon et al., 1999; NRB, 2001). Remittances are used for meeting daily necessities like food, clothing and payment of debt and interest. The survey done by department of women development under ministry of women, children and social welfare, on employment of women (2003) found that families were living out of remittance money. And remittance was helping to prevent more people from falling below poverty line. Use of remittance for the improvement of the living standard is referred to by several studies (Seddon, 2003 & NRB, 2001). Improvement in living standard includes housing improvement; higher expenditure on food, on personal items, domestic, equipment and other consumer durable.

Nepal Standard Living Survey (2010/11), 56 percent families in Nepal have received remittance income in one year. The average household receipt is estimated at Rs. 80436 at current prices. Calculation of average remittance receipt per person comes out to Rs. 9245. of the numbers receiving such remittance, 58 percent is from within the country, 19percent from India, and 23 percent from others countries. The number of families receiving remittance has been rising last 15 years. The first survey showed that only 23 percent families had receive remittance while the recent third survey showed 56 per cent are receiving remittance. The share of remittance to household income in 1995/96 was 27 percent, which has gone up to 31 percent by FY 2010/11. For instance, the share of remittance received from India has come down to 11 percent with a decline of 24 points in the last 15 years, whereas the share of remittance received from countries other than India has increased to 69 percent from

22 Percent in the same Period.(NSLS).

Shrestha (2005) in his report titled "Foreign Remittance : A Panacea for Nepalese Economy" has states that remittances can generate a beneficial impact on the economy through various channels, such as saving, investment, growth, consumption and income distribution. Remittances have relaxed the foreign exchange constraints of the country and strengthened its balance of payment (BOP) position.

Pant (2005) in his report titled "Remittances and Development in Developing Countries" has states that remittance is important financial resources to the receiving countries at the micro and macro level. They increase both the income of the recipient and the foreign exchange reserve the recipient's countries. Mostly remittance is used for basic subsistence needs and for daily needs such as food, clothing and housing. These three components make up a significant portion of the income of the recipients household. At an individual level remittance increases the income and reduces the poverty of the recipient's. Generally in the developing countries only a small percentage of remittances are used for saving and used as productive investment such as income and employment generating activities as buying land or tools, starting a business and other activities. However the money spent on better education of the children and health is believed to have a favorable effect on growth, which tends to help in output production. At the macroeconomic level remittance provide significant sources of foreign currency and contribution to the balance of payment. Remittance also contribute to the expansion of communication services courier companies as well as money exchange services, which contribute to the expansion of economic activities and increase the employment opportunities.

Nepal Rastra Bank (2001) conducted research on different issues relating to foreign employment and remittance economy of Nepal. The study has covered the ten districts of four development regions through a sample survey. It furnished information on the migrants from the social, economic gender and regional perspectives. According to this study, more than 70.0 percent were laborers and they earned on average from Rs. 10,000 to Rs. 25000 per months. They report revealed that only about 20 percent of the migrant workers sent their earning through the banking channel. The study revealed that the additional household income from the remittance in used exclusively the consumption and very little was invested for the

productive purposes. The study of NRB further should that those migrant workers who returned from their job only about 16.0 percent have been able to use their money for income generating activities.

Bhattarai,(2010), conducts the thesis “Study of Foreign Employment and Remittance” to identify the major issues and challenges in foreign employment by using the descriptive or qualitative data analysis method. He shows that the human resources are very powerful resources, so the migration of youths for foreign employment is the panic situation for economic development of the country. This indication of active youth migration for foreign employment is not good sign for the overall development of the country. However, the developing countries like Nepal where labor market stock is a problem. Thus exporting in return for remittance poses an attractive component of development strategy. Similarly, in his study Nepal has opened foreign employment for 107 countries in the world. In 75 countries where Nepalese have been gone for the foreign employment. There have been 1429423 Nepalese employers were gone by labour permit (last Ashad 2066). And there have been 25 million Nepalese processed for foreign employment by the open boarder without any permit, which is nearly 10 percent of whole population. Among them foreign labors 71 percent untrained 27 percent semi trained and 2 percent are trained.

Subedi, (2010) conduct the thesis entitle ‘Overview of Foreign Employment and Utilization of Remittance’. The objectives of the study are to examine the utilization pattern of Remittance and to compare the economic status of migrant household before and after receipt of remittance. She uses the primary and secondary data and simple statistical instruments. The main conclusion of this study is the major sector of employment for Nepalese workers were security, building construction, Hotel as well as manufacturing sector. One the other hand, the major portion of the remittance is used in unproductive sectors like consumption, Real state, paying loan and social spending. But some portion of the remittance is used in productive sector like education, business agricultural sector etc. Remittances have emerged as one of the premier sources of foreign exchange in Nepal. Recent years they have been one important avenue of support for family members remaining at home. It seems migrant workers is an effective tool for poverty reduction. Though freeing employment is boon to the economy, the facilities are inadequate to back of the increasing trend of migration.

## **2.4 Remittance and Poverty Reduction**

Avenue of literature has studied the impact of remittance flow on poverty with positive results. Remittances have largely contributed to reduce poverty although it has also increased inequality (Portes, 2009). Lokshin et al (2007) studied the work related migration and poverty reduction in Nepal between 1995 and 2003 and concluded that almost one fifth of poverty reduction between the studied year could be attributed to migration and remittance flow to Nepal. Without migration, the number of poor household would increase, the mean per capita expenditure would decrease and the living standard would be lower. The authors have forecasted correctly that migration and remittance flow would gain importance in the coming years due to the increased volume hence help to reduce poverty further. According to World Bank (2012), 'one third to one half of poverty reduction in Nepal can be attributed to remittances'. Another IMF study of 101 countries from 1970-2003 found a strong link between remittance flow and poverty reduction in both poverty headcount ratio and poverty gap (World Economic Outlook, 2005,p-76). Similar results were found by IFAD study of 14 countries in Asia-Pacific region 1980-2009, that remittance flow has promoted economic growth and reduced poverty through direct effects (IFAD, 2012). Adams and Page (2005) studied the impact of remittance and migration on poverty in 71 developing countries. Their results showed that remittance and migration significantly reduce the poverty in developing countries in terms of 'level, depth and severity'. The data showed that 10% increase in remittances will drop the portion of people living in poverty by 3.5%. Banga and Sahu (2013) found that remittance reduce poverty significantly. However, the extent is higher in countries where remittances exceed 5% of GDP. The Remittance Matrix of World Bank (2013) shows that there are 17 countries in the world where Remittance consist of more than 5% of real GDP. These countries are all developing countries including Nepal. The authors highlight that the flow of remittances should take place regularly to have a positive and sustainable impact on poverty reduction.

Since poverty is linked with education, health, nutrition and other exogenous factors, it is also important to see how remittance impact education level, health status or consumption. Table 1 below summarizes the main findings of literatures that attempted to see the relationship between remittances with poverty reduction, economic development and the areas that are closely related with it.

## 2.5 Remittance and Growth

Large number of researchers have analysed the impact of migration and remittance flow on economic growth of remittance receiving countries. Internationally, the result is both mixed and ambiguous like the few studies done in Nepal. Dahal (2014) studied the impact of remittances on economic growth in Nepal analysing the effect in four major areas namely financial development, productivity, international trade and human capital accumulation. A positive association between remittance and financial development was found as ratio of bank deposits to GDP and ratio of bank credits to GDP both increased. Productivity was also positively associated with remittance. Although there was a decrease in manufacturing growth, the number of new businesses increased and the growth in non-farm activities (service sector) led overall productivity growth. International Trade and remittance had negative association in Nepal since the ratio of trade to GDP decreased while remittance to GDP continually increased. There was also positive association between human capital and remittance as the rate of school enrolment increased. His view was supported by Srivastav and Chaudhari (2007) who researched about the contribution of remittance in economic development of Nepal explicitly on gross domestic product, gross national income and per capita income. Their findings suggest that in micro term, there have been positive impacts such as increases in savings, investments in health and education whose outcome will be long lasting whereas there is no durable impact on real income because saving more remittance income itself will not generate income, it should also be invested meaningfully. The results show that only in short term, remittance growth is correlated to significant GDP growth. The authors recommend from their findings that in order to generate desired outcome sustainably in macro terms, ensuring a better use of remittance is vital. Both studies hint the incidence of ‘Dutch Disease’ in Nepal. Remittance can cause currency appreciation, raise production cost through rising wages due to less availability of raw labour which can lead to reduced competitiveness, hence a decline of production sector ( Acosta et al,2008), (Amuedo-Dorantes, 2004). A study by Gupta, Patillo and Wagh (2007) has found this phenomenon in sub-Saharan Africa and Fajnzylber & Lopez,(2007) found the extent of this, namely, when remittance as percentage of GDP doubles, exchange rate can appreciate by up to 24%.

In neighbouring Pakistan, Qayyum et al (2008) studied the impact of remittance on economic growth using the data of 1973-2007 and found a positive and significant effect. Remittance enhanced development in Pakistan and had considerable effect on poverty reduction. These findings were supported by Dilshad (2013) who studied the impact in Pakistan using the time series data from 1991 to 2012. However, the evidence in three other neighbouring states, India, Bangladesh and Sri Lanka is mixed. Study done by Siddique et al (2010) found, in Sri Lanka, two-way causality was observable between economic growth and remittance implying that both affect each other, remittance was positively associated with growth. However, in Bangladesh and India such relationship was not found i.e. growth in remittance flow did not lead to economic growth. De Haas (2007) concludes that remittance protect people from sudden income shocks, contributes to enable people to improve their lives through better living conditions, health, education etc. Remittance also loosens the credit constraints and in macro level, supports the national economy.

Under what condition the effect of remittance on economic growth will be positive has been the matter of intense debate and research. Azam and Khan (2011) after analysing the effect on economic growth in Armenia and Azerbaijan between 1995 and 2010, which was significantly positive there, mention that the key to positive impact is the better and efficient use of remittance. A mere consumption would not generate positive result in the long term whereas investment probably would. This view was supported by Ekanayake and Mihalis (2008) who found positive and significant relationship between growth and remittance flow analysing the panel data of developing countries from 1980-2006 considering regional differences and highlighted that the relationship between remittance and growth is more likely to be positive under certain conditions like stable macroeconomic environment, export-oriented economic policy and better human resources.

Developing countries in general face financial constraints and other challenges to maintain a stable macroeconomic environment. Remittance can relax the financial constraint so that the positive impact could be realised. Ratha et al (2010) found that remittances boosts foreign currency reserve and improves external debt and balance of payments which can strengthen country position in international capital markets. Furthermore, remittance increase during economic crisis in home country (Kapur,



2003) (Ratha, 2007) acting as a stabilizing force to help to avoid any macroeconomic shocks. Hence, the positive role of remittance on stabilising macroeconomic indicators and better investment for example in human capital would positively affect economic growth. However, it is not obvious.

## **2.6 Nepalese Context**

Nepalese people started foreign employment by traveling to Lahore in early 19<sup>th</sup> century to join the Sikh ruler Ranjit Singh. Foreign migration started from Sugauli Treaty of 1814 A.D. and remittance has been showing its presence in Nepalese economy since it started to receive remittance formally by exporting brave Nepalese Soldiers known as 'Gurkhas' to Britain. However, remittance has become one of the major components of GDP of Nepal since 1990s. In the fiscal year 2007/08 remittance reached to NRs. 142 billion, which is 17.4 percent of GDP of the country. It has increased by 42.5 percent than the previous year (NRB, 2008). Amount of remittance received in Nepal is significantly higher and has positive impact on minimizing problem of unemployment and poverty in the nation but its impact on domestic consumption, saving, investment and growth is questionable. However, study about remittance in Nepalese economy is an emerging issue and it is a very new and debatable issue as well. Since the share of remittance to the Nepalese economy in recent year is in increasing trend, it has become able to attract the attention of scholars toward the subject.

Under Nepalese context, the literature pertaining to the remittance has been divided into two sub-topics which are Empirical studies and Theoretical Studies.

Studies have been made to explore impact of remittance upon national economy. Some studies have pointed out positive impact of remittance upon macroeconomic phenomenon like GDP, growth, balance of payment, saving, investment etc. But there are other equally strong views which oblige us to reject positive impact of remittance upon national economy since they argue about the negative impact of remittance upon macroeconomic phenomenon especially in relation to economic growth. However, most of the studies are just qualitative and they have explored the issue regarding the need of quantitative and comprehensive work regarding the issue. As Giuliano and Arranz (2005) has said that most of the works done on the macroeconomic of remittance and their impact on growth is qualitative. Furthermore, since the literature

review in the context of Nepal reveals minimum studies carried out in the field of impact of remittance and even those existing literatures are mostly theoretical, the issue taken under study seems rather relevant which can further enhance the field. Again simple OLS methods have been used by most of the studies to assess the impact. This study has tried to assess the impact of remittance upon GDP and domestic household consumption as well as domestic investment through the use of Simultaneous equation system. From the use of simultaneous equation system mutual dependence between the variables can be assessed which is not possible through simple OLS method.

## **2.7 International Perspective**

The study has mainly utilized the empirical studies in the process of review of literature. However, time and again, when the situation called for the theoretical evidence to prove or reject the ideas as seen, the study has made use of theoretical literature as well as empirical literature which have been divided into two sub-topics namely Empirical Studies and Theoretical Studies.

## **2.8 Empirical Studies**

The economic impact of remittance depends to a great extent on their end uses: whether they fund current consumption or asset accumulation. Thus, the end use of remittance is one of the main debates in the literature on remittance. In general, these literatures observe that recipients use remittance in family consumption rather than investing in businesses or other productive assets. Academic papers have investigated the claims made in the anecdotal reports generally using survey data. The picture that emerges on the uses of remittance is somewhat confusing, primarily because the studies consider one country at a time, and also because the sample sizes tend to be quite small. Thus, the results in this area are quite varied and seemingly contradictory. However, three stylized facts emerge from the relevant literatures.

Use of remittance is one of the controversial facts throughout the world since there are distinguished results obtained through different works. In various papers, it is found that remittance is responsible in increasing domestic consumption level but not significant in increasing investment in the nation. However, Massey and Parrado (1998) in their paper have concluded that earning from work in the US provided an

important source of start up capital in 21 % of the new business formation in Mexico. Similarly Woodruff and Zenteno (2001) also found that remittance is responsible for almost 21 % of the capital invested in micro enterprises throughout urban Mexico. These findings give foundation to study whether remittance is significant to increase domestic investment in Nepal.

The fact analyzed at first is that a significant portion, often the majority, of remitted funds is spent on consumption e.g. Oberai and Singh, 1980, and Durand and others, 1996). Gilani, Khan, and Iqbal (1981) found that most of the remittance of their sample house-holds in Pakistan was spent on consumption, followed by residential investment. Glytsos (1993) identified a nearly identical spending pattern for remittance to Greece. The Inter-American Development Bank's Multilateral Investment Fund (2004) determined that consumption accounted for between 60 and 80 percent of the remittance in a sample of five Latin American countries, and the World Bank (2006) also identified this pattern for a larger sample of Latin American countries. Some studies, however, do find a smaller propensity to consume out of remittance than out of other income. Adams (2005) obtains this result in a study on households in Guatemala, for example. Increase in domestic consumption expenditure brings increase in aggregate demand which leads to increase in domestic investment. So, increase in domestic investment because of increase in remittance is indirectly related with increase in domestic consumption expenditure, too. So, impact of remittance to increase domestic consumption expenditure needs to be studied.

The second stylized fact is that a significant, though generally smaller, part of remittance goes into uses that we can classify as saving or investment. Alderman (1996) and Adams (1998), using survey data for Pakistan, found that remittance tend to be invested in land and buildings. Brown (1994), using survey data for Western Samoa and Tonga, determined that housing expenditures are the single largest expenditure out of remittance income. Adams (1991) found in a sample of 74 Egyptian households that the receipt of remittance increases the marginal propensity to invest, primarily in residences and land. Several of these studies also found that the main uses of those remittance not spent on consumption are spent on housing and financial assets (bank deposits). These studies have left room to study either earned remittance is channelized into productive sector or not in case of Nepal.

The third and final stylized fact emerging from the literature on the end uses of

remittance is that the household saving and investment that remittance fund is not necessarily productive in terms of the overall economy of the migrant's home country. Several researchers emphasize that expenditures on housing, land, and even jewelry constitute saving and investment, at least for the individual household that makes the expenditures. Although this is true, the effects of such saving on a country's overall economic activity should be considered carefully. When land and existing houses change ownership, for example, this obviously does not represent a change in aggregate investment. Sofranko and Idris (1999) showed in the case of Pakistan that very little of the remittance received from Pakistani migrants to the Middle East is channelized into actual business investment. Lopez and Seligson (1991) surveyed small businesses in El Salvador to measure the impact of remittance on small business development and reported that 40 percent of business owners who receive remittance do not invest any of the remittance funds in their businesses. These studies have argued that remittance is not significant to enhance domestic investment of the nation. So, these studies have left room to know either remittance has played any positive role or not to enhance domestic investment of Nepal.

Increase in domestic investment plays significant role to increase rate of economic growth of the nation. Remittance earning may be significant to increase investment. But if there is migration of skilled manpower of the nation, there may be negative impact upon economic growth of the nation. Faini (2002), in his study of Italy suggested that the concern in sending countries about the impact of skilled migration is fully warranted. The objective of the study was to take further look at the empirical evidence on the link between skilled migration, education and remittance. Glytsos (2002) in his study found that a uniform country performance of instability and uncertainty with great temporal and inter country fluctuation of remittance effects take place. The finding pointed out to different inter country priorities of remittance spending and to an asymmetric impact of remittance change in the sense that the good done to growth by rising remittance is not as great as the bad done by falling remittance. Migration of skilled manpower may negatively affect domestic investment in the nation since there is lack of entrepreneurship in the nation. So essence of study about the impact of remittance upon domestic investment in Nepal is realized.

Income earned through remittance may not be used to increase domestic investment ever. It is a fact that remittance is easy money for those families who are receiving income through exporting their family members to foreign nation for employment. So it is a common argument among the people that income earned through remittance or money sent by migrants to their families are used not for productive purpose rather they are spent upon real state, excessive consumption of imported costly luxurious goods which are not directly beneficial to enhance pace of economic prosperity. In this regard IOM (2003) reveals the fact that, in Guatemala, 53% of the remittance received was allocated to household expenditure and basic items, 11% was directed towards education and health and remaining, 36% was towards saving, economic activities and purchase of assets. Similarly the survey shows, in the countries of former USSR, the amount allocated to saving and investment was small. So the fact revealed by IOM may be the basis to agree common argument about the unproductive use of remittance and it is rational to find out the reality in case of Nepal.

Low level of investment is the root cause of unemployment and it is responsible to increase income poverty level of the nation. When remittance is increased, it increases investment and there is chance of reduction in level of poverty. When poverty level falls, there is a chance of increase in consumption level and leads to increase in investment as well. Chipeta (2004) in his study has used simple regression model to assess the impact of remittance on growth and macroeconomic volatility. The study concluded that remittance from abroad was anti-cyclical in Malawi and remittance reduces the incidence of poverty, the poverty gap and the severity of poverty. This finding of the study has given some encouragement to assess either remittance has increased domestic investment in Nepal or not.

Thus, a relatively recent and growing literature attempts to measure empirically remittance's impact on economic growth. One of the studies was of the Chami, Fullenkamp, and Jahjah (2003) cross-country study of workers' remittance. The study used a sample of 83 countries during the 1970–1998 period and conducted panel regressions of growth in real GDP per capita on both the workers' remittances-to-GDP ratio and the change in that ratio. Overall, it found that whereas domestic investment and private capital flows were positively related to growth, the workers' remittance-to-GDP ratio either was not significant or was negatively related to

growth, with the same holding true when a squared term of the ratio was included in the analysis as well. Annual changes in the workers' remittance to GDP ratio were found to be negative and significant on growth. To account for possible endogeneity of remittance to the macroeconomic controls, the study also conducted an instrumental variables estimation, whereby a first-stage regression estimated the workers' remittance-to-GDP ratio as a function of each country's income gap and real interest rate gap relative to the United States. With the predicted value for the workers' remittance-to-GDP ratio as a regressor, the second stage continued to find that changes in remittance are negatively related to growth. The IMF (2005) performed cross-country growth regressions with specifications similar to those in Chami, Fullenkamp, and Jahjah (2003) on a set of 101 countries measured over the 1970–2003 period. However, in contrast to Chami, Fullenkamp, and Jahjah (2003), the IMF (2005) used an aggregate remittance variable, or the sum of workers' remittances, employee compensation, and migrant transfers, to capture behavior not associated with workers' remittance. The IMF study also used two instruments for remittance: distance between the migrants' home and main destination country, and a dummy measuring whether the home and main destination country shared a common language. The IMF (2005) found no statistically significant effect of total remittance on economic growth. These facts have given chance to raise the idea to study about impact of remittance upon growth since growth highly depends upon the level of domestic consumption and domestic investment.

Giuliano and Ruiz-Arranz (2005) gathered a sample of 73 countries during the 1975–2002 period and then calculated five-year averages for all variables used in their study to smooth out cyclical variations. Again, remittance was defined as the sum of workers' remittance, employee compensation, and migrant transfers. This study conducted OLS as well as fixed-effects panel estimates, and through a system generalized method of moments (SGMM) procedure. The study's basic specification regressed per capita GDP growth on the total remittance to GDP ratio, conditioning on the initial level of GDP per capita, the investment rate, population growth, the fiscal balance as a percentage of GDP, years of education, a measure of openness, and inflation. This specification did not find total remittance to be significantly related to growth. However, the authors also explored possible interactions between the total remittance-to-GDP ratio and financial deepening, as a way of testing whether

remittance might enhance growth by relaxing credit constraints. Indeed, the authors found significant negative interaction terms and interpreted these results as indicative of the credit constraint hypothesis; total remittance appeared to have positive effects on growth only in countries with small financial sectors where presumably credit constraints would be more pervasive.

Increase in domestic consumption and domestic investment leads to high level of economic growth. Remittance will relax credit constraint to increase level of investment and there is rise in consumption level also because of high inflow of remittance. So, indirectly remittance is responsible to enhance economic growth of the nation. Faini (2006) estimated cross-sectional growth regressions on a set of 68 countries in which the dependent variable is the average annual per capita GDP growth rate from 1980 to 2004. These growth regressions do not include an investment variable; the reason given is that investment could be driven in part by remittance, and hence its coefficient could be capturing some of the effect of remittance. Faini (2006), like the IMF (2005), used an aggregate measure of remittance obtained by summing workers' remittance, employee compensation, and migrant transfers. The estimated coefficient on the total remittance-to-GDP ratio in Faini's ordinary least-squares (OLS) regression was positive and significant, both when average and when initial remittances were used in the total remittance-to-GDP variable. The study has used simple OLS method to find out the result but it is to be tested by using another method.

Another study, by Catrinescu and others (2006), incorporated institutional variables into the analysis, which covered 114 countries during the 1991–2003 period. Catrinescu and colleagues conducted OLS cross-sectional and various static and dynamic panel regressions of per capita GDP growth on the (log of) total remittance-to-GDP. Overall, their study found a robust positive relationship between growth and gross capital formation, as well as between growth and some of the institutional variables. Although the study also found some evidence of a positive relationship between growth and total remittance, this relationship was not very robust but very mild.

World Bank (2006) conducted cross-country growth regressions on a data set of 67 countries measured over 1991–2005. The control variables included (logs of) initial GDP per capita, the secondary school enrollment ratio, the ratio of private domestic

credit to GDP, the ICRG political risk index, the ratio of real imports and exports to GDP, the inflation rate, real exchange rate over valuation, government consumption and time period dummies.. The paper reflects the idea that income in the host country appears to be a key driver of remittance. The inverse of the distance between the migrants' destination country and the remittance- receiving country was also used in place of migration shares in the migration instruments to form "distance" instruments. The growth regressions found a consistently positive relationship between the total remittance-to-GDP ratio and GDP growth, both when investment was included and when it was excluded from the estimations. When investment was excluded, however, the coefficients lost their significance. The authors also calculated the contribution of total remittances to growth rates and found that it was small.

A later exercise in the same World Bank study included interaction terms for remittance and education, remittance and financial depth, and remittance and institutional quality indicators in three separate growth equations that had the same specification as the growth equations examined previously, with the argument that remittance augment growth in the presence of complementary policies that enhance education, financial market depth, or institutional quality. The World Bank study found a negative and significant coefficient on the total remittance-to-GDP ratio, but positive and significant coefficients on each of the inter-action terms. The study argued that this implies a net positive impact of total remittance on GDP, when the complementarities are included. In addition, the study included an estimate of total remittances' impact on investment, finding a similar pattern of coefficients. Remittance enables recipient households to smoothen their consumption over time. This implies that if they are large enough, remittance will reduce economic fluctuations in a remittance-receiving country. This result has encouraged studying the impact of remittance upon the domestic consumption and domestic investment of Nepal.

Remittance can also reduce the volatility of investment through two distinct pathways. First, because firms rely mostly on internal financing to fund their investments, smoother consumption implies smoother business earnings and hence smoother investment. Second, to the extent that remittance flows through the financial system, they may make it easier for firms to borrow and hence can enable



firms to smooth their investment expenditures over time. On the other hand, remittance may change recipients behaviors in ways that tend to increase economic volatility. This is a further implication of the moral hazard argument. First, there is a moral hazard in terms of labor income. If remittance recipients reduce their labor effort, this will increase the likelihood of poor firm performance, effectively imposing more risk on firms. Risk-neutral firms will react by adjusting labor contracts in ways that shift this risk back onto the households: by increasing the dispersion of wages and employment levels over the business cycle. The increased dispersion of firm earnings and wage income will then lead to increased economic volatility. Furthermore, remittance may generate increased economic volatility if the presence of remittance causes household labor supply to become more pro cyclical. There is also a moral hazard in terms of investment effort. Recipients will choose riskier projects, or expend less effort on their existing investment projects, leading to an increased dispersion of investment returns and hence an increase in output volatility. Two recent studies, IMF (2005) and World Bank (2006), estimated the correlation between remittance and output volatility. The IMF (2005), in conjunction with the growth estimations described in above paragraph, found negative and significant relationships between the total remittance-to-GDP ratio and several measures of volatility: GDP volatility, consumption volatility, and investment volatility (all defined as the standard deviation of the annual growth rate of the variable). The study also used the largest annual decline in GDP over the period as an alternate measure of volatility and obtained similar results. The World Bank (2006) performed a panel estimation of the determinants of output growth volatility in conjunction with the growth regressions. In addition to total remittance-to-GDP, control variables were inflation, monetary policy, and fiscal policy volatility; real exchange rate overvaluation; frequency of banking crises; trade openness; terms of trade and foreign growth rate volatilities; country fixed effects; and time period effects. The study found a negative and significant coefficient on the ratio of total remittances to GDP that was robust to the different instruments used. Given that the IMF and World Bank studies did not use the preferred definition of remittances, it is important to conduct new volatility estimations using this variable. Therefore, a cross-sectional regression was estimated for a sample of 70 countries, comprising 16 advanced economies and 54 developing countries. The dependent variable in the regression is defined as the

standard deviation of real per capita GDP growth over the 1970–2004 period. An OLS regression was estimated including all the possible explanatory variables in the regression. The results of the cross-country regression, found in the paper, indicate that there is a negative relationship between workers' remittance and the volatility of output and that this relationship is of marginal statistical significance. In practical terms, an increase in the workers' remittance-to-GDP ratio of one percentage point leads to a reduction of 0.164 percent in the standard deviation of GDP growth, according to the regression results. This implies that countries with high workers' remittance-to-GDP ratios experience significantly lower economic volatility than they would in the absence of remittance. Interestingly, the estimated coefficient on remittance has the same sign and nearly the same magnitude as the estimated coefficients in the studies mentioned previously. Nevertheless, the empirical results support the idea that remittance reduces macroeconomic volatility over long horizons. Yet the exercise does not shed light on the exact mechanism by which remittance reduces such volatility. Given the analysis on motives, intended uses, and end uses of remittances, it appears likely that remittance reduce output volatility at the aggregate level because they dampen consumption volatility at the household level. The increased smoothness of consumption has a direct impact on measured GDP volatility, since consumption accounts for a large share of GDP. This will remain a conjecture, however, until detailed longitudinal studies of household consumption and investment, including both households that do and those that do not receive remittances, are conducted. In this way it can be said that if there is increase in investment and consumption expenditure, there will be less macroeconomic volatility in the economy and it is needed to assess the impact of remittance upon consumption, investment and GDP too.

Productive use of remittance in labor exporting countries is much more debatable and questionable issue since most of the studies have concluded unproductive use of remittance earning. But Barauh (2006) in his paper had viewed that over simplified views that remittance lead to excessive consumption, import dependency or unproductive investment in housing and land are no longer tenable. In his paper, he has concluded that remittance inflows are the source not only for foreign exchange receipt which can be used to finance balance of trade deficit or the current account

deficit but also of the productive investment and social development. This study has left room to study whether remittance is responsible to encourage domestic consumption and whereby level of GDP.

Capital formation which takes place because of high and rapid level of saving and there by investment is pre-condition to accelerate economic growth in underdeveloped economies since big push is required to kick start growth. Remittance is expected to be the most significant and stable source for saving and investment as well as economic growth in LDCs. In this regard, Banain and Roberts (2006) in their contribution have argued that there is a high propensity to save out of remittance and thus the impact of remittance on growth is expected to be positive. By using plausible values for some of the parameters under the study, the paper has concluded that the Armenian economy probably grows 1.6% per year in the long run for a permanent 10% increase in the flow of remittance. This study has used simple OLS method to assess the fact. So, to find out the effect of remittance upon domestic consumption, investment and GDP of Nepal OLS method may be important.

Migrant workers send their earned money to their family for various purposes. If the remittance is saved in banks or financial institutions there will be easy availability of fund for investment. When remittance is deposited with financial institutions a larger share of the population comes into contact with the formal financial system, expanding the cash economy especially in rural areas and promoting development. This increases the availability of credit and the potential provision of education loan, home mortgage and borrowing to establish small business. Browne and Mineshima (2007) in their paper have claimed that Asian countries that receive high amount of remittance include Bangladesh, India, China, The Philippines, Nepal, and Sri Lanka. Their overriding aim is to acquire saving quickly to return home and pursue investment there. The study is qualitative and it is necessary to make quantitative study to assess the fact that whether domestic investment in Nepal has encouraged because of remittance.

## **2.9 Theoretical Studies**

Most of the studies have argued that remittance has been established as one of the main component of GDP of most of the LDCs since its share in GDP is in increasing trend. No doubt remittance has played significant role not only to maintain surplus

BOP and foreign exchange reserve but to reduce level and incidence of poverty as well. However, remittance is not costless although benefit of in flow of remittance, especially in LDCs cannot be undermined. Robert (2004) has highlighted following potential benefits and costs of remittance:

Potential Benefits	Potential costs
As a stable source of foreign exchange that eases foreign exchange constraints and helps to finance external deficits.	Eases pressure on governments to implement reforms and reduce external imbalances(Moral Hazard)
Is a potential source of saving and investment for capital formation and development	Reduces saving of recipient families and thus negatively impact on growth and development(Moral Hazard)
Facilitates investment in children's' education and human capital formation.	Reduces labor effort of recipient families and thus negatively impact on growth and development(Moral Hazard)
Raise the standard of living of recipients.	Migration leads to brain drain and negative impact on the economy that cannot fully be compensated by remittances transfer
Reduces income inequality.	Increase income inequality.

In this way Robert has pointed various potential costs which labor exporting nations has to consider very well and potential benefits of remittance upon economic as well as social aspect which can play significant role to enhance development aspect of the nation either in short run and in long run as well since remittance can play positive role to enhance children's' education and human capital formation.

Economists have recently turned their attention to estimating the impact of remittance on longer-term economic growth using modern growth theory. In that estimation, positive as well as negative role of remittance upon growth have been found. On the positive side, remittance may increase or enhance investment in physical capital. To

the extent that there are frictions in domestic financial intermediation, imperfect capital mobility is present and remittance is not simply “disguised” as capital flows. The receipt of temporary remittance in an economy may lead to an increase in the domestic investment rate, thus increasing economic growth. If financial constraints are significant—for example, a large group of households are rationed out of credit markets because of the lack of domestic financial development—then remittance may help to ease the constraints. These results increase the investment, provided that the rationed households also have access to productive investment opportunities and use the remittance to expand investment rather than consumption. Alternatively, if remittance is primarily disguised as capital flows the recipients investing on behalf of the remittance efficiency in investment is enhanced to the extent that the family member receiving the remittance flows possesses some informational advantage or expertise with respect to formal financial intermediaries.

Another channel through which remittance may have a positive impact on growth is via the facilitation of human capital formation. Even though the majority of remitted funds are devoted to consumption and residential investment, significant productivity spillovers may result from the recipients improved nutrition and shelter, assuming that they participate in the labor market. In addition, the literatures offer several examples in which a significant fraction of remittance is spent on education, assuming that those who receive the education do not in turn emigrate. As such, remittance may increase total factor productivity. These two channels may have a positive impact on growth. The accumulation of physical capital and total factor productivity are not mutually exclusive.

In addition to enhancing investment and total factor productivity, remittance may also have a positive impact on growth through their effect on the recipient economy’s financial system. By increasing the recipient country’s demand for money, remittance is likely to expand the supply of funds to the banking system. This in turn may lead to enhanced financial development through a reduction in the external finance premium and thus to higher economic growth through one of the two channels: (1) economies of scale, (2) a political economy effect, whereby a larger constituency (depositors) is able to pressurize the government into undertaking beneficial financial reform. It is far from assurance that remittance will have a positive impact on economic growth in

any particular country. Each mechanism described in the foregoing discussion relies on a particular set of circumstances that may not be present in a given country; alternative conditions that reduce or eliminate the positive impact of remittance may be found there instead. In general, the greater the degree of capital mobility in a country, the less remittance will affect the domestic investment rate. Also, if remittance is perceived to be permanent, they will tend to be consumed in their entirety and therefore will not affect aggregate investment. Additional funds from remittance may simply be consumed. Finally, the family member who receives a migrant's remittance may actually be less skilled in investing that, which has important implications in this context if remittance is disguised as capital flows. Prevailing circumstances in a particular economy may likewise reduce the human capital and financial sector impacts of remittance. The consumption impact of remittance on labor productivity depends on recipient families' standard of living. If a family's standard of living was sufficiently high before the receipt of remittance that its basic needs are adequately met, then the labor productivity effect of remittance vanishes for that family. Also, any human capital accumulation impacts depend on the recipients' participation in the labor force after accumulation of capital. In some remittance-receiving societies, education funded by remittance is intended to enable the recipients themselves to migrate. Finally, in terms of financial sector impacts, an increase in the size of the domestic banking system via an increase in the supply of funds does not necessarily reduce the external finance premium. The political economy mechanism arising from a larger banking system may have an adverse effect on financial development: depositors lobby the government for reforms favouring safety over intermediation, for example, causing banks to increase their holdings of safe assets rather than lending.

The question of whether remittance increases an economy's growth is not simply a matter of whether conditions in the economy are favourable to the operation of the channels described previously. Remittance can also decrease economic growth through two means that operate differently than the positive channels. One that is increasingly mentioned in the literature is a Dutch disease effect, which requires that the traded goods sector of a remittance-receiving economy be the source of significant positive externalities that enhance other sectors productive capacity. If this

condition is satisfied, a Dutch disease effect may arise from remittance to the extent that they cause the economy's real exchange rate to appreciate.

A second means by which remittance may harm economic growth is through the moral hazard problem, an idea that was first formalized by Chami, Fullenkamp, and Jahjah (2003). Given that remittance is non-market income transfers that occur under asymmetric information and that monitoring and enforcement are extremely difficult because of the distance separating remitter and recipient, they may be plagued by severe moral hazard. The moral hazard problem manifests itself in two ways: recipients reduce their labor market effort and they make riskier investments. Anecdotal evidence of the labor effort effect is abundant and academic studies have detected such an effect as well. Reduced labor effort and increased investment risk lead to reduced economic growth.

## **CHAPTER-III**

### **RESEARCH METHODOLOGY**

#### **3.1 Research Design**

Mostly quantitative and some qualitative information were collected to observe the situation of foreign employment and remittance in the Nepalese context. The information were obtained from primary as well as secondary sources.

#### **3.3 Sample Size and Sampling Method**

From the Deumai Municipality of Ilam District 6 were selected purposively, Ward no 6 will be selected for the study which has 908 total population with 378 household. Local administration office and Ward office has record that the ward have in large number of migrants for foreign employment. the total households of selected wards. Among them, 200 households were found benefited directly or indirectly. Out of 200 households, 20(10%) households were selected.

#### **3.4 Nature and Source of Data**

As per the nature of the research, this study were best on quantitative data. Primary data, as the sources of data, would have been used as well as secondary data also use to make this study more effective and authentic.

In household survey, especially interview schedule method will be use to collect the primary information about the process of foreign labor migration, socio-economic condition and demographic characteristics such as sex, age, caste, education, family size, religion of the individuals who would be involved in the foreign labor migration.

On the other side, the secondary data were obtain from population census reports and relevant literatures about foreign labor migration such as research, report, journals, news paper, library, published books, documents, scholarly journal, thesis, related books written by the sociologists and anthropologists, internet and records of CBS Nepal as well as published and unpublished reports of the offices of the District, Municipality and central level of the related area were also use, as the source, to grab the objective of the study.



### **3.5 Data Collection Tools and Techniques**

The required information as per the objectives of the study were collected through the household survey where interview schedule of data collection method were be used.

#### **3.5.1 Interview**

Interview schedule, a set of questionnaire which ask to the respondent and filled in self by the researcher, is taken as the major tool of collecting quantitative primary data in survey method. The schedule were based on a full set of questions on households characteristics, income, expenditure, employment, labor migration, remittance and so on. Probability questions, therefore, to prepared to ask which was result oriented according to the objectives.

### **3.6 Data Presentation, Analysis and Interpretation**

For the study, the data were collected through interview schedule instrument. When the field survey and data collection have been completed, the gathered data and information were analyzed using both descriptive way and statistical method. The SPSS Software may use for assigning codes to data, creating appropriate file structure, and entering data. The data were analyze quantitatively. Descriptive analytical tool such as tables were presented wherever necessary.

## CHAPTER – IV

### DATA PRESENTATION AND ANALYSIS

This chapter is concerned with data presentation, of the findings obtained through the study. Quantitative data has been gathered from primary and secondary data sources have been analysed in this section. Primary data has been gathered from the focus groups through the survey. The findings are presented in tabular form after being analysed to facilitate readings and understandings.

#### 4.1 Gender Description of Foreign Employment

Men and women moving from one country to another in search of decent work opportunities and a better life has occurred throughout history. Yet migration has become one of the defining global issues at the dawn of the twenty first century, rising to the top of the policy agenda at national, regional and international levels. Over the years, the proportion of women who have migrated for work has grown rapidly and is still on the rise. Today, more women and girls, of all skills levels, are migrating for work, often on their own as sole breadwinners. Gender description of migrants' workers has been included in the following table, which helps to know how many male and female workers gone for foreign employment.

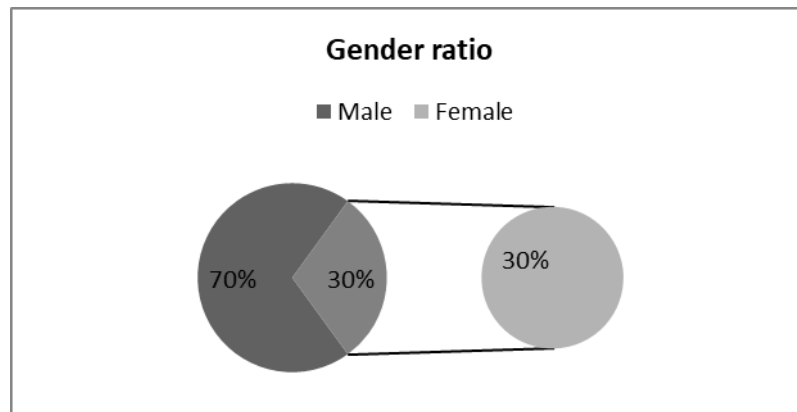
**Table No. 4.1 Gender Description of Foreign Employment**

Gender	No. of Respondents	Percentage
Male	14	70
Female	6	30
Total	20	100.00

*Source; Field survey 2020*

The table no. 4.1 shows the gender descriptions of migrant workers, out of the total migrants 70 percent of them are male and only 30 percent of total workers are female.

**Fig No. 4.1 Gender Description of foreign Employment**



#### 4.2 Educational Level of Migrant Workers

Education has been identified in sociological research as a catalyst of social, economic and ideational change. In this study, I examine the relationship between educational and migration for foreign employment. Migrants workers educational level has been shown below which illustrates the educational background of the migrant's workers. Here we take migrant worker as an illiterate those who are not able to write and read even his/her name only. On the other hand literate are able to read and write.

**Table No. 4.2 Educational Level of Migrants**

Educational Level	No. of Respondents	Perceptntage
Illiterate	2	10
Literate	10	50
Till SLC	5	25
Higher Education	3	15
Total	20	100

*Sources: Field survey 2020*

The table no, 4.2 shows the educational status of migrant workers. Out of total respondents about 10 percent are illiterate that is 2 workers are illiterate over the 20. On the other hand, exactly half of total migrant workers are literate. Above different educational status of migrant workers, higher percentage covered by till SLC workers that is equal to 25 percent. Similarly, only around 15 percent migrant workers are higher education holder.

### 4.3 Country -Wise Employment Situation

In this section, major destination of foreign migrant workers has been including which helps to know that how many people have gone to foreign country from the study area. Total number of country wise description of workers gone abroad for employment is given below.

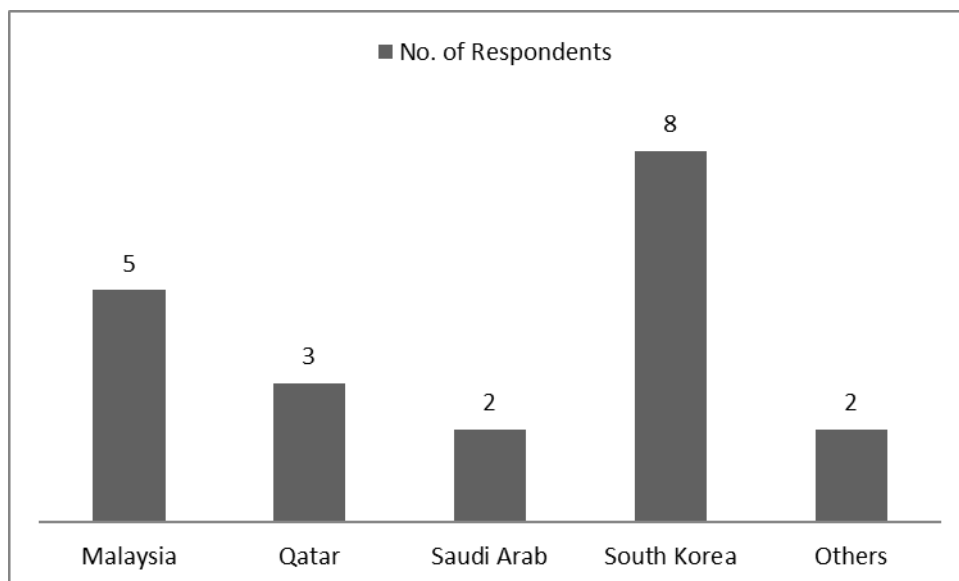
**Table No. 4.3 Country – Wise Employment Situation**

Countries	No. of Respondents	Percentage
Malaysia	5	25
Qatar	3	15
Saudi Arab	2	10
South Korea	8	40
Others	2	10
Total	20	100

*Source: Field survey 2020*

The Table no. 4.4 has clear that the highest number of workers are working in South Korea which is equal to 40 percent out of 20 samples. Similarly the second largest numbers workers are working in Malaysia which 25 percent. 15 percent workers are in Qatar, 10 percent in Saudi Arab and 10 percent in other countries

**Fig No 4.3 Country – Wise Employment Situation**



#### 4.4 Caste and Ethnicity

Heterogeneity and multiplicity is the figure of the study area, various castes like Brahmin, Chhetri, Magar, Gurung, Limbo and Dalit are in existence in the villagers. Among the total population of the study area Brahmin and Chhetri are dominant cast group compares to Janajati and Dalits. Nepali languages is common communicative language of all cast. The table 4.4 shows the distribution of respondents by caste/ethnicity.

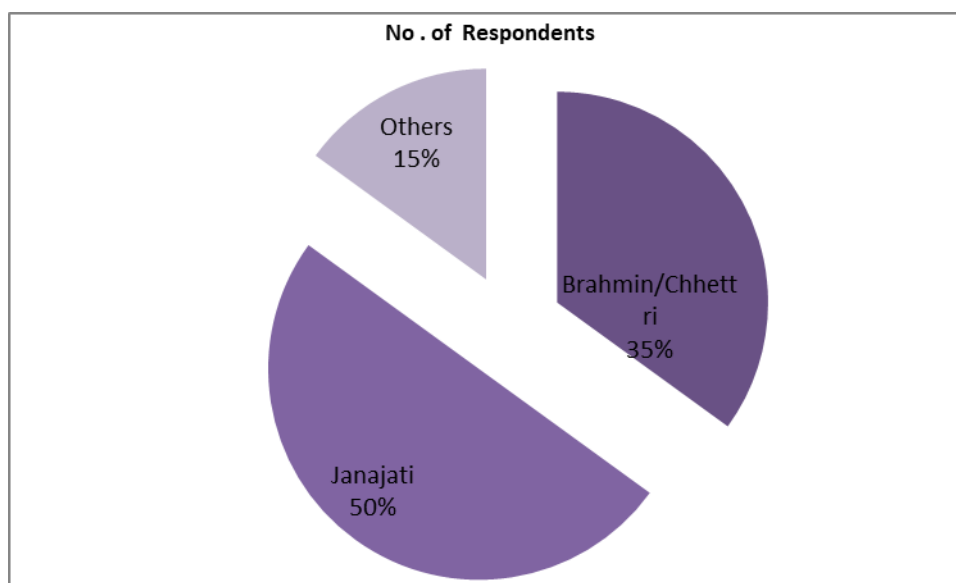
**Table No. 4.4 Caste survey of the respondents.**

Caste	No . of Respondents	Percentage
Brahmin/Chhettri	7	30
Janajati	10	50
Others	3	20
Total	20	100

*Sources: Field survey 2020*

The table no. 4.4 shows that the caste survey of the respondents, where Brahmin/Chettri are 30 percent, Janajati are 50 percent and others caste are 20 percent in the study area.

**Fig No. 4.4 Caste survey of the respondents.**



#### 4.5 Age Group of the Migrant Workers

According to the age, the respondents were divided in to four groups. The questions were asked to the respondents aging above 15 years which is shown as table 4.5.

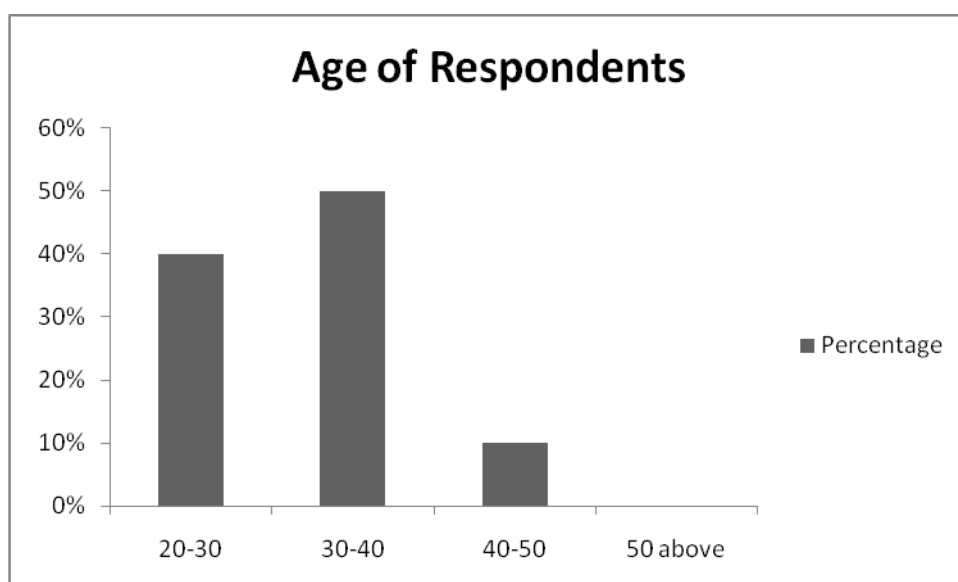
**Table No. 4.5 Age group of the respondents.**

Age group	No. of Respondents	Percentage
20-30	8	40%
30-40	10	50%
40-50	2	10%
50 above		
Total	20	100

*Source: Field Survey, 2020*

The table no. 4.5 depicts that, the higher portion 50% respondents are from age group 30-40 and 10% are from 40-50. Similarly, from age groups 20-30 are 40% respectively. The age group over 50 comprises no of total volume of migrants worker. The age group with the highest share of workers among both women and is 30-40.

**Fig no. 4.5 Age Group of the Respondents.**



#### 4.6 Main Income Sources of the Migrants Households

Agriculture, service, self oriented business, Foreign Employment are the main occupation/income sources of the survey households. Other occupation includes daily wage, fishing etc. The frequency and the percentage of survey households has presented in the table below Most of the households are depend on agriculture. Although, out of 20 households 12 are involved in agriculture. Agriculture is their main income sources.

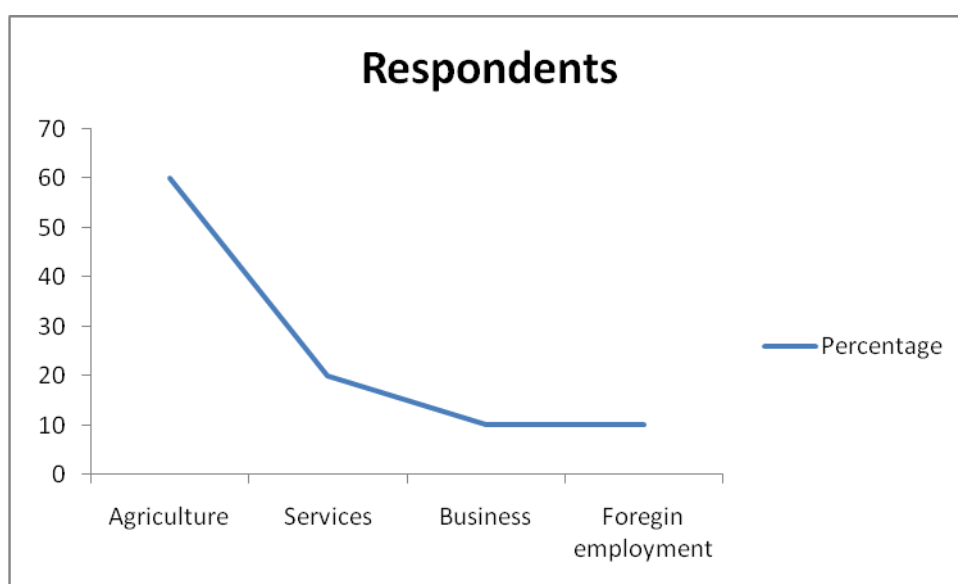
**Table 4.6 Main Income Sources of Respondents**

Income Sources	Respondents	Percentage
Agriculture	12	60
Services	4	20
Business	2	10
Foregin employment	2	10
Total	20	100

*Source: Field Survey, 2020*

The above table 4.6 demonstrates that the main income source is agriculture is 60 percent, service is 20 percent, business is 10 percent and foreign employment is 10 percent .

**Fig no.4.6 Main Income Sources of Respondents**



#### 4.7 Causes of Foreign Employment

Due to the several reasons of seeking foreign employment; the reason might be

economical, social, and political. They may be related to the acquired skill and other reasons. To find out the causes seeking employment the respondents were asked to identify the major causes to go for foreign employment, they gave more than one reasons .

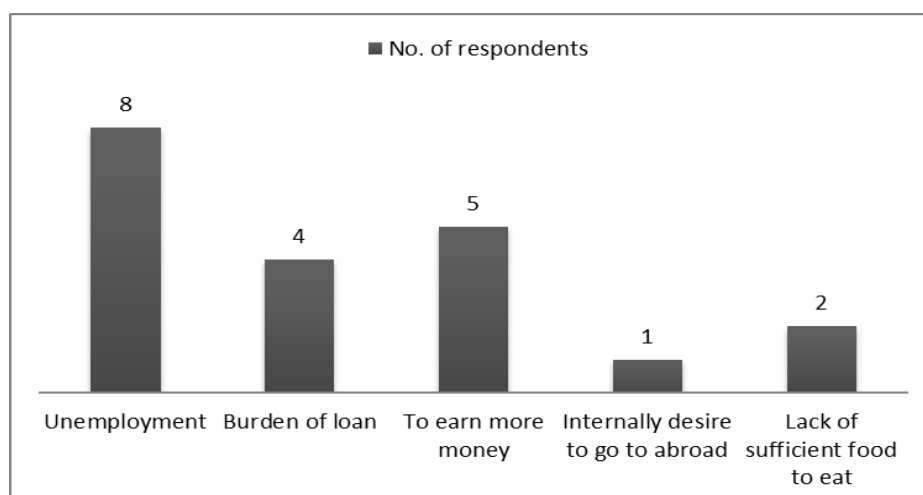
**Table No. 4.7 Causes for Going to Abroad for Employment**

Causes	No. of Respondents	Percentage
Unemployment	8	40
Burden of loan	4	20
To earn more money	5	25
Internally desire to go to abroad	1	5
Lack of sufficient food to eat	2	10
Total	20	100

*Source: Field survey 2020*

The table, no. 4.7 shows that the main causes to go for foreign employment. They are unemployment, burden of loan, to earn more money, internally desire to go to abroad and lack of sufficient food to eat. According to the table maximum respondents has to go foreign employment because of unemployment. which covers 40% of the total respondents.25% respondents to earn more money and 20% respondents has to go because of burden of loan.10 percent respondents has to go because of lack of sufficient food to eat. Only 5 percent respondents had gone to foreign employment because of internally desire to go to foreign employment.

**Fig No 4.7 Causes for Going to Abroad for Employment**





#### 4.8 Ways to Send Money

The most common way of making a remittance is by using an electronic payment system through a bank or a money transfer service such as Western Union. People who use these options are generally charged a fee. Transfer can take as little as ten minute to reach the recipient. Besides this Hundi is a type of informal remittance transfer channel. Mostly South Asian migrants worker use this channel, which is illegal in Nepal to send money home. However, Hundi is still in practice in Korea-Nepal remittance corridor. In the study area, migrants are sending money in different ways such as bank or remittance company, friends, relatives and other ways which is shown in table no. 4.8.

**Table No. 4.8 Ways to Send Money**

<b>Ways</b>	<b>No. of Respondents</b>	<b>Percentage</b>
Bank	6	30
Remittance Company	9	45
Friends	2	10
Relatives	1	5
Others	2	10
Total	20	100

The table no.4.8 shows that 30 percent of migrants send their money through banks,45 percent send their money by remittance company.10 percent migrants send their money with the help of friends. Similarly 5 percent migrants send their money with the help of their relatives.10 percent migrants send their money through other ways. It shows that most of the migrants are sending their money by using bank and remittance company. Only few migrants are sending their money through friends, relatives and other ways.

#### 4.9 Change in Income Pattern

While going outside country, the income sources will be change. The pattern of income change as per nature of work and country. Basically percentage of income change by remittance flow.

**Table No. 4.9 Change in Income Pattern**

<b>Annual income(000)</b>	<b>Before receiving remittance</b>	<b>Percentage</b>	<b>After receiving remittance</b>	<b>Percentage</b>
Less than 200	6	30	2	10
200 to 400	6	30	4	20
400 to 600	3	15	4	20
600 to 800	2	10	4	20
800 to 1000	2	10	4	20
1000 to 1200	1	5	2	10
Total	20	100	20	100

*Source: Field Survey, 2020*

The table no 4.9 shows that,30% of the total respondents annual income amount is less than NRs. 2,00,000 before remittance income. Annual income amount between NRs. 2,00 000 to 4,00,000 is 30% before remittance income.15% respondents annual income amount is between 4,00,000 to 6,00,000,10% respondents annual income is between 6,00,000 to 8,00,000.Annual income between 8,00,000 to 10,00,000 is 10% before remittance income. This state that people with less than NRs. 2,00,000 income is more before receiving remittance. People are under poor condition. After receiving the remittance the table shows that annual income of the respondents are increasing automatically. Only 10 percent respondents annual income amount is less than 2,00,000 after receiving remittance. Annual Income between 6,00,000 to 8,00,000 increased from 10% to 20%,similarly annual income between 8 to 10 lakhs increased from 10 % to 20%.Annual income between 4 lakhs to 6 lakhs increased from 15% to 20% and annual income between 10 lakhs to 12 lakhs increased from 5% to 10 % .Annual income between 2 lakhs to 4 lakhs decreased from 30% to 20% after receiving remittance. It shows that 10% respondents annual income increased after receiving remittance in this group. Above table presents positive role of remittance in change of the respondents.

#### **4.10 Expenditure Patterns of Respondents**

This section examines the expenditure patterns of respondents after receiving remittance. Expenditure of respondents are mainly divided into six groups such as

daily need goods, durable goods, saving, investment, loan repayment and others. Average expenditure of respondents are given below in table no.4.10.

**Table No. 4.10 Expenditure Patterns of Respondents**

<b>Expenditures</b>	<b>Percentage</b>
Daily Need Goods	30%
Durable Goods	20%
Saving	10%
Investment	5%
Loan Repayment	25%
Others	10%
Total	100%

The table no. 4.10 shows that 30% remittance of respondents spend their money in daily need goods like food and vegetables.20% spends on durable goods like TV and Computer.10% money spend in saving and 5% in investment.25% money spends on loan repayment and 10% spends on others.Only 5% money is spending on investment. So it shows very few amount of money is being used in productive sector and large amount of money is spending in non-productive areas.

#### **4.10 Range of Remittance Earned by Household**

Throughout the survey, it was found that the remittance receiving households received salary on the basis of remittance earned by households, a total of 20 households were classified into 6 groups.

**Table no 4.10 Range of Remittance Earned by Surveyed Households through Remittance (Yearly in Nepalese rupees)**

<b>S.N</b>	<b>Income</b>	<b>No. Respondents</b>
1	1,00,000 - 2,00,000	2
2	2,00,000 - 4,00,000	4
4	4,00,000 - 6,00,000	4
5	6,00,000 - 8,00,000	4
6	8,00,000 - 10,00,000	4
7	10,00,000 - 12,00,000	2

*Source: Field Survey, 2020*

The table no. 4.10 shows that among the 20 households, 2 households earned income through remittance ranging from NRs. 1, 00,000 to NRs. 2, 00,000 in a year. 4 households earned income through remittance range 2,00,000 to 4,00,000. Similarly 4 household earned income through remittance ranged from 4,00,000 to 6,00,000. Income range from 6,00,000 to 8,00,000 household are also 4, income range from 8,00,000 to 10,00,000 is 4. Only 2 households income range is ranged from 10,00,000 to 12,00,000 in a year. So this table shows that maximum numbers of households received lower income as remittance and few household earned high income as remittance. Lack of best and highly paid job and because of lack of technical expertise may be the major cause behind the result.

## **CHAPTER-V**

### **SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Summary of Findings**

The Nepalese economy is gradually becoming consumption oriented due to remittance income that naturally leads to dependency resulting in the dearth of resource for investment. Thus, it is recommended to the government agencies for the formulation and implementation of remittance utilization policy for the enhancement of national economy.

Remittance is an important source of foreign income for developing countries like Nepal increasing dramatically in size over recent decades. It is a private income that is regularly or periodically transferred from international migrants to family members in their country of origin. It represents one of the largest sources of financial flows to developing countries. Foreign employment is gradually getting a major source of foreign exchange earnings and sustaining the positive balance of payment in Nepal. International migrants send their money to the home countries through formal and informal channels. Formal channels are related to the banking channels and money transfer operators. Language barriers and lack of awareness on banking channels for transferring funds, some migrant workers may use informal channels. Therefore, it is necessary to make this sector more systematic and take additional initiative for the flow of remittance through the formal channel. It is a challenge of making institutional arrangement for imparting training and skill for raising the demand for the Nepalese labours at the international level and guides the flow of remittance to the productive sector.

#### **5.3 Conclusions**

It is concluded that the economic and social condition of all families who have involved in foreign employment have increased. It may be in both aspects i.e. economy as well as social but surely there is positive change in the status of the families of the respondents due to remittance income. Therefore we can say that

remittance is playing vital role in reducing the level of poverty in the study area. In rural areas remittance is playing a great role in reducing the rural poverty. In the study area the level of poverty is reducing gradually than the previous times. The living standard of the people has been raised up. Education status has been raised up and the people are now living a healthy life. The social status of the people has been raised up. In overall scenario the poverty level has been reduced and people are now living a higher living standard.

### **5.3 Recommendation**

Based on the study following suggestion are recommended for further improvement and successful implementation of the program

- i. Most of the respondent have not utilized their remittance and newly learnt skills at abroad when they came back home because of lack of technology non availability of sizable investment funds and lack of market, etc. so the policy should make to create good environment and provided sufficient technology as well as market. Government should play the role of facilitator for all the investors and the workers.
- ii. The government must make new policies to create new employment for youth in a country. Because youth are rapidly leaving the country, it is not better for long term.
- iii. Government should make secure employment policy for promoting foreign employment.
- iv. There should be further research in remittance sector such that we can get clear knowledge in these fields.
- v. Income generated by the migrant workers from foreign employment is being spent on unproductive sector. Thus government should bring the proper policies and programs that provide the better environment to utilized received remittance into productive sector that may create additional job opportunities and sources of income in the native village and counties.
- vi. Nepalese economy has received a large amount of remittance, but remittances are still being transferred through informal channels.

Formal channels should be promoted. At least one formal institution must be established to facilitate transfer remittance in each destination.

- vii. This study has found that large portion of remittance is finished in consumption purpose because remittance may emerge as easy money for these recipients. High domestic consumption expenditure because of high remittance but low level of production may be one of the causes behind high rate of inflation in the nation. So, government has to formulate and implement policies to motivate remittance recipients to cut down the consumption and mobilization of remittance in investment. This will boost up economic growth of the nation thereby increasing more employment opportunity in the nation itself.
- viii. Remittance may not be long term and sustained source of external financing since downturn in economy of host countries may badly affect economy of home country as well. So enhancement of domestic investment expenditure is to be made which has multiplier effect to boost up the national economy. In this study it has been found that remittance is significant to decrease the domestic investment expenditure. So, the remittance recipients are to be motivated to invest the earning made through remittance. For this, suitable policies are to be formulated and special incentives are to be given for remittance recipients to make investment in cottage and small scale industries, micro enterprises, modernization of agriculture, small hydro electricity project, etc. For that government has to implement the policies like tax free for the income earned through investment of remittance in production process, high interest for those who make saving of their money earned through remittance in formal sector, soft loan for remittance earner when they want to make investment and their saving becomes insufficient to make investment etc.

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