

# **CHAPTER ONE:**

## **GENERAL INTRODUCTION**

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

The late twentieth century often characterized as 'the age of migration' (Zlotnik, 1998). During that period a great migratory movement had taken place around the world, probably the biggest in modern history. Since then, many people are leaving their home countries looking for better job opportunities and a better quality of life in foreign countries. The Universal Declaration of Human Rights has assured in its Article number 13 that "Everyone has the right to freedom of movement and residence within the borders of each state" and "Everyone has the right to leave any country, including his own, and to return to his country" (OHCHR, 1948). In this context, the study which analyses the role of remittance in socioeconomic development of rural Nepal and its effects on economic inequality has obviously become pertinent.

International migration refers crossing the national boundaries by the citizens of a country and stay in the host country for a certain period of time for various purposes especially for employment. However, simply crossing the border of the country does not mean migration. Some of the travellers are tourists or business visitors who have no intention of staying for long. Migration means taking up residence for a certain minimum period say a year. The money which international migrants bring/transfer to their home countries is termed as "remittance".

The literature substantiates that international migration has positive impacts on both the people of origin and the people of destination. Particularly in third world countries, a vast majority of migrants are making meaningful contributions to their host countries. Migration also has the potential of facilitating the transfer of skills and contributing to cultural enrichment. These days, the number of people residing outside their country of birth has been increasing tremendously. Therefore, dealing with international migration has been one of the most challenging issues facing the world today.

As mentioned earlier, remittances are transfer of money from migrant workers to their families or other individuals in their home countries. The earnings of a country by remittances are shown in the balance of payments (BOP) statistics of each country. The International Monetary Fund (IMF) provides a wider definition and incorporates three categories (i) workers' remittances (money sent by workers living abroad for greater than one year); (ii) compensation of employees (gross earnings of foreigners living abroad for less than one year; and (iii) migrant transfer (net worth of migrants moving from one country to another (IMF, 2009). Although the headings of workers' remittances goes only to the workers who live abroad more than one year

but other headings capture the extent of all workers' remittances from abroad. However, remittance transfers through informal channels, such as send through friends, family members, *Hindi* or remittances sent in kind *viz.*, jewellery and other consumer goods, are not included in the BOP.

Remittances are spent in the home country particularly for food, clothing and other expenditures. For many developing countries including Nepal, remittances from citizens working abroad provide an import source of much-needed funding. In many developing countries, remittance constitutes a significant portion of the gross domestic product (GDP). The United States is the leading source of foreign remittances, followed by Saudi Arabia, Germany, Russia and the United Arab Emirates (UAE) (WB, 2015). The top recipients are India, China, Philippines, Mexico and Nigeria. In Nepal, official remittance has now reached around 25 percent of GDP and Nepal has been ranked at the top recipient of remittance (with respect to the share of GDP) among the least developed countries (LDCs) (UNCTAD, 2014).

Remittance has implications that extend beyond individual finance. There are enough evidence to show that inflow of remittance from abroad may affect economic growth positively by reducing current account deficit, improving the BOP position and reducing dependence on external borrowing (Iqbal and Sttar, 2005). When the recipients' other sources of income disappear in emergencies, such as natural disasters and armed conflicts, remittance transfers can be one of the lifesaving instruments. Inflows of remittances can reduce poverty and inequality by stimulating the income of the recipient country, reducing credit constraints, accelerating investment, enhancing human development through financing on better education and health (Stark and Lucas, 1988; Taylor, 1992; Faini, 2002; Gupta et al., 2009).

Nepal lacks meaningful economic transformation in which resources move from low to higher levels of productivity. There has been little improvement in agricultural structure and productivity; the population has been growing, placing pressure on available farm-size. The industrial sector, which used to absorb surplus labour from the agricultural sector, has contracted. The services sector has been growing, but its capacity to absorb labour is low because it demands skilled labour as opposed to merely surplus labour from the agricultural sector.

For many years overseas labour migration is providing a critical employment outlet and remittance has been emerged as one of the important sources of foreign exchange earnings in Nepal. During the past two decades Nepal has received significant amount of remittances. With the enactment of foreign employment act 1985, Nepalese people initiated to migrate outside India particularly to the Gulf countries including Saudi Arabia, United Arab Emirates (UAE), Qatar and Kuwait. Similarly, in February 2001, the government of Malaysia opened up labour market

to Nepalese workers. Since then Malaysia has been hosting a large number of Nepalese migrant workers (Seddon, Adhikari and Gurung, 2002).

Along with agriculture which contributes more than 30 percent of the GDP, remittance has emerged as another major contributor to the GDP. Remittance has contributed significantly for the reduction of poverty for the last two decades. Remittance and migration driven economy has reduced poverty in Nepal from 42 percent in 1996 to 25.16 percent in 2011 (CBS, 2011). Increase in remittance income has helped in diversification in livelihoods, greater ownership and attainment of assets and capitals. This, in turn, has contributed to increased financial capital, education for the children, social capital, and migration-specific knowledge.

Nepal government had targeted the economic growth of 6 percent this year on the ground that reconstruction activities would speed up after the major earthquake of April 25 and the powerful aftershock of May 12 (MoF, 2015) but reconstruction work is yet to start as the full body of the reconstruction authority has not been formed. On the other hand, continued protests in the *Terai* region for the last three months followed by an unofficial blockade imposed by India, Nepal could see a negative economic growth (-0.9 percent) this year for the first time in 33 years (NRB, 2015).<sup>1</sup> The blocked which, started on September 23, three days after Nepal promulgated the new constitution, has badly hit all sectors of the economy. Paddy production was hit hard owing to the shortage of chemical fertilizers; if the current situation continues, it will hit wheat production as well. Major hydropower projects that had been closed after the earthquake have not come into operation yet and road and irrigation projects have been hit by the lack of fuel. Health services have been affected and schools have remained closed for the last three months. The blockade is likely to push more than 800,000 (3%) people under the extreme poverty. Even if the embargo is lifted immediately, it will take time to bring the situation to normalcy.

In this backdrop, the study aims to explore and identify how remittance incomes work in the rural areas of Nepal and what are some of the pitfalls that developing countries face when dealing with such inflows of remittances including inequality. The study also provides specific policy recommendations for the overall socioeconomic development based on the findings of the study. Thus, this study is considered very important in the contemporary economic situation of Nepal.

## **1.2 Statement of the Problems**

The acceleration of globalization has been more apparent with the dawn of 21st century. Nations and societies are more interconnected and interdependent caused by political, economic and social changes. Thanks to technological advancements and the widespread

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<sup>1</sup> The last time in 1982-83 Nepal saw a negative GDP growth contracted by 3 %.

adherence to economic liberalization over the last few decades, the effects of globalization will continue to be significant well during the 21st century. With the policy of economic liberalization and globalization, many countries have signed for free trade agreements and opened their economies to foreign employment. Therefore, foreign remittance has become a cornerstone of development for many developing nations. The magnitude may differ but the role of the remittance to the economic development cannot be denied particularly in the LDCs.

The extent and magnitude of poverty in the country is very large especially in the rural areas. Job opportunities for a majority of rural people are unavailable. The major push factors attributing to the large number of labour migrating from Nepal are largely related to limited employment opportunities, indebtedness, low salary structure in the country and so on. Most of the youngsters have to move other countries to fulfil basic needs of their family. In the rural areas, most of the lower and middle class families are droned in debt. However, if any member of that family migrates to other countries for foreign employment, the debt burden of that family is relatively less than other families. In the aftermath of the post war situation, and the major earthquake on April 25 and a powerful aftershock on May 12 have escalated the situation and being a major challenge to the economy (NPC, 2015). In this juncture, one and the only hope of economic stabilization, development and growth is remittance transfers.

For many years, a large number of Nepalese worker are in foreign employment but most of them have low-level of technical education and formal training. Therefore, they are compelled to take risky, difficult and dirty works in foreign countries. Slowly and gradually, training institutes are being established in Nepal to develop skills of those individuals who are seeking foreign employment but most of these institutions are just fancy.

Individuals seeking foreign employment have to pay large amount of cash as a cost of the employment process. The cost includes passport fee, medical checkups charge, visa fee, air fare and commission to the employment agency. To finance for foreign employment, individuals have to depend on several sources which include borrowing from the relatives; funds received from the sales of fixed assets like land, domestic animals, borrowing from money lenders and the like. Formal financial institutions like banks and finance companies do not provide loan easily. Owing to their limited land holdings, poor people have no access to institutional credit because credit is invariably rationed by the ability to offer collateral. Collateral increases the expected return to the lender because it partly or fully shifts the risk of loss of the principal from lender to borrower (Griffin, Khan and Ickowitz, 2002). Further, poor people often find themselves unable to secure loans caused by the high cost of handling small loans and a perceived high risk of default. The amount of institutional credit a person can obtain therefore largely depends on the amount of land he/she owns, and thus his ability to offer collateral. It is therefore, very difficult to arrange the funds needed to foreign employment by people from lower-income class.

The literature regarding international migration and remittance transfer document that the impact of remittances on a variety of topics including economic growth and alleviation of poverty has been extensively discussed subject both among academics and policy makers. Although this area of research has been explored extensively and widely, there are very few research studies in the context of Nepal. Furthermore, there is no formal analysis of the impact of remittances on income inequality. So, further empirical research on these issues is still needed to arrive at overall conclusions related to the desirability of foreign remittances for economic growth and poverty reduction in Nepal. In this context, this study attempts to address these issues and the findings of this study are considered very helpful for policy implications.

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

The general objective of this study is to analyze the extent to which the remittance transfers impact on socioeconomic development of rural households, whereas the specific objectives of the study are as follows:

- ❖ To examine the contributions of remittance income with regard to socio-economic development of migrant families in Nepal;
- ❖ To analyze the changes in socioeconomic conditions of rural households brought about by foreign remittances; and
- ❖ To measure the extent of inequality to which the distribution of income among the sample households within the VDC deviates before and after receiving foreign remittances.

### **1.4 Research Questions**

The following research questions are tested against the objectives set out in Section 1.5.

- ❖ How is remittance transfer contributing to socioeconomic development of migrant families in Nepal, and how can this contribution be improved?
- ❖ What are the changes in socioeconomic condition of rural households brought about by foreign remittances?
- ❖ What is the extent of economic inequality before and after receiving foreign remittances?

## **1.5 Significance of the Study**

Nepal is one of the 48 LDCs in the world with a per capita income of US\$ 762 (MoF, 2015). About 90 percent people live in the rural areas and spend a major part of their income on food and other essential goods. Like many other LDCs, the alleviation of poverty is the biggest challenge facing by Nepalese policy makers. Other problems include income disparity, high unemployment and underemployment, foreign exchange shortage, social and spatial exclusion (Sijapati, 2015). Although major aspects of peace process have been accomplished, the country is still in the political transition. Industrial sector depends heavily on imported inputs. Exports are not significant enough to fund essential imports required for economic growth. The country has not been success to attract attention of multinational enterprises for foreign direct investment (FDI) in manufacturing, services and infrastructural development.

The international border between Nepal and India is long and open; goods and people move freely across it. Nepal has limitations in its ability to liberalise the import regime. If Nepal liberalizes differently, it would immediately lead to large scale smuggling of goods imported from third countries to India. Nepal's import regime seeks to balance these goals and maintain a protective policy appropriate to its needs. This has distorted the structure of Nepalese industry in favour of rent-seeking activities involving little value-added.

Upon the restoration of democracy in the country in 1990, Nepal experienced little improvement in human development and poverty reduction. Progress has been realized in the social sectors mainly in gender equality, reducing infant, child and maternal mortality rates (MoF, 2015). Nepal is on track on meeting most of the millennium development goals (MDGs) by 2015. Despite this progress, the country is still characterized by persistent and severe inequalities in assets and income distribution. Consequently, there is large-scale poverty and unemployment in the rural areas. Several plans and programs have been launched focussing on poverty alleviation through agriculture development. Despite these efforts, past development plans almost failed to satisfactorily boost agricultural productivity and alleviate poverty.

About 81 percent of the total population of Nepal depends on agricultural for sustenance. The agriculture sector, instead of playing the role of a leading sector in the economy, is currently being a lagging sector. There is already overburden of population in agriculture. The people of the rural areas work for all the year but hardly get food even for six months. Every year a large number of youngsters enter into the job market; a large portion of them in rural areas. A sizeable number of jobs need to be created to provide employment and income for the growing population. However, the agricultural sector alone is unable to meet these enormous challenges. The agriculture sector cannot fulfil even the basic needs of rural people.

After the restoration of democracy in 1990s, international job market has been opened in many countries and continents. Owing to so many reasons including unemployment, weak governance

and impractical educational system, a large number of youngsters are migrating to foreign countries in search of job. Remittance income is coming from all over the world to Nepal where Nepalese people are migrated. However, most of the immigrants are unskilled and earn less as compared to skilled manpower. The small amount of remittance which they send to home is used in unproductive fields including building houses, conspicuous consumption, purchasing of land and luxuries goods.

Therefore, the remittance income is not playing the actual role for the alleviation of the poverty and the overall development of the entire country. Nevertheless, to some extent, the remittance income is helping Nepalese economy reduce the poverty level. The per capita income of the country is increased to US\$ 762 which is due to the increasing trend of remittance incomes (MoF, 2015). When we compare the poverty level as well as the living standard of a migrant family with the non-migrant family, the migrant's family is in better condition. Moreover, the migrant's family is feeling more comfortable to fulfil their basic needs for their survival. If the migrants were efficient and diversified skills and the remittance incomes sent by them were invested in the productive sectors including industries and other development activities, only then the effect of that remittance income could be realized by other citizens as well.

An earthquake on April 25 and a powerful aftershock on May 12 devastated Nepal, resulting in extensive damage particularly in the central and western parts of the country. More than 8,800 people lost their lives and more than 22,300 people were injured (NPC, 2015). Over half a million houses were destroyed and another quarter million was damaged, rendering three million people homeless. Around half a million buildings were also destroyed. The total value of damages and losses in production are estimated at about US\$7 billion, equivalent to nearly one-third of the country's GDP.

In this perspective, the study which analyzes the extent to which the remittance transfers impact on socioeconomic development of rural households seems very important. More importantly, this study attempts to analyze the aforementioned burning issues by answering the research questions set in Section 2.5 *viz.*, (i) How is remittance income contributing to socioeconomic development of migrant families in Nepal, and how can this contribution be improved? (ii) What are the changes in socio-economic condition of rural households brought about by foreign remittances? And (iii) what is the level of economic inequality before and after receiving foreign remittance? The findings and policy implications of this study is considered very important for the overall socioeconomic development and poverty alleviation in the country.

## **1.6 Limitations of the Study**

- ❖ Every study carries some limitations which are unavoidable. Currently, there are 3,157 VDCs and 217 municipalities in Nepal. Among them, Puja VDC of Pyuthan district is one of them. Given the constraint of financial resources and time, this study is limited to this VDC. The main limitations of the study are as follows:
- ❖ This study has been conducted covering all 9 wards of Puja VDC of Pyuthan district. The findings of this study will be applicable to those VDCs and Municipalities of the country to the extent that there are similar contexts and conditions. Therefore, the general conclusions derived from this study may not be applicable in the country as a whole.
- ❖ A large volume of remittance through informal channels is entering inside the country. In the same way a large number of individuals are leaving the country for foreign employment illegally via India or with support of middlemen. Official data exclude such figures but attempt has not been made to check the reliability of the available secondary data. So, the reliability of the remittance and out-migration figures obtained from the secondary sources depends on the integrity of these sources.
- ❖ All foreign currencies are converted at the rates when such currencies were exchanged.
- ❖ There are several techniques to measure inequality. However, in this study economic inequality is measured using Gini-coefficient and Lorenz Curve. Other socioeconomic indicators are analyzed depending on the self judgment of the respondents.
- ❖ Aspects of socioeconomic analysis cover wide range of areas which is beyond the scope of this study. This study is simply concerned overly education, demographic, housing, land holding, unemployment, social status, economic condition of the sample households.

## **1.7 Organization of the Study**

This study has been organized in eight chapters. The first chapter is introductory chapter, which includes general background, statement of the problem, objective of the study, research questions, significance of the study, limitation and organization of the study. Chapter 2 provides literature review including thematic issues pertaining to migration and remittance. Chapter 3 highlights to research methodology used in the study. Chapter 4 outlines foreign employment and remittance economy in Nepal. Chapter 5 provides presentation, analysis and discussion of data. The final chapter (Chapter 6) presents major findings and recommendations. A reference list containing all references used in this thesis is presented at the end.



## 1.8 Introduction to Study Area

Pyuthan district lies in Rapti zone; about 143 km far from zonal headquarter Tulsipur Dang. Its height ranges from 305 meter to 3659 meter above the sea level. The total area of Pyuthan district is 1365 square kilometre and the population density is 167 people which is less than the national average of 180. There are 42 VDCs and a municipality. According to the population census 2011, the total population is 228,102, out of which male are 100,053 and female are 128,049. The population under the age of 18 years is 49.09 percent, and the population over the age of 60 years is 12.4 percent. Therefore, the dependency ratio in this district is normal.

The average annual population growth rate of Pyuthan district is 0.78 percent which is quite low comparing with the national figure of 1.35 percent. There are 47,730 households in the district; whereas the total number of households in Puja VDC is 1031. The average household size of Pyuthan district is 4.77 which is similar to national average of 4.88. The literacy rate of the Pyuthan district is 76.35 percent which is comparatively higher than national figure of 65.9. Puja VDC is located in the North of the Pyuthan district. According to the national census of 2011 the total population of Puja VDC is 6,485; out of the total population males are 3,358 (51.78%) and females 3,127 (48.22%). Table 1.1 provides the ward wise distribution of population of Puja VDC.

The figure shows that the number of male is higher than female population. The sex ratio seems to be 1.07 which is quite high than national sex ratio of 94.16. Total area of the VDC is 24.6 sq km. The altitude of this VDC ranges from 1050 meter to 1978 meter from the sea level. It covers 2,724 hectare of land; out of which about 753.82 hectares (28.69%) of land is used for agriculture whereas 30.6 percent is covered by forest and the rest 40.71 percent is used for other purposes. The total length and width of the VDC is about 7 kilometres and 5 kilometres respectively. The VDC is situated between Khabang VDC in the east and Khung VDC in the West. Similarly the VDC is bounded on the North by Narikot VDC and on the south by Arkha VDC and Syaulibang VDC.

**Table 1.1: Ward Wise Distribution of Population of Puja VDC**

Ward NO.	NO of HHs	Male	Female	Total
1	98	319	297	616
2	54	176	164	340
3	182	593	552	1,145
4	91	296	276	572
5	53	173	161	333
6	107	348	325	673
7	101	329	306	635
8	177	576	537	1,113
9	168	547	510	1,057

Total	1031	3,358	3,127	6,485
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Source: VDC Profile 2011

The VDC has not got modern household utility facilities including communication, transport, electricity, computer, internet, television, and cable network. The ethnicity of the VDC is mixed which include Brahmin, Chhetri, Gurung, Magar, Roka, Sunar, Damai and Kami. According to the 2011 national census, 74.73 percent of the total populations in this VDC are literate which is quite high than national average 65.9 percent. Thus, majority of the people in this VDC are engaged in agriculture followed by foreign labour and government jobs. Main crops in this VDC include maize, barley, wheat, paddy, potatoes and vegetables and domestic animals are buffalo, cow, goat, and poultry.

In Nepal many people are living under the poverty line and thus, the magnitude of poverty is large. As other regions of the country many households are living below the poverty line in Puja VDC. As per the VDC profile, 37 percent of the people in this VDC were rated as poor in 2006 (VDC Profile, 2011). These people were not able to fulfil even their basic needs. Their health status was poor and their children were not getting proper opportunities for education. They were having a low-level of living standard. However, gradually the remittance income has helped in reducing the poverty. The living standard of the people is progressively changing. People are now getting proper health facilities and their educational status is also slowly increasing. The income of the family has been raised up, ultimately uplifting the living standard of the people living under the poverty line. In 2011, about 31 percent of the total households of the VDC were living under the poverty line which was reduced from 37 percent in 2006.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

The primary objective of the present chapter is to provide a systematic review of literature relating to international migration and remittance income. Conceptual frameworks, research findings and thematic issues available in books, journals, research works by different authors, researchers and intellectuals of the related area are reviewed. The literature review is divided into four sections. Section 2.2 offers theoretical review while Section 2.3 reviews previous research works. Section 2.4 provides conclusions of the chapter.

## 2.2 Theoretical Review

### 2.2.1 Historical Perspective and Evolution of Migration

Migrant of people caused by population growth, climate change or economic needs have always been common practice since the beginning of human civilization. Initially, the process of international migration both voluntary and forced was attributed by the warfare and formation of nation states. However, from the 15<sup>th</sup> century onwards, colonialism and industrialization gave rise to a rapid growth in migration (Moch, 1992). Colonialism involved overseas emigration of Europeans as sailors, soldiers, traders, priests and administrators. Initially, colonial labours were forced migration of African slaves<sup>2</sup> but later they were transported large distances within colonial empires as bonded workers.

Industrialization made considerable use of migrant workers within Western Europe, for instance, Irish in Britain, Polish in Germany, Italians in France and the like (Cohen, 1995). Economic growth and nation building in the USA was relied heavily on immigration<sup>3</sup>. However, economic stagnation and political turmoil reduced the trend of migration from 1918 to 1945. In the depression of the 1930s, many migrants were deported and as a result of which foreign population fell half a million by 1936 (Cross, 1983). In Nazi Germany, the regime recruited large numbers of foreign workers mainly by force to replace German people recruited for military service. After the Second World War, international migration expanded again. More countries were affected by migration, while immigration countries received participants from a broad spectrum of economic, social and cultural backgrounds. The older industrial countries experienced new types of inflows, while new immigration countries emerged in Southern Europe, the Gulf countries and Latin America.

In the second half of the 20th century, international migration emerged as one of the main features in social transformation and development in all regions of the world. Economic migration to the Middle East from South Asia and other parts of the world was stimulated by the oil boom in the early 1970s. The late 1980s and early 1990s were a period of unprecedented migration.

Indeed, international migration is the outcome of the integration of national economies into global relationships. Furthermore, it has been a basis of further social transformations in both migrant sending and receiving countries. Until the First World War, international migration played a key rôle in the integration of economies of both sides of the Atlantic (OECD, 2000). After the Second World War, migration of workers contributed to economic and social

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<sup>2</sup> Some 15 million people between the fifteenth and nineteenth centuries were migrated.

<sup>3</sup> About 30 million people entered from 1861 to 1920 (Noiriël , 1988)

integration between countries in South and North. During both these periods, labour went hand in hand with capital mobility, and migration was key factor in the globalization of economies.

Immigration is often a hot-button topic in domestic politics which help drive growth both at home and abroad. Today, foreign migration is becoming increasingly common as people move between countries and continents in search of security and a better livelihood. Even those who do not migrate are also affected directly or indirectly. They are affected through change in their community owing to departure of neighbours or arrival of newcomers.

Over the past three decades, policies in the area of labour migration have developed along four major paths (UN, 2012): (i) growing restrictiveness and selectiveness in the admission of labour migrants in developed countries; (ii) a significant increase in the number of countries, particularly developing countries that have become host to foreign workers; (iii) the rising recognition that the rights of migrant workers and their families need to be protected and (iv) the adoption of regional agreements on the free movements of persons.

Migration helps erode traditional boundaries between languages, cultures, ethnic groups and nation states. It therefore challenges cultural traditions, national identity and political institutions, and contributes to a decline in the autonomy of the nation-state. That is why migration is regarded as problematic which needs to be controlled because it may bring about unpredictable challenges.

Many countries around the world are facing rapidly changing dynamics of labour migration (Russel, 1995). Migration pressures are increasing in all regions of the world. However, migrant workers are still subject to severe forms of exploitation in recruitment, forced labour, substandard housing, exclusion from social protection, and denial of many basic human rights. Nevertheless, the significance of migration may increase further in the 21<sup>st</sup> century, as population mobility has been growing rapidly on new forms.

### **2.2.2 Type of International Migration**

International migration implies crossing the frontiers of a political or administrative unit for a certain minimum period. However, simply crossing a border of the country does not imply migration. Some of the travellers are tourists or business visitors who have no intention of staying abroad for long. Migration means taking up residence for a certain minimum period, say a year, though different countries have their own categories in the migration policies.

International migrants include people who have moved more or less voluntarily e.g., short and long-term workers ranging from unskilled labourers to highly skilled professional, technical, and kindred workers (Russell, 1995). Included along this spectrum are many whose movement is a response to poverty and lack of employment at home, refugees, bona fide asylum seekers, and

people who move for environmental reasons. Some are settlers, whose migration whether undertaken legally or illegally is essentially permanent; others have moved on a temporary basis. In general, migrants tend to be young adults. Worldwide, 40 to 60 percent international migrants and over 50 percent refugees are female. In the 1980s, the majority of migrants from Sri Lanka and Indonesia to the Gulf States were women.

Castles, (2000) has divided international migrants into following categories:

- ❖ Temporary labour migrants: who migrate for a limited period in order to take up employment and send remittances to home;
- ❖ Highly skilled and business migrants: people with qualifications and scarce skills for certain position such as managers, executives, professionals, technicians and so on. Many countries welcome such migrants and have special schemes to attract them;
- ❖ Irregular migrants: people who enter a country, usually in search of employment, without necessary documents and permits;
- ❖ Refugees: a person residing outside his or her country of nationality, who is unable or unwilling to return because of a well founded fear of persecution on account of race, religion, nationality, membership in a particular social group or political opinion; and
- ❖ Asylum seekers: people who move across borders in search of protection, but who may not fulfil the strict legal criteria;
- ❖ Forced migration: this includes not only refugees and asylum seekers but also people forced to move by environmental catastrophes;
- ❖ Family reunification migrants: migration to join people who have already entered an immigration country under one of the above categories; and
- ❖ Return migrants: people who return to their countries of origin after a period in another country.

Return migrants are often looked on favourably as they may bring with them capital, skills and experience useful for economic development. Many countries have special schemes to make use of this 'development potential'.

### 2.2.3 Causes and Consequences of International Migration

There is a large body of empirical and theoretical literature on the causes of international migration. Indeed, international migration is an integral part of globalisation characterized by the widening, deepening and speeding up of worldwide interconnectedness in all aspects of contemporary social life (Held, McGrew, Goldblatt and Perraton, 1999)<sup>4</sup>. The key indicator of globalisation is the rapid increase in cross-border flows of all sorts including finance, trade, ideas, pollution, media products and people.

The organizing structure of international migration involves the intercontinental network, including transnational corporations, global markets, international governmental and nongovernmental organizations, global criminal syndicates, or multinational cultural communities. Modern information and communication technology, including the internet, improved telephone connections and cheap air travel are the key tools for the international migration (Castells, 1996). Inflow of remittance income has positive impact in the country but immigration and cultural difference are seen as potential threats to national sovereignty and identity. So, many governments intend to restrict immigration.

The most obvious cause of international migration is thought to be the disparity in income, employment and social well-being between differing countries. Neoclassical economic theory reveals that the main motive of migration is individuals' efforts to maximize their income by moving from low wage to high wage economies (Borjas, 1989). However, new economics of labour migration approach claims that migration cannot simply be explained by income differences between two countries (Stark, 1991). Other factors such as chances of secure employment, availability of capital for entrepreneurial activity, and the need to manage risk over long periods also causes to international migration. The decisions about migration are made not just by individuals; family strategies to maximize income and survival chances play an important role in this regards (Hugo, 1994).<sup>5</sup>

A migration scheme is constituted by two or more countries to exchange migrants with each other. International migration generally arise from the existence of prior links between sending and receiving countries based on colonization, political influence, trade, investment or cultural ties. For instance, the Algerian migration to France is a consequence of the French colonial presence in Algeria, while the Turkish presence in Germany is the result of direct labour recruitment by Germany in the 1960s and early 1970s. Migratory chains are also initiated by an

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<sup>4</sup> Globalization refers increasing and intensified flows between countries of goods, services, capital, ideas, information and people, which produce cross border integration of a number of economic, social and cultural activities.

<sup>5</sup> The migration systems theory analyzes the various factors causing emigration (Kritz et al., 1992).

external factor, such as recruitment or military service. Both the Korean and the Vietnamese migrations to the USA were originated from the US military involvement in these countries.

Once a migratory linkage is established, the migrants mainly follow the same paths and they are helped by relatives and friends already in the area of immigration (Stahl, 1993). Networks based on family or place of origin help provide shelter, work, assistance in bureaucratic procedures and support in case of personal difficulties. These social networks make the migration process safer and more manageable for the migrants and their families. Migratory movements, once started, it become self-sustaining social process. Some people such as lawyers, agents, smugglers and recruitment organizations become facilitators for migration even if such people and organizations can be both helpers and exploiters in the process of migration.

The links between migrant destination country and area of origin may persist over generations. Remittances fall off and visits home may decline in frequency, but family and cultural links remains continue. People stay in touch with their place of origin, and may seek marriage partners over there. Migration continues along the established chains and may increase dramatically at a time of crisis, as shown in the early 1990s by the mass refugee movement of former Yugoslavs to Germany, where they joined compatriots who had migrated as workers some 20 years ago. Recently, the number of refugees fleeing because of the conflict in Syria to neighbouring countries has now passed 4,013,000 people (UNHCR, 2015). In addition, at least 7.6 million people are displaced inside Syria. This is the biggest refugee population from a single conflict in a generation. The crisis is intensifying and the number of refugees is rising. At current rates, it is assumed that the figure to reach around 4.27 million by the end of 2015.

In the long run, migrations may lead to international communicative networks, which affect economic relations, social and political institutions, and the culture and national identity of all the countries concerned (Basch et al., 1994).

Migration has different impacts in different contexts. The impact of migration is heavily dependent on contexts of the demand as well as supply side of the labour market, and the specific characteristics of migrants. Nonetheless, international migration boosts world aggregate output and income by allowing workers to move to where they are more productive. Diasporas can be an important source of trade, capital, technology, and knowledge for countries of origin and destination.

There is overwhelming evidence to support the positive contribution of migration to alleviate the rural poverty. However, empirical findings about linkages between migration and poverty differ greatly. International migration from the poorest families may be infrequent, because the cost of migration may be too high for them. There is ample evidence to show that the poorest, least skilled, and those without network connection have less prospect to migrate abroad whereas better educated or skilled migrants tend to be high (Rogaly et al., 2002; de Haan, 1999).

Even so, in the event of disasters and catastrophes, the poorest people are forced to migrate, usually under very bad and exploitative conditions. Migration is thus both a cause and consequences of development. Development leads to migration, because economic and educational improvements make people capable of seeking better opportunities elsewhere around the world. Individuals from middle-income groups in developing countries are most likely to depart. Nonetheless, as incomes rise, emigration tends to decline. So, migration should be seen within a larger strategy of poverty reduction, neither as an optimistic solution nor as a pessimistic problem (UNRISD, 2006).

#### **2.2.4 Role of Remittance**

Remittances are current private transfers from migrant workers living in the host country to recipients in their country of origin. The argument that migration has positively contributed to development in countries of origin dominates the literature. Of course, the impact of remittances is at the central to the economy of many developing countries. In the words of Kapur (2004), remittance has now become one of the new '*development mantras*' as it has a significant developmental impact on the guest as well as the host countries; economically, politically and socially. However, the impact of remittance depends greatly on how it is used in productive sectors. The whole household economy approach enlightens the use of remittances for consumption and investment (Taylor, 1999).

The most immediate and direct benefit of international migration is the remittances that the migrants send to their home countries (Kapur, 2004). Migration, with the help of remittances, can contribute positively to the developmental activity of a country. Since remittance is more than any other type of stable foreign sources, such amount has acquired special importance for many developing economies including Nepal. It is increasingly recognized that substantial gains from remittance can be realized in terms of growth, investment, human capital formation, technological advancement and poverty reduction. Gain from remittance can be realized at both the macro level as well as the micro level.

At the macro level, remittance is the cheapest, largest, risk-less and least volatile source of external development finance (Singh and Hari, 2011). The most direct and significant contribution of remittance is to the volume of foreign exchange reserves. Remittance as an important source of external finance, can serve as an engine of economic growth. Since remittances are the part of BOP account, the increase in it can reduce the BOP deficit, particularly current account deficit of the country. Remittances have provided significant support to Nepal's BOP position for the last two decades. BOP can create conducive environment for foreign investment in the country. The funds immigrants send home allow the home country to purchase imports. The World Bank (WB) (2015b) has summarized the importance of remittance as such:



*“Remittances generally reduce the level and severity of poverty and lead to: higher human capital accumulation; greater health and education expenditures; better access to information and communication technologies; improved access to formal financial sector services; enhanced small business investment; more entrepreneurship; better preparedness for adverse shocks such as droughts, earthquakes, and cyclones; and reduced child labour.”*

Immigrants consume the goods and services provided by domestic workers (Radcliffe, 2015). The presence of foreign workers can help alleviate labour shortages. The role of these workers is more of a partnership; immigrant workers help developed countries continue to expand their economy while these workers can send a portion of their incomes to home as remittances. In addition, the social networks created by foreign workers can increase the reach of developed countries, and can foster a more integrated cultural understanding through interactions with the local population.

At the micro level, the migrant’s family can utilize the remittance incomes to raise their standard of living. Even if the remittance is used for consumption purpose like for buying various commodities of daily uses, it can develop and expand the manufacturing sector of the country by increasing the demand for the goods from this sector (Jones and Basnett, 2013). The increase in the demand from that sector results into increase in the production which again results into increase in the demand for labour. The employment of the remaining unemployed labour in the manufacturing sector will increase their income level. The increase in the income level of the labour employed will further expand this sector. As a result of which indirect tax revenue of the government also increases. This process keeps on going.

Besides consumption, the remittance is invested in the areas of education, health or setting up some small business. If the remittance is invested in some productive activity within the household like investment in agriculture for buying some inputs or starting an entrepreneurial activity by setting up a business, it will have much stable and long-lasting impact on the income level (Hari, 2013). The impact of remittance can also be realized beyond the family of the migrants. The whole money that the migrants send to their home country is not spent; part of it is deposited in the bank accounts. Thus, the migrant’s saving in the bank conserves as a means for financing loan to other households. The small savings from each and every migrant’s family can be a sizeable amount to be invested in the industrial sector if the financial institutions mobilize it properly (IMF, 2009). It can solve the problem of financial constraint faced by many small-scale enterprises. For this the financial institutions in the country needs to be strong enough. In this way, remittance income provides capital to small entrepreneur.

Continuous remittance flow can create a positive environment for credit and make a country creditworthy. This will enhance the country’s access to international capital market for financing

infrastructure and other development projects (Ratha, 2007). All of these have positive impact on the overall GDP of the country. The investment in education and health can have positive impact on human capital formation which will be beneficial for both the country and the family as a whole.

As discussed earlier, remittances are foreign exchange reserves which can be used to finance the balance of trade deficit or the current account deficit. More importantly, it is a counterpart in terms of source of external development finance. Remittance within the control of the government should be utilized to finance higher level of investment rather than consumption, if the objective is to maximize development benefits. However, for this to be applicable in reality there is a need of appropriate government policy on mobilizing and attracting migrant's remittance and redirecting them to formal channels. Moreover, for maximizing the development benefits of remittances it should be channelled to small and micro enterprises through financial intermediaries. In this way, the impact of remittance has been tremendous. Thus, remittance income, as a result of international migration, has emerged as one of the most fruitful panacea to get rid of many problems in developing countries.

However, there is another side of the coin; there are some negative effects of remittance at macro level. A large remittance inflow can appreciate the domestic currency which channelizes the resource allocation from the tradable to the non-tradable, particularly in housing and land. This condition minimizes the competitiveness of tradable sector. The country is likely to suffer from Dutch disease<sup>6</sup> which results into appreciation of real exchange rate with rendering export less competitive. This phenomenon also raises concerns about the international position and sustainability of economies characterized by recurring trade deficits (Acosta *et al.*, 2009). This in turn makes the country's exports less price competitive, since goods become more expensive to other countries once the value of domestic currency rises. Because the domestic currency is valued higher, consumption of imports begins to rise and hence collapses the domestic industries. At the same time, out-migration can lead to brain-drain with a shortage of skilled and entrepreneurial manpower. Sometimes, migration causes the separation of wives from husbands particularly in the case of men migrating without their wives (Zachariah and Irudaya, 2003). Other risks associated with remittances may be the financing of terrorist movements, or civil wars, as happened in Somalia where rural guerrillas were largely financed by international remittances in the 1991 conflict (Kapur, 2004).

### **2.2.5 Recent Trend and Outlook of Remittance**

A remittance most commonly refers to the funds an emigrant sends to their country of origin. These transfers of funds are economically significant for many developing countries that receive

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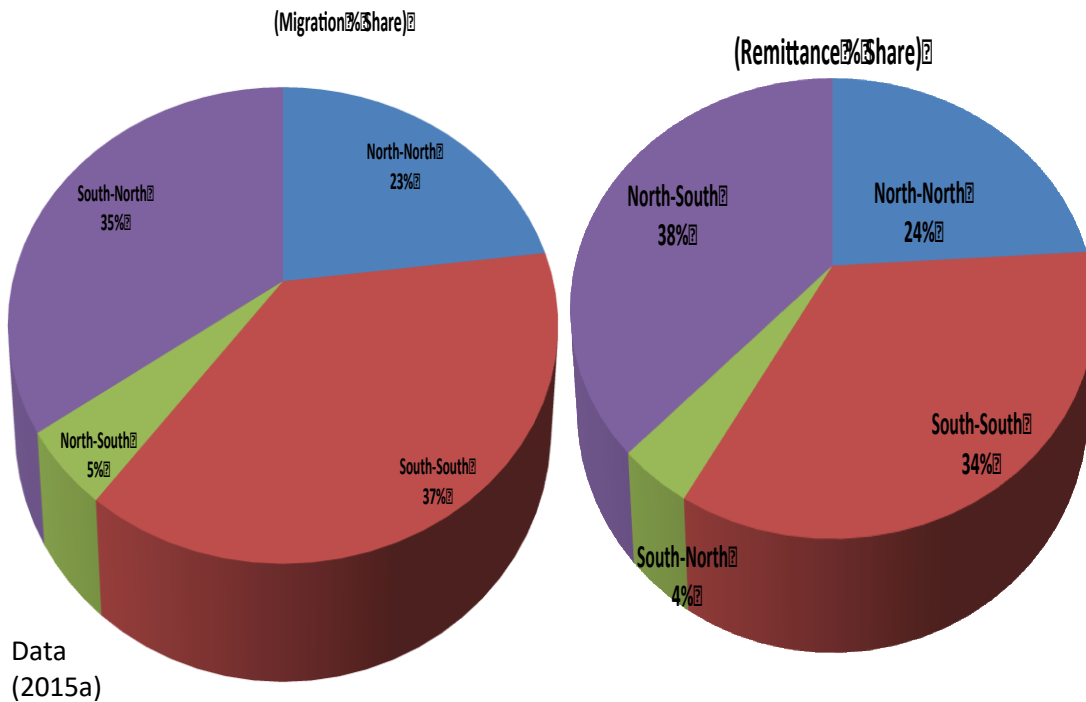
<sup>6</sup> The term "Dutch disease" is used to explain erosion of external competitiveness and the decline in manufacturing that occurs when a large amount of foreign exchange flows into an economy.

them. The literature substantiates that the rate of international migration has actually increased at a time when the world is getting more globalized. According to the WB’s latest issue of the Migration and Development Brief, the number of international migrants reached to have 247 million in 2014 and supposed to surpass 250 million in 2015 (WB, 2015a). In the coming years, demographic forces, globalization and climate change will increase migration pressures across borders.

The top 5 migrant destination countries remain the United States, Saudi Arabia, Germany, the Russian Federation, and the United Arab Emirates (WB, 2015a). Mexico to the United States is the largest migration corridor in the world accounting for 13 million migrants. Russia to Ukraine is the second largest, followed by Bangladesh to India, and Ukraine to Russia.

Indeed, as figure 2.1 shows, South-South migration stood at 37 percent of the global migrant stock, larger than South-North migration at 35 percent. South-South remittances accounted for 34 percent of global remittance flows.

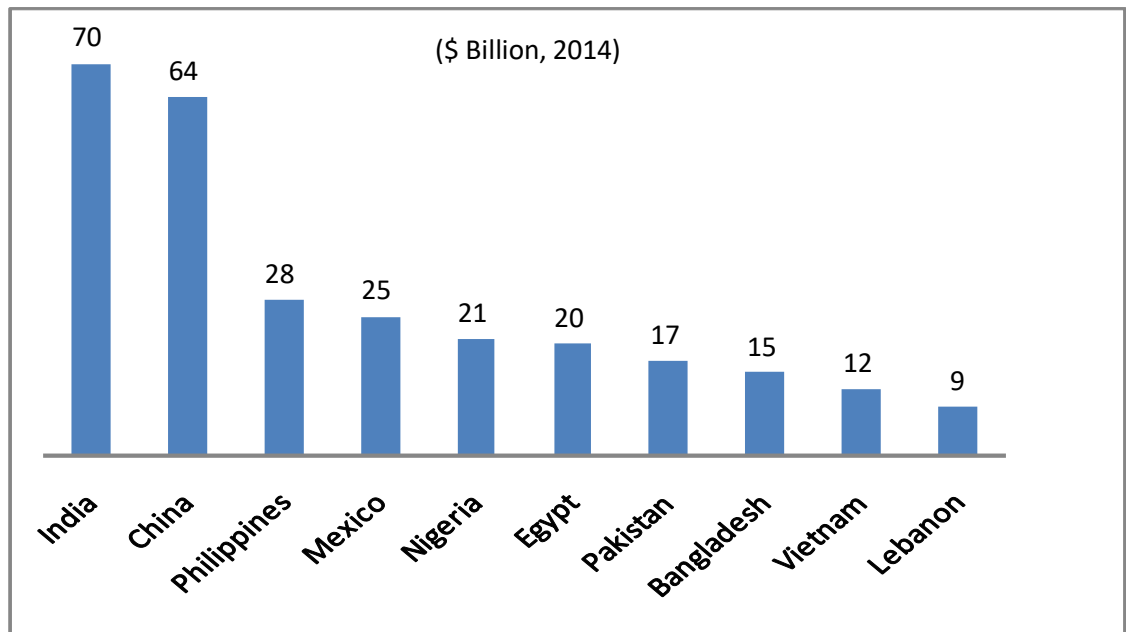
**Figure 2.1: Migration Pattern and Remittance Patter**



Global remittance receipts, are estimated at \$583 billion in 2014, and could rise to \$586 billion in 2015 and \$636 billion in 2017 (*ibid*). Remittance flows to developing countries are estimated to have reached \$436 billion in 2014, an increase of 4.4 percent over a year ago. Flows to

developing countries are projected to slow down to 0.9 percent growth in 2015 (to \$440 billion), owing to a weak economic outlook in remittance source countries in Europe and Russia. All developing regions recorded positive growth except Europe and Central Asia, where remittance flows reduced caused by the deterioration of the Russian economy and the depreciation of the ruble. The robust recovery in the US will be partially offset by continued weakness in Europe and the impact of lower oil prices on the Russian economy. Remittance flows are expected to recover in 2016 to reach \$479 billion by 2017.

**Figure 2.2: Top 10 Countries Receiving Foreign Remittances in 2014**



Data Source: WB (2015a)

With remittance flows of \$70.4 billion in 2014, India remained the world’s largest remittance recipient country followed by China (\$64 billion), the Philippines (\$28 billion), and Mexico (\$25 billion). Other large recipient countries included Nigeria, Egypt, Pakistan, Bangladesh, Vietnam and Lebanon. Figure 2.2 illustrates the top 10 countries in the world in receiving remittance transfer in 2014 and Table 2.1 shows the top 15 remittance recipient countries around the world from 2009 to 2013.

Remittances sent home by migrants to developing countries are equivalent to more than three times the size of official development assistance (WB, 2015a). Remittances are extremely important to several South Asian countries including Pakistan, Sri Lanka, Nepal and Bangladesh. Remittance in these countries exceeded 6 percent of GDP and 75 percent of reserves in 2013. As a share of the GDP, remittances were larger in smaller and lower-income countries.

**Table 2.1: Top Recipient Countries from 2009 to 2013 (in US Dollar)**

Country/Year	2009	2010	2011	2012	2013
India	49.2	53.48	62.5	68.82	69.97
China	41.6	52.46	61.58	57.99	59.49
Philippines	19.96	21.56	23.05	24.61	26.7
France	16.06	19.46	22.56	22.05	23.34
Mexico	22.08	22.08	23.59	23.37	23.02
Nigeria	18.37	19.82	20.62	20.63	20.89
Egypt	7.15	12.45	14.32	19.24	17.83
Germany	12.34	12.79	14.52	15.14	15.2
Pakistan	8.72	9.69	12.26	14.01	14.63
Bangladesh	10.74	11.28	12.96	14.24	13.86
Belgium	10.44	10.29	10.98	10.16	11.11
Venezuela	6.02	8.26	8.6	10	11
Ukraine	5.94	6.54	7.82	8.45	9.67
Spain	8.95	9.1	9.92	9.66	9.58
Indonesia	6.79	6.92	6.92	7.21	7.62

Source: Calculated from WB Data

In 2013, among all the 48 LDCs<sup>7</sup> in the world, Nepal has been the top recipient of remittance with respect to the share of the GDP (UNCTAD, 2014). Remittance inflow in Nepal grew by 9 percent and its contribution to GDP was 25 percent. The second and third countries were Haiti (21% of GDP) and Liberia (20% of GDP) respectively.

Remittances to South Asia bounced back in 2014; growth expected to remain flat in 2015. Remittances to South Asia are estimated to have risen by 4.5 percent in 2014, compared to 2.5 percent in 2013, reflecting soaring remittances to Pakistan (16.6%), and to a lesser extent, Sri Lanka (9.6%) and Bangladesh (8%). Remittance growth in this region is projected to remain flat at 3.7 percent in 2015, supported by large-scale construction activities including preparations for the 2022 FIFA World Cup in Qatar and fiscal expansion in Gulf countries, and improving economic prospects in the United States.

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<sup>7</sup> At present, there are 48 countries designated by the United Nations as LDCs. These are: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, the Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Solomon Islands, Somalia, South Sudan, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, United Republic of Tanzania, Vanuatu, Yemen and Zambia.

## 2.2.6 Nepalese Context

Nepal is one of the 20 most disaster-prone countries in the world (Sijapati, 2015). Major disasters in Nepal include floods, earthquake, droughts, landslides, epidemics, glacial lake outburst floods, fire and other ecological hazards. The inflation rate has marked double-digit, trade deficit has escalated, and the income disparity and unemployment rate has also gone up. This situation has placed the economy into highly vulnerable to internal as well as external shocks. Likewise, subsistence agriculture, political transition, weak governance, energy problem, climate change and disaster risk have put it in a very difficult situation. Obviously, remittance can play an important role if utilized it proper way.

In Nepal, with the increase in the number of workers, the inflow of remittances has also been increased. Nepal received 5.5 billion US dollars as remittance in 2014, an increase from 4.3 billion US dollars in the previous year (Gajurel, 2014). Moreover, because of the policy steps taken for enhancing the inflow of remittances to the country through the official mechanism, the share of remittances coming through the official channel has gone up. The mounting remittances have led to a surplus in the current account, thereby strengthening the overall balance of payments position. Table 2.2 shows the trends of the remittance inflow in Nepal, LDCs and Asian LDCs.

**Table 2.2: Migrants' Remittance Inflow**

Year	Nepal		LDCs		Asia LDCs	
	Millions Dollars	Percent of GNI	Millions Dollars	Percent of GNI	Millions Dollars	Percent of GNI
2000-08	1073	13.5	11708	4	6979	6.2
2009	2985	22.9	22542	4.1	15057	7.5
2010	3469	21.5	24376	4	16493	7.1
2011	4217	22.2	26953	3.9	18347	6.9
2012	4793	24.8	29922	4	21161	7.5
2013	5210		30673		21328	

Source: Calculation Based on Data from IMF, Balance of Payments Database.

This figure of remittance inflow in Nepal excludes remittances from India and informal sources. If remittances from India and informal sources are included the total is likely to be considerably higher. Remittances to Nepal slowed down to an estimated 5.8 percent growth in 2014, from 15.8 percent in 2013 (WB, 2014). The slowdown may reflect a decline in out-migration growth, after the massive increase in the stock of emigrants from about 1 million in 2010 to around 2 million in 2013.

Migrants to India earn three times more income than they earn before migration while migrants to other countries earn more than five times than their previous income (Jones, and Basnett,

2013). There are a number of positive macro-level effects of labour migration and remittances. Against weak export performance and a large amount of imports, remittances are an invaluable source of foreign exchange that contributes to keeping a positive balance of payment.

For many years, remittance transfer has been an important source of income and helped households escape poverty (Kharel, 2011). In the context of a low number of formal jobs in Nepal, labour migration has also made a considerable contribution to reducing unemployment problem. Moreover, foreign employment also affects higher wages resulting from reduced labour supply, and better rental terms for cultivation of the land of absent migrants.

The volume of remittances increased dramatically after new markets for Nepalese labour opened up in the Republic of Korea, Malaysia, Qatar, Saudi Arabia, and other countries in the Middle East. Remittances are one of the least volatile inflows in either the current or capital accounts of Nepal's BOP. The rise in remittance income boosted the country's foreign exchange reserve, offset merchandise trade deficit and put the country's overall BOP into surplus (Gajurel, 2014)

Remittance income can change the face of the country by contributing a lot in the process of poverty alleviation. There is no argument that streamlining foreign employment is the need of the time and that well-knit foreign employment could be an effective tool for poverty alleviation in the rural areas. It could ameliorate the landscape of the rural areas, where the need for development is acutely felt.

## **2.3 Empirical Review**

### **2.3.1 International Literature**

General economic theory suggests that remittance transfers are mainly used for household consumption and therefore, they have a little impact on investment. Therefore, remittances are considered as transfers of compensation for family members who have lost skilled workers owing to migration. However, Stahl and Arnold (1986) argue that the use of remittance income in consumption may have a positive effect on growth because of their possible multiplier effect. In addition, remittance transfers respond to investment opportunities in the country of origin. Moreover, many migrants invest their savings in small businesses, real estate or other assets in their own country because they know local markets better than those of their host countries. There is also the possibility that the continuous substantial inflows of the remittances to a developing country could result in increasing brain-drain, abandonment of the pursuit of aggressive pro-growth economic policies, inflation, real exchange rate appreciation and a moral hazard when beneficiary households depend on these transfers entirely or partially and thereby reduce the supply of labour (Adenutsi and Ahortor (2010). Therefore, the net effect of

increasing international remittance inflows on the growth and development prospects of developing countries is theoretically unclear.

Many development economists have observed that remittances have both welfare and growth effects. Remittances are similar to FDI and other private capital inflows in their effects on growth. An appropriate understanding of remittance and growth relationship can help policy makers to formulate suitable economic policies. Recent empirical literature on remittances from emigrants has been largely concentrated on their effects on macroeconomic development and more specifically on economic growth. Therefore, recent studies have tested the indirect and direct links between remittances and economic growth rates and investigated the role of remittances on economic development and poverty reduction.

Lahdhiri and Hammas (2012) have established a link between remittance and growth. The study has empirically shown that remittances have a significant and positive contribution to economic growth in the Middle East and North Africa (MENA) region. An increase in remittances led to an increase in the annual growth rate of GDP. The study concluded that the developing countries of the MENA region can improve their economic performance by investing remittance income in the traditional growth resources, such as investment in physical capital, human capital and trade. Remittance also helped in exploiting external capital flows such as FDI and official development assistance. The study suggested that the system of remittance transfers was a fragile and not effective, although the impact of remittances was positive and significant for these countries.

Similarly, Mim and Ali (2012) have also investigated the effect of remittances on economic growth in the MENA countries. Using panel data techniques the authors estimated several specifications to provide a support of such relationship for over the period 1980–2009. The findings provide new robust evidence on how remittances are used and show the main channels which may interfere in this process. Empirical results show that the most important part of remittances is consumed and that remittances stimulate growth only when they are invested. Moreover, remittances can enhance growth by encouraging human capital accumulation. Human capital is therefore, an effective channel through which remittances stimulate growth. Other two indirect effects of remittances are: (i) its effects on human capital formation, through its effects on education and (ii) its effects on the investment ratio. Both human capital formation and investment ratio are generally seen to have growth effects on output.

IMF (2005), WB (2006) and Chami et al (2008) have investigated the relationship between volatility and remittances. The findings demonstrate that remittances by reducing volatility indirectly increase the growth rate. Similarly, there is evidence to support that development of the financial sector increases the growth rate and therefore, remittances indirectly increase



growth rate by improving the progress of the financial sector. The indirect growth effect of remittances is also through its effect on the real exchange rate.

Qayyum, Javid and Arif (2010) have conducted a study mainly focusing on the importance of workers' remittances inflow and its implication for economic growth and poverty reduction in Pakistan. By using the Autoregressive Distributed Lag (ARDL) approach the authors have analyzed the impact of remittances inflow on economic growth and poverty. The study found that remittances affect economic growth positively and significantly and thus remittances had a strong and statistically significant impact on poverty reduction and growth in Pakistan. The study suggested that international migration of labour had substantial potential benefits for poor people in developing countries. In the long run, the remittance inflow could lead to sustainable growth and welfare improvement and up gradation of poor households as the impacts of remittance broaden and enlarge overtime. So, the government should formulate the policy that enhances the amount of remittances by reducing the transaction cost of transferring the remittances through formal channel.

Giuliano and Ruiz-Arranz (2009) have shown the link between remittances and growth, in particular how local financial sector development influences a country's capacity to take advantage of remittances. Using dataset for remittances covering about 100 developing countries, the authors found that workers' remittances boosted growth in countries with less developed financial system as it provided an alternative way to finance investment and reduced liquidity constraints. Remittances also played an important role in human capital investment in the recipient country through relaxing resource constraints.

Calero, Bedi and Sparrow (2008) have explored that remittances increased school enrolment and decreased the extent of the child work. Moreover, remittances were used to finance education when households were facing aggregate shocks as these were associated with increased work activities. International remittances also performed an important role in reducing the extent of inequality and poverty.

Jongwanich (2007) has examined the impact of workers' remittances on growth and poverty in Asia-Pacific developing countries. The empirical evidence showed that remittances had a significant impact on poverty reduction and trivial impact on growth.

Singh (2011) has identified four channels through which migration can actually impact the economic performance of the labour sending country.

- ❖ The prospect of emigration affects the expected return on human capital. The prospect of emigration increases human capital investments, but a fraction of the additional human capital chooses not to leave or does not qualify to leave.

- ❖ There is an absence of highly skilled migrants from the sending country. Research on the absence channel has the longest pedigree. The focus is on how the absence of part of a country's skilled nationals affects the domestic economy.
- ❖ The Diasporas have role as a source and facilitator of international business and remittances. The general finding is that diasporic networks have a significant effect on international business.
- ❖ The return channel has concentrated on the determinants and selectivity of, and the impact of emigration on returnee's human capital and earnings.

Catrinescu et al (2006) have explored that remittances exert a weakly positive impact on long term macroeconomic growth. Furthermore, the study also supported the idea that development impact of remittances enhances in the presence of sound macroeconomic policies and institution. Fayissa and Nsiah (2008) have observed that remittances enhance economic growth in countries where financial systems are not very strong by providing an alternative way to finance investment and help overcome liquidity constraints. Iqbal and Sattar (2005) have showed that real GDP growth was positively correlated to workers' remittances and workers' remittances emerged to be the third important source of capital for economic growth in Pakistan. Adams and Page (2005) have used the data of 71 developing countries in their study on remittances, inequality, and poverty and concluded that remittances significantly reduce the level, depth and severity of poverty in developing world.

Gupta, Pattillo and Wagh (2009) have assessed the impact of the steadily growing remittance flows to sub-Saharan Africa (SSA). The study found that remittances have a direct poverty mitigating effect, and promote financial development. The findings hold even after factoring in the reverse causality between remittances, poverty and financial development. The study suggested that formalizing such flows would serve as an effective access point for unbanked individuals and households, and that the effective use of such flows could mitigate the costs of skilled out-migration.

Amuedo-Dorantes and Pozo (2004), Lopez, Molina and Bussolo (2009) have found that the impact of remittances on economic growth was positive. The study confirmed that remittance transfers overcome market imperfections and enable migrant households to capital accumulation. Durand et al. (1996a, 1996b) have showed that income from migration stimulates economic activity, both directly and indirectly, and leads to significantly higher levels of employment, investment and income.

Ang (2008) has investigated the relationship between workers' remittances and growth at national and regional level and reported that (i) in developing countries remittances affect

positively and significantly to economic growth (ii) workers' remittances should be introduced to the value added of economic activities and investment and (iii) foreign remittances are the fundamental sources to the development and growth.

Unexpectedly, contrary to the mainstream empirical researches, there are few studies which have found that the impact of remittances on Economic growth is not significant and even negative.

Burgess and Vikram (2005) have examined the different channels through which remittances can affect economic activity. The study did not clearly support the short term stabilizing effect on consumption, however the longer-term economic effect of such flows seemed to be ambiguous. Barajas, Chami, Fullenkamp, Gapen, and Montiel (2009) have shown the effects of remittances on growth to be insignificant and negative. The negative effects were owing to the Dutch Disease and deterioration of the quality of governance as many countries did not have the institutions and infrastructure in place that would enable them to channel remittances into growth-enhancing activities.

Chami, Fullenkamp, and Jahjah (2003) have shown through their study covering 113 countries that remittances had a negative effect on economic growth. The authors revealed that by asymmetric information and uncertainty of remittances limit their ability to help the promotion of the investment in human capital in developing economies. Lartey, Mandelman and Acosta (2008) have found that the exchange rate appreciated in countries with large remittances, which in turn had a negative effect on the growth rate.

IMF (2005) has done a study on the effect of remittances on economic growth for 101 developing countries over a long period from 1970 to 2003. The study inferred that there are no linkages between remittances and growth in GDP per capita or between transfers funds and other variables such as enrolment rates or investment. The study concluded that remittances might behave cyclical manner with respect to growth.

Acosta et al. (2009) presented the household survey base estimates for 10 Latin American countries which confirmed that remittances have negative though relatively small inequality and poverty reducing effects.

### **2.3.2 Nepalese Literature**

There are very few studies in the Nepalese context in relation to the international migration and remittance inflows. Bhatta (2013) using cointegration techniques and a Vector Error Correction Model based on the monthly data of merchandise import, worker's remittance and trade deficit for ten years period has investigated whether remittance caused the merchandise import and trade deficit to raise in the long run. The study showed that there was a long-run positive

unidirectional causality from remittance to import as well as remittance to trade deficit implying that remittance caused merchandise import and deteriorates trade balance. This implies that the remittance income seems to have been spent mostly on imported goods either for daily consumption or luxury and durable items, which was accelerating import and ultimately inducing trade deficit to rise. Furthermore, the empirical evidence suggested that remittance did not have a direct impact on export.

Shrestha (2008) has asserted that remittances sent home by migrant workers was a boon to the economy but the facilities were not adequate to back up the increasing trend of migration. Inadequate information on foreign employment, lack of skill training, lack of assurance of safe working environment and rights of the migrant workers had obstructed foreign employment. K.C. (2004) has observed that high unemployment and underemployment situation compelled people to remain either under severe poverty or migrate to other places including outside the country. Problems such as poverty, inequitable distribution of income, unemployment, difficult livelihood, and food insecurity pushed more and more people to foreign countries. Ghimire (1997) investigated that the standard of living was raised through foreign employment and that employment opportunities, business and economic motivations were the main pull factors of out-migration.

Bhattarai (2005) has found that the foreign labour migration shifted the agricultural based economy towards remittance based economy. A class division among the labour migrants determined the selection for the country of destination. Poor people used to go to India, Gulf States and Malaysia while rich people go towards Japan, South Korea, North America and Europe. Pokharel (2011) has claimed that the main push factors were under unemployment, family responsibilities, and lack of opportunity whereas the major pull factors were high wage rate, presence of friends and relatives and easy availability of work. The process which involved for foreign employment was by contacting friends and relatives from abroad and expenses pertaining to foreign employment usually vary from one country to other. Sigdel (2005) has confirmed that employment abroad helped Nepal to solve ever growing unemployment problem and BOP crisis and injected much-needed foreign currency into the economy to fill up foreign exchange and investment gap. The strong inflow of remittance allowed foreign exchange reserve to increase and provided the confidence to float a country's currency.

Gurung (2000) explored the workers' mobility and linked to their HIV vulnerability. The author suggested that foreign employment policy should be promotion-oriented rather than control-oriented. In his second study Gurung (2004) has investigated vulnerabilities of Nepalese migrant workers and found that a majority of workers were not offered protection from injury or exploitation by their employers. The author suggested interventions to offer growing migrant workforce. In the third study Gurung (2009) has recognized that the main reason behind the migration was to acquire for a prosperous life in the future. Most of the emigrants had low-level

of education and income, without any skills and training and thus, involved in constructions, salesman, housemaid, care giver, security guards, driver and other types of work.

Seddon, Adhikari and Gurung (2002) have found that failure to create and implement a coherent development policy by mobilizing all of Nepal's resources including effective education, trained manpower planning for human resource development has led to unemployment and underemployment and thus massive upsurge in the international migration.

## **2.4 Conclusions**

This chapter briefly reviewed theoretical as well as empirical works with regard to the international migration and remittance transfer in Nepal as well as around the world. It follows from the review of the various studies cited above that consensus on the effectiveness of remittances has not been clearly established. The implication of the findings of these studies is that mere collection of remittances in banks and financial institutions does not bring desirable change. Other policies and programs need to be devised to increase the rate of growth in the long-term, instead of depending solely on increased remittances. Meaningful utilization of remittance incomes paves the way for boosting socio-economic activities towards deprived people and remote areas of the nation.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter outlines the methodology for analysing remittance income and measuring inequality. There is an extensive literature regarding the methodology in these areas but this study is confined to deal with research questions set in Chapter 1.5. The chapter structure is as follows: Section 3.2 justifies rationale for selection of the study area; Section 3.3 presents research design; Section 3.4 provides nature and sources' of data; Section 3.5 briefly explains sample selection procedure; Section 3.6 data collection methods; Section 3.7 concisely elucidates data analysis procedure and Section 3.8 concludes this chapter.

### **3.2 Rationale for the Selection of Study Area**

The proposed site of the study is the Puja VDC of Pyuthan district. The main reasons for selecting this VDC are researcher's familiarity with the study area and his previous work experience in the VDC. Moreover, a larger number of household members of the VDC are abroad for foreign employment and this VDC is being one of the leading VDCs in terms of migrant population. Therefore, the VDC is considered to be the representative of rural Nepal. Besides, the VDC is accessible and comfortable to the researcher to carry out the research work.

### **3.3 Research Design**

Research design is the main part of research works which tends to collect accurate information to minimize the chance of drawing incorrect inferences from data. It is simply the framework or plan for a study that is used as a guide in collecting and analyzing the data. Actually, it is the blue print for collection, measurement and analysis of data which is usually developed to guide the research. It is a well organized and integrated approach that guides the researcher in formulating, implementing, and controlling the study so as to produce the answers to the proposed research questions. According to Kerlinger (1973, p. 300) "Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance." Thus we can conclude that a research design is the arrangement of condition for collection and analysis of data in a manner that aims to generalize the findings of the sample on the population.

The research design chosen depends largely on the type of research being done. The research design applied in this study is descriptive as well as analytical. The descriptive research is generally used to describe characteristics of a population being studied. This is a case study of Puja VDC which is a micro level study. A descriptive approach to research is called as a

foundation for research and therefore, does not answer questions about how, when, why the characteristics occurred. Rather it attempts to determine, describe, or identify what is.

The characteristics used in this study to describe the situation are some kind of categorical such as income groups, ethnic groups, occupation groups, groups of socioeconomic indicators and the like. Descriptive research generally precedes explanatory research. Based on the descriptive design all the primary data are presented in tables and analyzed in the descriptive way using frequencies, averages, ratio and other statistical calculations. Moreover, this study uses description, classification, measurement, and comparison to describe the remittance income.

Explanatory research focuses on why questions. Analytical approach concentrates on the process of the final results. It stands applicable in all stages of research, right from the articulation of thesis to the formulation of arguments on the issues mentioned in the research. In this study, analytical means, there are various cause and effect relationships of foreign employment and migration which are logically linked and analyzed to make the study more robust. The simple statistical as well as scientific tools are used to describe and analyze the data.

### **3.4 Nature and Sources of Data**

Basically, the study is based on the primary data concentrated mainly to those emigrant households whose family members are abroad. Some data about remittance and out-migration was also taken from the secondary sources which are both published as well as unpublished.

### **3.5 Sample Selection Procedure**

There are 248 emigrant households in Puja VDC. Taking all the emigrant households of the VDC as a population, a sample of 40 households which is 16.13 percent of the total were selected as samples from the VDC using two stage area sampling procedure. In the first stage 9 wards of the VDC were taken as cluster. In the second stage proportionally a total of 40 households from all wards were chosen randomly. The units of information were immigrants and/or household heads. The selected respondents were interviewed personally with the help of a specially structured questionnaire. Necessary information including remittance income, ethnicity, household-specific and socioeconomic information were collected. The field survey was conducted in February to May, 2015. Table 3.1 shows the representation of sample households from each ward.

**Table 3.1: Sample Households**

Ward NO.	NO. of HH	Immigrant HH	Sample HH
1	98	26	4
2	54	22	4
3	182	25	4

4	91	28	5
5	53	32	5
6	107	23	4
7	101	33	5
8	177	21	3
9	168	38	6
Total	1031	248	40

Source: (CBS) Population Census 2011 and Field Survey, 2014.

### **3.6 Tools and Methods of Data Collection**

To collect the primary data necessary for the study, direct personal interview were taken with the respondents using a structured questionnaire. Some information about remittance amount was collected through banks and other organizations working in the field of remittance, including Western Union Money Transfer, BOK Remittance, Money Gram, Hemel Remit. Some data were collected through the manpower company and the neighbours of the emigrants as well. The researcher had the advantage to recognize some of the emigrants' house with the help of his relatives, friends and the like. The required primary data was collected from the field study by the researcher himself using the questionnaire method. Firstly, the collected data was tabulated in a master table using spread sheet in SPSS and then processed according to the need of the study.

#### **3.6.1 Primary Data Collection**

All the selected 40 households were requested to fill up questionnaire. In case of the respondents who could not fill up the questionnaire the questions were asked to the respondents and answers were filled up by the researcher to collect the required information. The questionnaire included open and close ended questions. If available, personal interview was taken from each returnee and if not interview was taken from the household head. Cross checks, editing and indirect questions were also put sometimes when the answers were thought to be unrealistic and irrelevant.

#### **3.6.2 Secondary Data Collection**

Data were also collected from the secondary sources; from the publications of the National Planning Commission, Central Bureau of Statistics, budget speeches of the Government of Nepal, Economic Surveys, Nepal Living Standard Survey, Economic Reports and other quarterly and annual publications of Nepal Rastra Bank, and VDC profiles, other periodicals, journals, books, magazines, seminar papers, reports of research centres and information from donor agencies like WB, ADB, IMF, UNDP.



### 3.7 Data Analysis Procedure

Data analysis procedure is at the heart of any research study. It is the attempt to fully and accurately summarize and represent the data that has been collected. The quality of any research work depends upon the set of questionnaire, method of data collection and more importantly techniques used to analyze the data. Data analysis is the procedure of evaluating data using analytical and logical reasoning to examine each component of the study. This form of analysis is just one of the many steps that must be completed when conducting a research work. Data from various sources is gathered, reviewed, and then analyzed to form some sort of findings or conclusions. In this study, data was analyzed using the following tools.

#### 3.7.1 Simple Statistic

The primary data were tabulated in a master table and then processed and analyzed using SPSS software by coding, recoding with frequency table and crosstabs. Descriptive statistics, tabulation, graphical presentation were made by classifying, identifying, grouping and clustering the data to get the required results about the effect of remittance into different sectors of the economy.

#### 3.7.2 Tools Measuring Inequality

##### 3.7.2.1 Gini-coefficient

In the economics literature, the Gini-coefficient is the most commonly used measure of inequality which is developed by the Italian statistician Corrado Gini (1912). It measures the inequality among values of a frequency distribution of levels of income. The Gini-coefficient is a ratio with values between 0 and 1, which is the area on the Lorenz curve. If the area between the line of perfect equality and Lorenz curve is A, and the area under the Lorenz curve is B, then the Gini coefficient is  $A/(A+B)$ . The Gini-coefficient varies between 0, which reflects complete equality (everyone has the same income) and 1, which indicates complete inequality (one person has all the income, while everyone else has zero income).

For a group data the formula for the computation of Gini-concentration is:

$$GC = \frac{1}{100^2} \sum X_i Y_{i+1} - \sum X_{i+1} Y_i \quad \text{Source: Gini (1912)}$$

Where,

$X_i$ =cumulative of variable on X

$Y_i$ = cumulative of variable on Y

Graphically, the Gini-coefficient can be derived easily representing by the area between the Lorenz curve and the line of equality as illustrated in Figure 1. If income is distributed completely equally, then the Lorenz curve and the line of total equality are merged and the Gini-coefficient is zero. If one individual receives all the income, the Lorenz curve would pass through the points (0,0), (100,0) and (100,100), and the surfaces A and B would be similar, leading to a value of one for the Gini-coefficient.

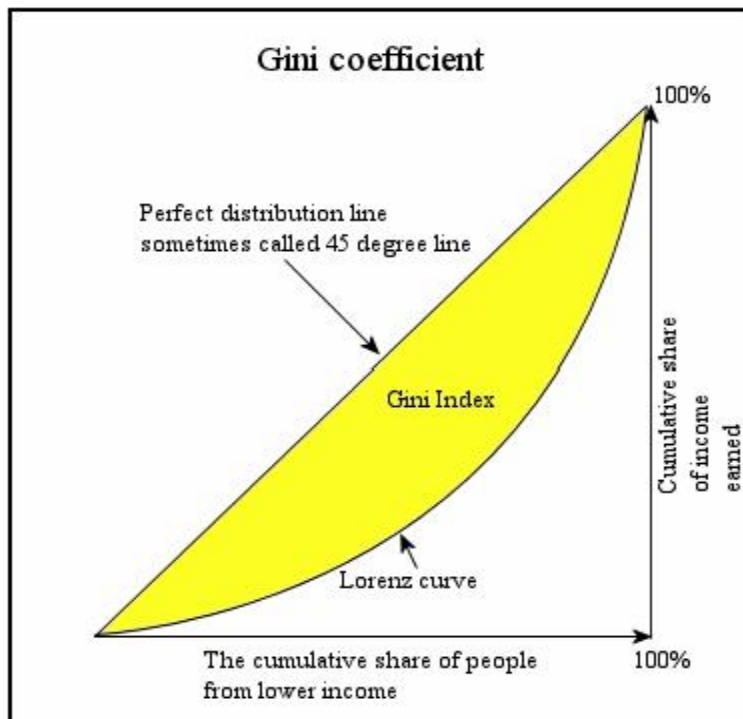
The Gini-coefficient's main weakness as a measure of income distribution is that it is incapable of differentiating different kinds of inequalities. Lorenz curves may intersect, reflecting differing patterns of income distribution, but resulting in very similar Gini-coefficient values. This troubling property of the Lorenz framework complicates comparisons of Gini-coefficient values. The Gini-coefficient measured for a large economically diverse country will generally result in a much higher coefficient than each of its regions has individually. Economies with similar incomes and Gini-coefficients can still have very different income distributions. This is because the Lorenz curves can have different shapes and yet still yield the same Gini-coefficient. Despite these limitations, the Gini-coefficient has been extensively used and it remains the most popular measure of income inequality in the economic literature and also used in this study to measure the level of inequality.

### ***3.7.2.2 Lorenz Curve***

In economics, the Lorenz curve is a graphical representation of the cumulative distribution function of the empirical probability distribution of income. It was developed by Max O. Lorenz (1905) for representing inequality of the income distribution. The Lorenz curve shows the percentage of total income earned by cumulative percentage of the population. If in a perfectly equal society, the poorest 25% of the population earn 25% of the total income, the "poorest" 50% of the population earn 50% of the total income, and then the Lorenz curve would follow the path of the 45° line of equality. As inequality increases, the Lorenz curve deviates from the line of equality; the "poorest" 25% of the population may earn 10% of the total income; the "poorest" 50% of the population may earn 20% of the total income and so on.

### **Figure 3.1: The Lorenz Curve Framework (Hypothetical Data)**

One of the appealing properties of the Lorenz curve is that it can be used to generate a single summary statistic of the income distribution, the Gini-coefficient. The Gini-coefficient is equivalent to the size of the area between the Lorenz curve and the 45° line of equality divided by the total area under the 45° line of equality. The more the Lorenz curve deviates from the line of equality, the higher will be the resulting value of the Gini-coefficient. A coefficient of 1 (or 100%) represents a perfectly unequal society wherein all income is earned by one individual and *vice-versa*. In the figure, the Lorenz curve maps the cumulative income share on the vertical axis against the distribution of the population on the horizontal axis.



### 3.8 Conclusions

The purpose of this chapter was to provide an overview of the research methodology. The chapter focused on what is the research design, source of data, data collection method, and data analysis. The chapter began selection of study area followed by the research design, sample selection procedure. It then discussed the data collection methods. The chapter also discussed how the data is analysed

## **CHAPTER FOUR: FOREIGN EMPLOYMENT AND CONTRIBUTIONS OF REMITTANCE INCOME IN NEPAL**

### **4.1 Introduction**

The main aim of this chapter is to examine the contributions of remittance income with regard to socio-economic development of migrant families in Nepal which is the first objective of the thesis set in Chapter 1.3. Largely based on the secondary data this chapter attempts to answer the first research question set in 1.4 i.e., how is remittance transfer contributing to socioeconomic development of migrant families in Nepal?

The chapter commences with foreign labour employment in section 4.2. Section 4.3 discusses the most favoured destinations of Nepalese workers. Section 4.4 explains remittance income and the growth of remittance. Section 4.5 summarizes the key players in labour migration and remittance process. 4.6 briefs regulation pertaining to foreign employment 4.7 sketches key problems and this chapter ends with offering concluding remarks in section 4.8.

### **4.2 Foreign Labour Employment**

Once an Indian writer K. Jagat Motwani (1994:11) quoted that “the sun does not rise or set anywhere without shining on some members of the Indian community”. Presently, this quotation is likely relevant in the context of Nepal as well. Nepalese migrants are to be found in all continents and major cities in the world.

Migration of labour across national boundaries is nothing new for Nepal. The history of labour migration from Nepal dates back to the 18th century when Nepalese people for the first time undertook out-migration to join the army of a Sikh ruler in Lahore. The slang word *Lahure* is still customary to term for all labour migrants. From the early 19th century Nepal exported Ghurkha soldiers to the British army (Seddon et al., 2002). A total of 4,650 Nepalese youngsters were recruited to the British armed forces as a British-Gurkha regiment after the conclusion of the war and signing of the Treaty of Sugauli in 1816. Since then, labour out-migration largely to India became a tradition.

Additionally, the migration of Nepalese people for other employment purposes, such as working in the tea states of Darjeeling and the forest of Assam, India began in the second half of the 19th century (Gajurel, 2014). International labour migration, mostly to Gulf States, Malaysia and other South East Asian countries initiated in the 1990s promoted by more liberal travel policies and the growing economy of those countries. These trends were further accelerated by the decade long Maoist insurgency (WB, 2011a). Surprisingly, labour migration increased

dramatically at an annual average rate of 47% between 1999 and 2009 (Jones, and Basnett, 2013).

Currently, the Government of Nepal has opened 109 countries for foreign employment including Gulf countries, South East Asia, Europe and the USA (Gajurel, 2014). Nepal with 26.4 million populations has sent more than 10 percent of its people to foreign employment. Every year, more than 4 million Nepalese people travel abroad for work, which is equivalent to one-third of the working male population (WB, 2011a). Unexpectedly, foreign labour migration has developed in such a way that it has shifted the agricultural-based Nepalese economy towards remittance-based economy. Table 4.1 shows the trend of male and female migration each year other than India.

**Table 4.1: Male and Female Labour Migrants of Nepal**

Year	Total	Male	Percent	Female	Percent
2008/09	219,965	211,371	96.093	8,594	3.907
2009/10	294,094	284,038	96.581	10,056	3.419
2010/11	354,716	344,300	97.064	10,416	2.936
2011/12	384,665	361,707	94.032	22,958	5.968
2012/13	450,834	423,092	93.847	27,742	6.153
2013/14	521,878	492,726	94.414	29,152	5.586

Source: Calculated based on data of MoLE

As Table 4.1 shows, the number of Nepali workers leaving home for foreign employment is increasing every year. A total of 521,878 Nepali people left the country in 2014. This is 16.4 percent more than that of previous year. It does not include individuals who leave the country for foreign employment illegally via India or with support of middlemen (Gajurel, 2014).

Since 1990 with the globalization of the world economy, and the changing feature of the international migration, feminization of international migration has been increased rapidly (Mathema, 2010). This phenomenon has resulted in the increase of women labour participation in foreign employment. Accordingly, Nepalese women have also enjoyed increasing opportunities of employment in countries outside India.

The migrants are almost of productive age group between 20 to 40 years of age (Gajurel, 2014). Majority of migrant workers are labourers and agriculturalist who are either unskilled or semi skilled from low income backgrounds. They are allowed their families behind to establish small business, get hold of real assets and make considerable and extensive enhancement and improvement in their standard of living. Though negligible portions of highly skilled manpower are migrated around the world, very few of them have got managerial or some kind of decent jobs in host countries. Anyway, this kind of human capital flight or brain drain is the huge loss for the country. The high unemployment, massive poverty, expectations for higher earnings

abroad are the possible causes that push the increasing number of Nepalese to go abroad for employment.

### 4.3 Most Favoured Destinations

The most favoured destination countries for Nepalese workers for foreign employment are defined from the perspective of the number of workers in those countries. It might be either related to the level of skills needed to entry into the migrant country for any type of work or it might be related to the conditional ties and the cost to entry to that particular country. Moreover, the wage factor might be the main issue of the workers.

Generally the Nepalese workers are either unskilled or semi-skilled. So they prefer those countries for foreign employment where they can adjust with their qualification. So, the Gulf countries and Malaysia are being the easiest destinations for the majority of Nepalese workers to get foreign employment. The destination countries which have maximum number of Nepalese migrants from 2009/10 to 2014/15 are given in the following table.

**Table 4.2: Nepalese Migrant Workers in Different Countries**

SN	Country	2009/10**	2010/11	2011/12	2012/13	2013/14	2014/15*	Total
1	Malaysia	5,78,292	1,05,906	58,165	1,02,240	2,14,149	1,52,864	12,11,616
2	Qatar	4,83,651	1,02,966	74,938	55,221	1,28,874	84,911	9,30,561
3	Saudi Arab	3,59,780	71,116	47,820	60,859	86,876	67,419	6,93,870
4	U.A.E.	2,16,629	44,464	39,979	38,085	54,965	37,364	4,31,486
5	Kuwait	24,452	15,187	15,583	9585	19,353	6,639	90,799
6	South Korea	12,007	3,728	1939	1764	2,125	2,801	24,364
7	Other	79,011	11,349	11,748	9,060	21,472	12,742	1,45,382
Total		17,53,822	3,54,716	2,50,172	2,76,814	5,27,814	3,64,740	35,28,078

Source: Economic survey 2014/15 \*\*Total NO. Up to Fiscal Year \*First Eight Months

Table 4.2 illustrates that until FY 2014/15 Malaysia received the maximum number of Nepalese workers followed by Qatar, Saudi Arab and UAE, Kuwait, South Korea and others. This table does not include those who leave the country for foreign employment illegally via India or with support of middlemen.

In aggregate, India is the most common destination where around 72 percent of the total Nepalese migrants go there. The rest 28 percent (1.2 million) migrant people travel to some other countries apart from India; 64 percent go to Gulf countries, 19 percent to Malaysia and 15 percent to other developed countries including Australia, Japan, the UK and the US (NIDS and NCCR, 2012).

#### **4.4 Remittance Income in Nepal**

The inflow of funds from migrant workers back to their families in their home country is an important source of income in many developing economies. Increased remittances to developing countries could lead to rapid economic growth, stability and improved livelihoods (Adenutsi and Ahortor, 2010). Remittances flows have proven to be a stable source of capital for poor countries because they do not depend on the same external factors as other kinds of private capital flows. There is ample evidence to show that migrants have contributed a lot in many social and community activities back home (Russell et al. 1990). Migration can help alleviate unemployment problem to some extent (Ghosh, 1992). Even very small amounts of remittances can be vital for poor people, including for their food security. The recipients often depend on remittances to cover day-to-day living expenses, to provide a cushion against emergencies or, in some cases, as funds for making small investments. Papademetriou and Martin (1991) and Adams (1991, 1996, 1998) have emphasized the productive investments of remittance transfers.

In the early days of Nepalese international relations, remittance income used to enter from the British Gurkha soldiers and the workers in different parts of India. However, no due attention was given from the government level to enhance the remittance transfer. Maoist insurgency which started in 1995 had negative impact on several sectors of the economy including industry, tourism and even in the agriculture. Consequently, unemployed youngsters were being attracted for foreign employment and then remittance transfer got prime attention in Nepalese context. Several countries were opened up for foreign employment. Since then the sustainability of Nepalese economy largely depends on remittance transfer. The importance of remittance on Nepalese economy can be judged by the growth in the number of persons leaving the country each year for foreign employment and the remittance transfer by them. Next sub-section discuss regarding this concern.

Nepal continues to receive large amounts of remittances, averaging 25.7 percent of GDP and 237.3 percent of exports of goods and services per annum during the past three years (Sijapati, 2015). The ratio of remittance to GDP reached 28.0 percent by FY 2013/14 (MoF, 2015). External debt stood at 18 percent of GDP by the end of FY 2013/2014; out of which 86 percent was concessional borrowing from the WB and the Asian Development Bank. Japan was the largest bilateral creditor, followed by Korea, India and China (Sijapati, 2015).

Owing to the potential positive effect of remittances, Nepal has accorded priority in promoting overseas employment and mobilizing remittances so as to maximize the benefits from these transfers. In this respect, even the National Planning Commission has given priority for improvement in foreign employment as well as proper use of the remittance. The growth of remittance largely depends on the number of labour force working outside the country, the level of earning by the immigrants, and the proportion of income saved and sent back home.

The size of remittance also determines the availability of foreign currency in the country. Table 4.3 illustrates the trend of remittance inflow, annual percent change and ratio to GDP from 2006/07 to 2014/15.

**Table 4.3: Remittance Inflows in Nepal**

Year	Remittance (Rs. in Billion)	Annual % Change	Ratio to GDP
2006/07	100.14	2.5	13.8
2007/08	142.68	42.5	17.05
2008/09	209.7	47	21.2
2009/10	231.73	10.5	19.4
2010/11	253.55	9.4	18.5
2011/12	359.6	41.8	23.5
2012/13	434.6	20.9	25.7
2013/14	543.3	25	25
2014/15	371	4	-

Source: MoF (2015) \*First Eight Months

Table 4.3 illustrates the remittance inflow under transfer from 2006/07 to 2014/15. It includes only the remittance sent through the formal channels. As the table shows remittance income soared gradually each year from 2006/07 to 2014/15 but there is a sharp rise in 2007/08 and 2011/12.

The remittance inflow that rose by 34.1 percent in the first eight months of the previous year has increased only by 4.0 percent totalling Rs. 371.0 in the same period in 2014/15. In US dollar term, remittance income that recorded a growth of 17.5 percent during the first eight months of fiscal year 2013/14, increased by 4.8 percent amounting US dollar 3.76 billion during the same period of fiscal year 2014/15 (MoF, 2015). Official remittances have grown by an average of 24% over the past 10 years. If the growth rate of remittance is continued at present rates, remittance income will exceed the total GDP of Nepal in 2020 (WB, 2011a).

As other south Asian countries, remittance is extremely important to Nepal. As a share of remittance to GDP, Nepal is ranked among the top 5 LDCs in the world for last many years. However, in 2013, among the all LDCs in the world, Nepal ranked at the top recipient of remittance relating to the share of the GDP (UNCTAD, 2014). In this year contribution of remittance inflow to Nepal's GDP was 25 percent.

The BOP and current account surplus largely depends on the amount of remittance inflow. For instance, the overall BOP recorded a surplus of Rs. 34.07 billion in the first eight months of the current fiscal year 2014/15 as compared to a surplus of Rs. 102.81 billion in the same period of the previous fiscal year (MoF, 2015). In the first eight months of the current fiscal year 2014/15, the current account registered a surplus of Rs. 11.65 93 billion. Such account had recorded a



surplus of Rs. 68.41 billion during the same period of the previous year. The reason for such a low-level of the surplus in the BOP and current account during this period is mainly attributable to the lower rate of increment in remittance inflows. The country would not be able to turn around the negative balance of trade right away but the BOP and current account have been surplus mainly owing to remittance transfer.

In Nepal, about half the remittances from abroad come from the Gulf countries. Among the rest 50 percent, about 21 percent comes from the developed countries including Australia, Japan, the UK and the US, 19 percent from India and 10 percent from Malaysia (WB, 2011a). With export declining over the years, money sent back by migrant workers has become the main source of foreign exchange in Nepal. However, remittance growth has not kept pace with the rising number of migrant workers leaving for foreign employment. If the slowdown of the remittance persists it may affect the economy, especially in the foreign exchange shortage.

Along with agriculture which contributes more than 30 percent of the GDP, remittance sector have emerged as another major contributor to the GDP. Moreover, remittance has contributed significantly to the reduction of poverty for the last two decades. Remittance and migration driven economy has reduced poverty in Nepal from 42 percent in 1996 to 25.16 percent in 2011 (CBS, 2011).

Remittance make available not only significant portion of the GDP but also contributes in saving and investment at household level. Nepal has achieved gradual improvement on aggregate poverty and human development indices while analyzing poverty from three major dimensions namely income poverty, human poverty and social exclusion (MoF, 2015). Remittance was one of the factors behind Nepal's remarkable success in human development in the last 40 years. Nepal emerged one of the world's fastest movers in Human Development Index (HDI) since 1970. Despite reduction in number of population below absolute poverty line as a result of the government's poverty focused development efforts, poverty gaps between urban and rural, and between various geographical regions and groups is still very wide.

#### **4.5 Key Players in Labour Migration and Remittance Process**

There are a number of key players in labour migration and remittance processes (Jones, and Basnett, 2013). In Nepal almost all migrants find foreign employments through manpower agencies which are hundreds in numbers. These agencies are playing a key role in bringing demand from overseas labour markets and meeting those demands with supply of Nepalese labours. They are responsible for a number of tasks during the process of recruiting workers and sending them abroad, including pre-departure orientation.

For this purpose, the manpower agencies charge a huge amount as their fees; a portion of which goes to paying for costs such as commission to agents in workers receiving countries,

advertisement in newspapers, taxes, air tickets etc. (Adhikari and Gurung, 2011). There are a large number of informal brokers as well who facilitate the migration process by obtaining documents, filling applications, organizing travel to Kathmandu or elsewhere and the like (NIDS and NCCR, 2012).

The majority of migrants send money home through formal sources including money transfer operators and the commercial banks. A total of 26 commercial banks, 2 finance companies and 45 money transfer operators are dealing with remittances (Adhikari and Gurung, 2011). However, domestic non-bank remittance service providers are the preferred option for most migrants because of the flexible business hours of their overseas partners, comparatively low costs, short processing time (1-2 days), simplified procedures for both sending and receiving, and large geographical reach (WB (2011a).

Remittances coming from India and some other destinations as well send through informal channels; either bring money with them, send it with friends and relatives or use *hundi* which is an informal system for transferring of funds through a network of agents.

#### **4.6 Regulation Pertaining to Foreign Employment**

The Government of Nepal has not ratified the International Labour Organization (ILO) convention that directly deals with the rights of migrant workers (National Human Rights Commission-NHRC, 2012). However, in response to increased levels of exploitation of migrant workers, Foreign Employment Act 2007 has come into force after consultations with various stakeholders. Under this Act, the government provides a regulatory function focusing on the safety and welfare of migrants. To provide for migrant safety, the Act established a welfare fund for workers. Every migrant must contribute NRs. 1,000 to the fund. The fund is used to support workers encountering problems in destination countries and in the case of death to repatriate the worker and pay compensation to the family. There is also compulsory health insurance provision coverage of NRs. 500,000. The government provides labour envoys in countries with over 5,000 Nepalese workers.

#### **4.7 Key Problems of Foreign Migration**

While market forces are driving labour migration, there are a number of risks associated with foreign migration including trafficking and forced labour, recruitment malpractices such as fraudulent job offers and exorbitant placement fees, debt bondage, sexual and physical harassment, employment in hazardous jobs, and under or non-payment of wages (Bhattarai, 2005). Most of the migrant workers abroad are working in vulnerable situations without any effective legal protection by the Nepalese government or the receiving countries' government. Workplace exploitation by employers is reported frequently. However, the Nepalese government has not been effective in protecting its citizens. Frequent serious cases

are reported in the news media about the pathetic situation of Nepalese migrants working in unauthorized countries without any legal or social protection by the host countries.

Around 2,400 Nepalese workers die abroad each year, and it takes usually a year to bring their dead bodies (WB, 2011a). Exploitation, physical abuse and sexual violence are common for domestic workers and female migrants. Migrants are not given sufficient orientation and training before departure. Nearly 74 percent Nepalese workers employed in foreign labour markets are unskilled (Gajurel, 2014). There is possibility of cheating on salary amount, type of job offered, working hours, overtime pay, and so on. Migrants only receive their contract, passport, visa and flight ticket days or hours before departure, frequently at the airport. At that time they have no option to decline the job offers even if they are badly cheated (Amnesty International, 2011). State intervention through appropriate regulatory institutions and measures are essential to the efficient and equitable working of labour market.

International provisions are sound and applicable to protect the rights of migrant workers but governments in both sending and receiving countries do not seem sincere to implement the spirit of international provisions (*ibid*). Ratification of UN convention by Nepal would create moral pressure on the labour receiving countries. Bilateral agreement has not taken place even with some major labour importing countries pertaining to the safety and welfare of the migrant workers. Provision of labour attaché in the potential labour receiving countries is still lacking. Manpower agencies' professionalism dealing with the workers is unfair and questionable. Thus, a strong and effective policy on foreign employment should be in place so as to reduce the vulnerabilities and safeguard the rights of migrant workers. Bilateral agreements, with the governments of the destination countries in order to increase the number of jobs for Nepalese youngsters, increase security as well as improve the migrants' working conditions, have to be reached (Gajurel, 2014).

Most of the remittance incomes are spent in buying land, constructing houses and other unproductive social rituals. Even those who are interested to start new ventures do not find any attractive areas for investment. There is lack of policy programs to divert the remittance income into productive sectors. There is much room for tapping its potential. For this, the government should recognize the contribution of remittance to national economy and devise suitable policies to channelize it for productive use.

#### **4.8 Conclusions**

As a share of remittance to GDP, Nepal is ranked among the top countries in the world. In 2013, the contribution of remittance inflow to Nepal's GDP was 25 percent. The national GDP growth rate is directly related to the various factors like total saving of the economy and investment of that saving. On the other hand, saving is determined by the investment. The investment of the country is directly dependent on the remittance income. In this context, remittance transfer is

the major factor of development for a country like Nepal, though there are some serious problems to be addressed. This chapter highlighted on the analysis of foreign labour employment and remittance economy in Nepal to fulfil the first objective of the thesis. At large, this chapter successfully answer the first research question of the thesis.

## **CHAPTER FIVE:**

### **PRESENTATION, ANALYSIS AND DISCUSSION OF DATA**

#### **5.1 Introduction**

The plan of this chapter is two-fold: to analyze the changes in socioeconomic conditions of rural households brought about by foreign remittances; and to measure the extent of inequality to which the distribution of income among the sample households within the VDC deviates before and after receiving foreign remittances. These are the second and third objectives of the study. The chapter also attempts to answer the second and third research questions viz., what are the changes in socioeconomic condition of rural households brought about by foreign remittances and what is the extent of economic inequality before and after receiving foreign remittances?

The chapter is organized as follows. Section 5.2 provides socioeconomic features of sample households followed by Section 5.3 change in the education status, Section 5.4 poverty and unemployment as causes foreign migration, Section 5.5 cost for foreign employment and sources of financing, Section 5.6 types of jobs and duration of stay, Section 5.7 causes of return and utilization of remittance and skills, Section 5.8 changes on household economy and other indicators and Section 5.9 income status of sample households. Sections 5.2 to 5.9 are related to the second objective. Section 5.10 measures the income inequality which is related with the third objective, and finally Section 5.11 offers conclusions.

#### **5.2 Socioeconomic Features of Sample Households**

In Nepal, labour migration as an economic activity is highly 'inclusive' on many dimensions (Jones, and Basnett, 2013). Significant number of participates are from the Mountains, the Hills and the *Terai*, and from all five development regions though migrants are much more likely to come from rural areas than urban. Proportionately, the Hill people are slightly more than the *Terai* people. All ethnic groups are participated in foreign migration with the lowest proportion of Newars but above average proportion of Muslims, Hill Dalits, Hill Janajatis and Brahman Chhetri. The inclusiveness of gender participation of labour migration is highly uneven. Only 6-7 percent of migrant workers are female. More women go to India (51,000) followed by Kuwait (25,000), Qatar (12,000), Saudi Arabia (7,000) and developed countries (16,000) (WB, 2011a). Women's earnings from migration are relatively higher than those of men.

Table 5.1 demonstrates that 62.5 percent of the sample households are involved in the agriculture which is nearly equal to the national level. Rests of the sampled households are involved in the other occupations such as government job, business, and foreign employment.

#### **Table 5.1: Population by Major Occupation of Sample Households**

Main occupation	No of Households	Total Population	Active population (Age 15-59) Years)	
			Population	Percent
Agriculture	34	213	133	62.5
Non-agriculture	6	38	14	37.5
Total	40	251	147	100

Source: Field Survey, 2014

Social condition such as ethnicity, size of the family, age, marital status and literacy determine the willingness of the individual to participate in foreign labour market. The main ethnicities of the sample households are Brahmin, Chhetri, Janajati, Gurung, Sunar, Kami and Damai. The following table illustrates the average family size and literacy rate of different ethnic groups of sample households.

**Table 5.2: Average Family Size and Literacy Rate of Sample Ethnic Groups**

Ethnic Groups	No. HHs	Average family size	% of literacy
Chhetri	14	4.5	86
Brahmin	11	4.03	76
Janajati	6	4.91	49
Dalit	5	6.23	37
Others	4	5.06	45
Total	40	4.82	75

Source: Field survey, 2014

Table 5.2 shows that the number of migrants from Puja VDC is dominated by Chhetri and Brahmin. The education level in terms of literacy rates of Janajati, Dalit and others are quite low. The table also presents the family size of the respondents. The family size of the Dalit which include Kami and Damai is high compared to other ethnic groups. This is also playing a vital role to foreign employment. Most of the people of the Dalit ethnic group get marriage in their childhood. This helps to be a larger family size and as a result of which it becomes one of the important aspects of push factor to foreign employment.

In the study area the people are engaged in different occupation like Agriculture, Business, local and Foreign employment. Occupation determines the level of income of the respondent families. Table 5.3 presents main source of income of the sample households.

**Table 5.3: Main Sources of Income of Sample Households**

Sr. No.	Sources of income	Number of HHs	Percentage
1	Agriculture	14	35
2	Foreign Employment	10	25
3	Government Job	6	15

4	Business	8	20
5	Other	2	5
Total		40	100

Source: Field survey, 2014

The table shows that out of 40 households, 14 (35%) households have agriculture as their main source of income followed by foreign employment (25%), government job (15%), business (20%) and others (5%).

In spite of good achievements in MDGs, there is still a visible disparity in the rural and urban poverty levels. Poverty is highly unequal among social and ethnic groups and the geographic regions (Sijapati, 2015). The people of the geographically remote areas are still in a vulnerable position in terms of accessibility of basic facilities. Economic condition is one of the most important factors of international migration. People from lower economic condition have more urgency to seek foreign employment. Mainly individuals whose economic condition is extremely poor go to India for foreign employment because of the less cost.

In this study, respondents are classified into four categories; lower, lower middle, middle and high income groups. The respondents assigned the category according to their own assessment of their economic conditions. The data obtained from respondents are presented in Table 5.4.

**Table 5.4: Economic Condition of Sample Ethnic Groups**

Ethnic groups	Respondents	Economic Category			
		Lower income	Lower Medium	Medium	Higher income
Chhetri	14	2	4	6	2
Brahmin	11	2	3	4	2
Janajati	6	1	2	2	1
Dalit	5	3	2	-	-
Others	4	1	2	1	-
Total	40	9	13	13	5
% of Total	100	22.5	32.5	32.5	12.5

Source: Field survey,

Table 5.4 presents the summary about the economic condition of the respondent households. Among the sample households Chhetri, Brahmin and Janajati households have strong economic condition as compared to Dalit and others. Table 5.5 presents the information about the housing pattern of sample households.

**Table 5.5: Housing Pattern of Sample Households**

S. No.	Types of houses	Total number
1	Made with stone and mud with stone roof	21

2	Made with stone and mud with tinned roof	8
3	Made with stone and mud and thatched roof.	11

Source; Field survey, 2014

The table shows that out of the total 40 sample households, 21 households have made their houses with stone and mud walls and slate stone in the roof. There are 11 houses made with stone and mud walls and thatched roof. Remaining 8 houses are made with tin roof.

As in many other developing countries, there are four main land tenure systems in Nepal; (i) fixed sharecropping system (where the tenant pays a fixed share of output to the landowner for the use of his land) (ii) fixed rent system (where the landowner receives a fixed rent from the tenants for the use of the land) (iii) fixed wage rate system (in which the landowner cultivates land with the help of hired labour at fixed wage rates) (iv) the peasant cultivation system (in which the owner of the land cultivates land with his household labour). Puja VDC is not exceptional in this case. In the study area, most of the peoples' main occupation is agriculture but there is extreme inequality in the distribution of agricultural land. The land is categorized into three forms, i.e. Khet, Bari, and Pakho. Most of the poor families do not have Khet. The following table shows the unequal distribution of land holding among the sample households.

**Table 5.6: Distribution of Land among Sample Households**

Land Holding (Ropani)	No. of HHs	Percent
Landless	2	5.00
Bellow 2	5	12.50
2-5	7	17.50
5-10	6	15.00
10-15	10	25.00
15-20	8	20.00
Above 20	2	5.00
Total	40	100.00

Source: Field Survey, 2014

Table 5.6 shows that there is unequal distribution of land among the sample households. Among the total 40 households, 5 percent households are landless. The percentages of land holding households below 2 Ropani and 2-5 Ropani are 12.5 and 17.5 percent respectively. Similarly, households with land holding 5-10 Ropani are 15 percent; 10-15 Ropani are 25 percent, 15-20 Ropani are 20 percent and above 20 Ropani are 5 percent. So, the unequal distribution of land may be one of the main causes of poverty and inequality among the sample households.



### 5.3 Change in Education Status of Sample Households

The increased volume of remittance income among the sample households encouraged the approach of people to enrol their children in better schools and colleges which are comparatively expensive. The approach of people to education has increased and therefore, the literacy rate is rising. The following table shows the education status of the people of sample households of Puja VDC five years ago (5 years of age and above).

**Table 5.7: Sample Households' Educational Status 5 Years Ago**

Educational Status	Male		Female		Total	
	No	Percentage	No	Percentage	No	Percent
Illiterate	36	34.7	54	48.3	91	42.2
Literate	16	15.9	20	17.8	36	16.6
Up to Intermediate	38	37.3	31	27.7	69	32.1
Well educated	13	12.1	7	6.2	19	9
Total	103	100	112	100	215	100

Source: Field Survey 2014

The table presents the literacy rate to be 57.8 percent and the number of well educated people to be only 9 percent. People educated up to Intermediate level were 32 percent and people only literate were 16.6 percent. The table has clearly shown that the literacy rate among the males was higher than that of the female.

Education is the main factor in determining foreign employment and the earning from foreign employment. Education also helps reduce poverty and inequality. There are altogether 10 educational institutions in the Puja VDC; one secondary, three lower-secondary and six primary schools but no any college. During the period of 5 years, the educational status has risen and the literacy rate is also increased. Remittance income ultimately helped uplift the living standard of people. Table 5.8 reports the change in the educational status of the people of sample households (5 years age and above).

**Table 5.8: Present Education Status of Sample Households**

Educational status	Male		Female		Total Population	Total Percent
	No	Percentage	No	Percentage		
Illiterate	20	19.42	34	30.36	54	25.23
Literate	22	21.36	39	34.82	61	28.33
Up to Intermediate	43	41.75	29	25.89	72	33.44
Well Educated	18	17.48	10	8.93	28	13
Total	103	100	112	100	215	100

Source: Field survey, 2014

The table shows that out of 215 population of 40 sample households, 54 people (25.23%) were illiterate, 61 (28.33%) people were literate, 72 (33.44%) people up to Intermediate level and 28 (13%) people were well educated (Bachelor degree and above). The number of female illiterate is higher than the number of male illiterate. In other words male people were more educated as compared to female population.

#### **5.4 Poverty and Unemployment as Causes of Foreign Migration**

Historically, Adam Smith (1776) thought poverty as the inability to purchase necessities required by nature or custom. Classical economics contend that individuals are ultimately responsible for poverty and accordingly provide a foundation for *laissez-faire* policies. However, Neoclassical economics believe poverty as a result of market failures that are beyond individual's control. Keynesian economics considers poverty largely involuntary, caused by unemployment and emphasize the key role of government in providing not only economic stabilization but also public goods. Marxian economics perceive poverty as the consequences of political issues such as the role of class and group discrimination, which needs a central role to the state in its intervention of markets.

The definitions of poverty adopted over time have reflected a shift in thinking from a focus on monetary aspects to wider issues such as political participation and social exclusion. Sen (1999) opines poverty as the result of insufficient entitlements defined as a broad package of rights including health, education and freedom, which are indicators of freedom to live a valued life and realise human potential.

WB (2000) defines poverty as:

*“Poverty is pronounced deprivation in well-being, and comprises many dimensions. It includes low incomes and the inability to acquire the basic goods and services necessary for survival with dignity. Poverty also encompasses low levels of health and education, poor access to clean water and sanitation, inadequate physical security, lack of voice, and insufficient capacity and opportunity to better one's life”.*

Unemployment is the main cause of poverty in many developing countries including Nepal. Most of the workers of the study area are migrated to those countries where they do not need special qualification including India, Qatar, Malaysia, UAE, and other Gulf countries. Their remittance income and thus their family income also depends largely where they have gone for foreign employment.

Table 5.9 shows that only 72 percent of active population is employed and a large proportion of active population in the sample households i.e., 28 percent is unemployed.

**Table 5.9: Employment Status of Sample Households**

Group of population	Total	Employed	Unemployed	% of employed
Active population	147	106	41	72.01
In active population	104	0	104	0
Total population	251	83	145	72.01

Source: Field survey, 2014

The table also illustrates that out of 251 total population 147 (58.57%) are economically active and 104 (41.43%) are inactive. The dependency ratio which is a measure showing the number of dependents (aged 0-14 and over the age of 65) to the total population (aged 15-64) is 70.75 percent which is higher than the national average of 64 percent.

There are many villages in Nepal where foreign labour migration has been established as a culture. The pushing and pulling factors behind labour migration are almost the same in Nepal as in other parts of the world. Although, poverty is the main pushing factor for foreign employment, there are several other reasons such as economic, social and political situations behind it. Poverty, limited employment opportunities, deteriorating agricultural productivity are some of the motives behind international labour migration (Gajurel, 2014). Further, youth population displaced by decade long Maoist insurgency (1996-2006) found foreign employment a lucrative and safe alternative for a living and safety.

To investigate the main causes of seeking foreign employment the respondents were asked to identify the major causes which compelled them to go for foreign employment. The data obtained from the respondents is summarized in Table 5.10.

Table 5.10 substantiates that unemployment is the main cause of foreign employment for all the ethnic groups with the exception of Janajati. Among the entire sample households 45 percent stated that unemployment is the main cause to push them for foreign employment. Family debt burden and desire to earn money are equally important (25%) second factors. Both are playing the major role to be the push factors for foreign employment. Comparing to the other factors only 2 (5%) respondents mentioned that internal conflict is the main factor to push them to foreign employment. It can be concluded that there is no single reason which makes people to go abroad for foreign employment.

**Table 5.10: Causes of Seeking Foreign Employment**

Ethnic Groups	Respondents	Causes			
		Unemp- loyment	Family Debt	Internal Conflict	Earning Money
Chhetri	14	6	3	1	4
Brahmin	11	5	2	1	3

Janajati	6	2	3	-	1
Dalit	5	3	2	-	-
Others	4	2		-	2
Total	40	18	10	2	10
% of Total	100	45	25	5	25

Source: Field Survey, 2014

## 5.5 Cost for Foreign Employment and Sources of Financing

A sizable amount of money needs to be invested as a cost for foreign employment. The cost includes passport fee, medical checkups, manpower agency commission, visa expenditure, air fare and cost of internal travel time to time from home to Kathmandu and district headquarter, hotel charge in Kathmandu. To observe the total cost paid by the respondents of different ethnic groups, they were asked how much they had spent to cover the entire expenses for foreign employment. The information obtained is summarized in Table 5.11.

There is evidence for a sharp variation in the cost of foreign employment with respect to different Ethnic groups. The cost paid is based mainly due to the destination; farther the destination higher will be the cost for immigration. For instance the travelling cost in the case of India is inexpensive and there is no any visa charge to enter the country for Nepalese citizens.

**Table 5.11: Costs for Foreign Employment by Ethnic Groups (in Rs.,000)**

Ethnic Groups	No. of HHs	Total Cost	Average Cost
Chhetri	14	299.6	21.4
Brahmin	11	166.76	15.16
Janajati	6	75	12.5
Dalit	5	45.3	9.06
Others	4	32.56	8.14
Total	40	619.22	15.48

Source: Field survey, 2014

The cost paid ranges from Rs. 2.5 thousand (to go to India) to Rs. 1,098 thousand (to go to USA) with an average Rs 15.48 thousand. With respect to ethnicity, the Chhetri paid highest average cost for foreign employment which is Rs. 21.40 thousand followed by Brahmin Rs. 15.16 thousand and Janajati Rs. 12.50 thousand. On the other hand, Dalit and others paid low average cost for foreign employment which is Rs. 9.06 thousand and Rs. 8.14 thousand respectively.

Migrants to destinations apart from India must pay very large sums in order to secure their jobs. The amounts paid were 75% above the legal amount. More than two-thirds of migrants took loans to cover this cost, most often from informal lenders. The interest rate varies with average 30 percent and maximum 60 percent (Amnesty International, 2011; WB, 2011a). Around half of

the immigrants receive less pay than promised. Shamefully, Nepali workers in Qatar are paid less than counterparts from other countries for the same work (WB, 2011b).

Most of the rural people of Nepal who want to go for foreign employment use several sources of financing to meet the cost involved. To find out the extent of sources used by respondents they were asked to provide their sources and the amount with its promised interest rate for foreign employment. The information collected is presented in the following table.

Table 5.12 shows that 45 percent respondents borrowed loan to pay for the cost of foreign employment followed by 32.5 percent paid by selling their property and 22.5 percent had paid from their family saving. Among the 14 respondents from Chhetri ethnic group 4 could pay their cost from family saving, 6 family borrowed loan and 4 families sold their property to meet the cost. In the same way among the 11 respondents of Brahmin family 4 households could pay the cost from family saving, 4 families borrowed loan and 3 families sold their property.

**Table 5.12: Sources of Financing of Sample Households**

Ethnic Groups	Respondents	Sources of Financing		
		Loan	Property Sale	Family Saving
Chhetri	14	6	4	4
Brahmin	11	4	3	4
Janajati	6	3	2	1
Dalit	5	2	3	-
Others	4	3	1	-
Total	40	18	13	9
% of Total	100	45	32.5	22.5

Source: Field survey, 2014

Same trend is observed in Janajati families. However, the situation of Dalit and others were different. They had not family saving to pay the cost and they were solely depended on loan and property sale.

## 5.6 Types of Jobs and Duration of Stay in Foreign Employment

As discussed elsewhere in this thesis, most of the Nepalese immigrants are unskilled labours hence they get employment in manual job. More Nepalese migrants were employed in manufacturing (32%), followed by construction (16%) and the hotel/catering industry (16%) (Jones and Basnett, 2013).

Generally, duration of foreign stay of emigrant workers depends upon the availability of work, facilities provided by the employer, salary rate, health condition of workers, visa permit date, and home urgency and so on. Sometimes, the immigrants return their home before the agreement date due to inferior types of job, low salary, and family affairs such as death of family

members, sickness and their own bad health. To examine the types of jobs performed by the respondents they were asked what types of job they had done while being employed in the foreign countries. For the simplicity of analysis, all jobs are categorized into four groups *viz.*, construction, mechanical, industrial works and hotel/catering. In the same way in order to observe the duration of stay in foreign employment the respondents were asked how long they worked as a migrant worker. The results of both the types of job performed and the duration of stay in foreign employment are summarized in Table 5.13.

The table shows that 35 percent of migrant respondents worked in the construction area followed by 25 percent in the mechanical, 22.5 percent in the hotel/catering and 17.5 percent in the industry. Chhetri and Brahmin ethnic people were involved in all occupations but Janajati people were involved in three occupations except mechanical jobs. In the same way, Dalit and others occupied in all jobs except industrial occupation.

**Table 5.13: Types of Jobs and Duration of Stay in Foreign Employment**

Ethnic groups	Respondents	Occupation				Duration (Years)
		Construction	Mechanical	Industry	Hotel/ Catering	
Chhetri	14	5	4	3	2	3
Brahmin	11	4	3	2	2	3.5
Janajati	6	2	-	2	2	2.8
Dalit	5	2	1	-	2	2.6
Others	4	1	2	-	1	2.7
Total	40	14	10	7	9	121.1
Percent	100	35	25	17.5	22.5	3.03

Source: Field survey, 2014

The overall average duration of stay of the migrant people is observed to be 3.03 years. Among the five categories of ethnic groups, Brahmin stayed longer duration (3.5 years), followed by Chhetri 3 years, Janajati 2.8 years, others 2.7 years, and Dalit 2.6 years.

## 5.7 Causes of Return and Utilization of Remittance and Skills

When an individual who is employed abroad returns to his/her home, he/she has two options; whether stay in the country and continue previous occupation or back again for the same foreign employment. How sample households responded to the further employment in foreign land was solicited through the questionnaires and the responses obtained are summarized in the following table.

Table 5.14 reveals that among the total 40 respondents, 14 (35%) planed not to return to foreign employment owing to difficult, danger and dirty works they had to do in abroad; willingness to stay with family as the debt was cleared and so on. Among the total respondents,

60 percent respondents told that the most important push factor for sending them to foreign employment again was unemployment i.e. they could not get any job in their location even returning from foreign employment and still in debt. Other 5 percent of the people (only from Chhetri ethnic group) told that they intend to live in their own country but the economic condition pushed them back to foreign employment. Irrespective to the ethnicity, all respondents continued foreign employment to avoid the unemployment problem and the indebtedness condition.

**Table 5.14: Causes of Returning to Foreign Employment**

Ethnic Groups	Respondents	Causes to Return		No Return
		Unemployment	Still Debt	
Chhetri	14	8	2	4
Brahmin	11	7	-	4
Janajati	6	4	-	2
Dalit	5	3	-	2
Others	4	2	-	2
Total	40	24	2	14
Percent	100	60	5	35

Source: Field survey, 2014

Migrants returning from working abroad have a higher propensity for developing their own business because they have seen how businesses are run in developed countries, and are able to recognize trends within their home country and establish business to take advantage of opportunities (Radcliffe, 2015). However, in the context of Puja VDC such activities are not seen.

Remittances can be the cheapest and largest source of development finance both at micro and macro level but with different mechanism (Sing and Hari, 2011). Moreover, remittance is also considered the most risk less and least volatile source of external development finance. Foreign capital tends to flow more in favourable time and less in bad time but remittances tend to respond less volatility and even become countercyclical which increases in bad times. Above all, remittances are seen as an important component for disaster relief (Redcliffe, 2015).

The remittance money which the migrants send to their home countries are usually used for consumption, both durables and non-durables including education, health, asset creation (building house and buying lands), loan repayments, small investments and savings. Remittances directly alleviate poverty levels by increasing recipient family's income and living standards (Adams and Page, 2005; Insights, 2006; Gupta, Pattillo, and Wagh, 2007). At the same time remittances have significant indirect macroeconomic effects. Investment in agricultural inputs if the family is traditionally engaged in agro-based activity can increase agricultural productivity. All of these expenditures have multiplier effects. So, remittances by migrant workers are

considered as an important source of funds for many developing countries. Additionally, migrants when returned; they are expected to utilize their skills back to home.<sup>8</sup>

Alternatively, remittance transfer sometimes perpetuates stagnation and inequality. Some economists believe that recipients use the funds to purchase necessities such as food, clothing and housing, which ultimately would not prompt development because these purchases are not investments (Gajurel, 2014). One of the stagnant situations in over all development is improper and inefficient use of remittance. Families having increased income from remittance tend to migrate from villages to urban areas, where they spend money for luxurious lifestyle. Very little of the remittance is invested and used into nation's infrastructural development. So, the developmental effects of remittances depend largely on the magnitude of its volume and on how productively the remittance income is utilized both by individuals and the country.

In Nepal, remittances are used primarily to pay for basic needs such as food and clothing (54%) and to pay off debts (22%) rather than investing on productive areas (Jones, and Basnett, 2013). The use of remittance depends primarily on the priority placed by the individuals. It also depends on the size of remittance, the time of availability, opportunity for investment and several other factors. Majority of migrant workers go abroad because of the unemployment and poverty problems. The cost of foreign employment is generally arranged by borrowing loans and thus a part of the income earned by the immigrant has to be spent on the payment of the principle and the interest.

Keeping all these things in mind, the respondents were asked to identify the main use of the remittance earned by them abroad and whether they used their skills learnt in foreign employment. Each respondent's responses are summarized in Table 5.15.

**Table 5.15: Use of Remittance and Skills Learned in Foreign Employment**

Ethnic Groups	No. of Respondents	Utilization of remittance				Use of skills	
		Household expenses	Loan Payment	Investment (land, house)	Social Activities	Yes	No
Chhetri	14	5	4	3	2	6	8
Brahmin	11	4	4	3		4	7
Janajati	6	4	2			2	4
Dalit	5	3	2	-	-	2	3
Others	4	2	1	1		1	3
Total	40	18	13	7	2	15	25
Percent	100	45	32.5	17.5	5	37.5	62.5

Source: Field Survey, 2014

<sup>8</sup> Barajas *et. al.*, (2009) and Chami *et. al.*, (2008) have analyzed the significance of remittances as a source of funds for developing countries.



The table presents the utilization of remittance income earned as well as the utilization of skills learned from foreign employment. Among all the 40 respondents, 18 households (45%) used their income in their household expenses viz., food, cloths, health and education for their family. 13 households (32.5%) used their income in loan repayment which was borrowed before or while going to foreign employment. Only 7 households (17.5%), who are from Chhetri and Brahmin ethnic groups invested their income mainly in unproductive sectors such as buying land, constructing home etc.

Among all the respondents, only 2 households (5%), who were from Chhetri community spent their income in social and community activities such as in schools, roads, drinking water etc. Ethnic groups from Dalit and others did not invest; they spent their whole income either in household expenses or repaying for previous loans. It can be concluded from the above analysis that a big amount of foreign remittance earned by the respondent households has been spent in regular expenses and in paying loans and their interest.

The table also visualizes the utilization of skills learned in foreign employment. Among all the 40 respondents only 15 individuals (37.5%) could utilize their skills whereas 25 (62.5%) of the respondents could not, either not being helpful in their life or they could not had conducive environment in the country.

## 5.8 Changes in Household Economy and Other Indicators

It is often believed that if somebody receives foreign employment his household economy will improve significantly. The change in economic well-being, improvement in living standard, improvement in skills, increment in social status might be some of the areas expected to be positively changed. If the respondents are able to gain more than the income which is needed to fulfil their basic needs and also to pay their loans including interest then only their economic condition can be improved.

**Table 5.16: Changes of Sample Households in Different Indicators**

Indicators	Change in Condition						
	Increased	%	Decreased	%	Same	%	Total
Economic status	33	83	2	5	5	12	40
Living Standard	30	75	3	7	7	18	40
Social Status	25	63	5	12	10	25	40
Skills	35	88	-	-	5	12	40

Source: Field survey, 2014

To investigate the changes in households' socioeconomic conditions because of foreign employment, the respondents were asked to respond based on their own judgment whether

their economic condition was improved after foreign employment. The responses provided by the respondents are summarized in Table 5.16. The table shows that 33 (83%) households' economic status was increased owing to foreign employment. However, 2 (5%) households informed their economic status decreased and the rest 5 (12%) respondents responded their economic status remained the same even after foreign employment. Similarly, 30 (75%) respondents' living standard improved, 7 (18%) respondents' remained the same and 3 (7%) households' living standard decreased after foreign employment. A majority of the respondents' social status improved than before and few of the respondents' status was decreased and some of the respondents' status was remained the same. The decrease in economic, social and living standard might have been resulted due to the increase of family debt even after foreign employment. This is because they received very low pay which was not possible to balance between to pay the previous loans and maintain the household expenses. With respect to skills, 35 respondents learnt new skills whether their skills were useful in the native country or not. The rest 12.5 percent respondents did not learn any new skill while working abroad.

Household indicators such as housing, children's schooling, health condition, clothing, and cash for emergency are some of the very important indicators for a decent life. Respondents were therefore, asked how foreign employment and hence remittance has brought about changes in these indicators. The information provided by the respondents is summarized in the following table.

**Table 5.17: Impact of Remittance on Other Household Indicators**

Indicators	Increased	%	Worsened	%	Same	%	Total
Condition of housing	25	62.5	5	12.5	10	25	40
Education of children	25	62.5	-	-	15	37.5	40
Health of family members	28	70	7	17.5	5	12.5	40
Clothing	22	55	3	7.5	15	37.5	40
Cash available with them	18	45	12	30	10	25	40

Source: Field survey, 2014

Table 5.17 demonstrates that 25 (62.5%) respondents' housing condition improved; 10 (25%) respondents' remained the same and 5 (12.5%) respondents' housing condition was worsened after returning from foreign employment. Among the total households, 25 (62.5%) households' reported that the education of their children improved thanks to the income earned by their parent from foreign employment. It might be the result of improvement of economic condition of the individuals who could afford boarding school for their children. No one among the respondents reported to be worsened the education of their children and the rest 15 (37.5%) respondents reported that the education status of their children remained the same even after foreign employment.

The family health status of 28 (70%) respondents improved. 7 (17.5%) households' worsened and the rest 5 (12%) respondents' family health condition remained the same even after returning from foreign employment. Out of total, 22 (55%) respondents were wearing better clothing, 3 (7.5%) respondents' clothing condition worsened and 15 (37.5%) respondents' condition remained as it is after returning from foreign employment. The increase in clothing condition might be related to the increase in the purchasing power of the migrants' family. When asked their ability to reserve liquid cash to meet their various household requirements after foreign employment, 18 (45%) respondents responded that their cash holding ability was improved, 10 (25%) respondents remarked their cash holding capacity to be remained the same and the rest 12 (30%) respondents reported their condition worsened after foreign employment. Some respondents' income earned from abroad was just equal to the sum of household expenditure and they were unable to repay the loans and their interest. This condition emerged either owing to the high cost of foreign employment or low remittance income or both.

As discussed earlier the remittance income earned from foreign employment is helping for the majority of households in fulfilling their basic needs and other social economic aspects of their life. The remittance is playing very positive role to the respondents and their family to reduce their level of poverty. To sum up, a majority of the migrant households' housing, education, health, clothing and liquidity status was improved after foreign employment. However, some migrants and their families are highly vulnerable to poverty and indebtedness owing to the high loans taken on, combined with workers being injured or otherwise made unable to work to pay off these debts. Frequently migrants are paid considerably less than promised but manpower agencies are not responsible for these problems. Migrants travelling through the informal system face more challenges.

## **5.9 Income Status of Sample Households**

Majority of the people in this VDC are largely involved in the agriculture while the rest are involved in other sectors such as trade, service, and business. Recently, majority of the youngsters of this VDC are going abroad for employment. Thus, remittance income coming from people migrated abroad has been the major contributor in the economic status of the VDC.

Table 5.18 illustrates the monthly income of sample households before foreign and after foreign employment. Before out-migration, about 50 percent of the total sample households received less than NRs 4,800 per month. However, after out-migration 65 percent households received monthly income between Rs. 15,000 to 25,000. In the same way before out-migration, only 10 percent households had monthly income more than Rs. 9,600 but after migration, 35 percent households received monthly income more than Rs. 25,000. Although the monthly income level of all the households have increased, the increment is not proportional for all households. Therefore, the income disparity is also increasing sharply.

**Table 5.18: Monthly Income of Sample Households**

Before Foreign Employment			After Foreign Employment		
Income	Frequency	Percent	Income	Frequency	Percent
< 1200	2	5	< 15000	11	27.5
1200-2400	8	20	15000-20000	5	12.5
2400-3600	7	17.5	20000-25000	10	25
3600-4800	4	10	25000-30000	5	12.5
4800-6000	4	10	30000-35000	3	7.5
6000-7200	5	12.5	35000-40000	1	2.5
7200-8400	3	7.5	40000-45000	1	2.5
8400-9600	3	7.5	45000-50000	1	2.5
9600-10800	2	5	50000-55000	1	2.5
12000-above	2	5	55000-Above	2	5
Total:	40	100	Total:	40	100

Source: Field survey, 2014

Ethnic group wise general income scenario of the sample households before going to foreign employment is presented in Table 5.19.

**Table 5.19: Income Status of Sample Household before Going Abroad**

Cast/Ethnic	No. of Households	Earning per month (in thousands)				
		Below-5	5-10	10-20	20-50	≥ 50
Chhetri	14	2	5	4	2	1
Brahmin	11	2	2	3	3	1
Janajati	6	1	3	2	-	-
Dalit	5	3	2	-	-	-
Others	4	2	1	1	-	-
Total	40	10	13	10	5	2

Source: Field Survey 2014

The table illustrates the overall scenario of the sample households, based on the ethnic group of the households before receiving remittance. It is clearly seen that 10 out of the total households were receiving less than Rs. 5000 per month. Out of the total 40 households, 13 stated their income to be between Rs. 5 thousands and 10 thousands. 10 households were found to have their monthly income between Rs. 10 thousands to 20 thousands. 5 households stated their income to be in between Rs. 20 and 50 thousands each month. The numbers of households who receive the regular monthly income of more than Rs. 50 thousands were only 2 households.

The table also provides ethnicity wise picture of the income status. Brahmin, Chhetri and Janajati were found to be possessing better economic status. Households receiving more than Rs. 20 thousands monthly income were entirely from Brahmin, Chhetri and Janajati. People

belonging to the Dalit ethnic group (Kami/Damai) and others were found to be possessing lower income status as compared to Brahmin, Chhetri and Janajati.

After their migration, the remittances they send back to home have actually changed their level of income, living standard, education and health status and the level of poverty. Table 5.20 depicts the increased income level per month of the households after the remittance transfer which is attributable to the remittance income.

Previously, no any household was receiving more than Rs. 1 lakh monthly income but there were 2 households after remittance inflows. Households receiving income between 50 thousands to one l lakh were increased from 2 to 6. Previously, the households receiving in between 20 to 50 were 5 which have increased to 13. Households getting in between 5 to 20 thousands have increased to 14 from 10 while the number of households receiving less than 5 thousands has decreased from 10 to 5. These figures obviously show the rise in the level of income of the people after out-migration.

**Table 5.20: Income Status of Sample Households after Remittance Income**

Ethnic Group	No. of Households	Earning Per Month (In Thousands)				
		Upto-5	5-20	20-50	50-100	Above 100
Chhetri	14	2	5	4	2	1
Brahmin	11	1	4	4	1	1
Janajati	6	1	2	2	1	-
Dalit	5	1	2	2	-	-
Others	4	-	1	1	2	-
Total	40	5	14	13	6	2

Source: Field Survey 2014

### 5.10 Measurement of Income Inequality of Sample Households

In economic literature, inequality means different things to different people. Whether inequality is an ethical concepts such as the desirability of a particular system of rewards or simply mean differences in income is a subject of much debate. However, in this study inequality is defined as the dispersion in the distribution of income. Inequality is often studied as part of broader analyses covering poverty and welfare, although these three concepts are distinct. Inequality is a broader concept than poverty in that it is defined over the whole distribution, not only the censored distribution of individuals or households below a certain poverty line. Incomes at the top and in the middle of the distribution may be important in perceiving and measuring inequality as those at the bottom, and indeed some measures of inequality are driven largely by incomes in the upper tail. Some poverty indices incorporate inequality in their definition. Sen's poverty measure contains the Gini-coefficient among the poor (Sen, 1976).

Economists and statisticians have propounded different methods to show the concentration of income and wealth; all of which have some intuitive or mathematical appeal. This study employs mainly two instruments, namely Gini-coefficient and Lorenz Curve.

### 5.11 Income Distribution before Receiving Remittance

In fact, the effect of remittance on income distribution is not yet clear. The literature shows that very few studies are conducted so far in this area. Adams (1989; 1992) found that international remittance worsened income distribution in Egypt and in rural Pakistan no significant effect of remittances on income inequality. However, Barham and Boucher (1998), found in Nicaragua an inequality-reducing effect. Indeed, unequal distribution of income is a serious problem in both developed and developing countries.

There is no country in the world where income inequality does not exist. In Nepal, the amount of remittance income received by the richest quintile is around one-third of the total, followed by 30.7% for the fourth, 17.2% for the third, 9.8% for the second and 9.2% for the poorest (WB, 2011a). The Gini-coefficient of remittance incomes is 0.274 as compared with a Gini-coefficient for the country as a whole of 0.44 in 2004 and 0.33 in 2010.

**Table 5.21: Calculation of Gini-Coefficient before Remittance Income**

Population (X)	Income (Y)	% of (X <sub>i</sub> )	% of (Y <sub>i</sub> )	Cum (X <sub>i</sub> )	Cum (Y <sub>i</sub> )	X <sub>i</sub> Y <sub>i+1</sub>	X <sub>i+1</sub> Y <sub>i</sub>
2	1200	5	1.82	5	2	27.27	
8	2400	20	3.64	25	5	272.73	45.45
7	3600	17.5	5.45	43	11	772.73	231.82
4	4800	10	7.27	53	18	1431.82	572.73
4	6000	10	9.09	63	27	2386.36	1136.36
5	7200	12.5	10.91	75	38	3818.18	2045.45
3	8400	7.5	12.73	83	51	5400.00	3150.00
3	9600	7.5	14.55	90	65	7363.64	4581.82
2	10800	5	16.36	95	82	9500.00	6218.18
2	12000	5	18.18	100	100		8181.82
40	66000	100	100.00			$\sum X_i Y_{i+1} = 30973$	$\sum X_{i+1} Y_i = 26164$
$GC = \frac{1}{100^2} \sum X_i Y_{i+1} - \sum X_{i+1} Y_i = 0.48$							

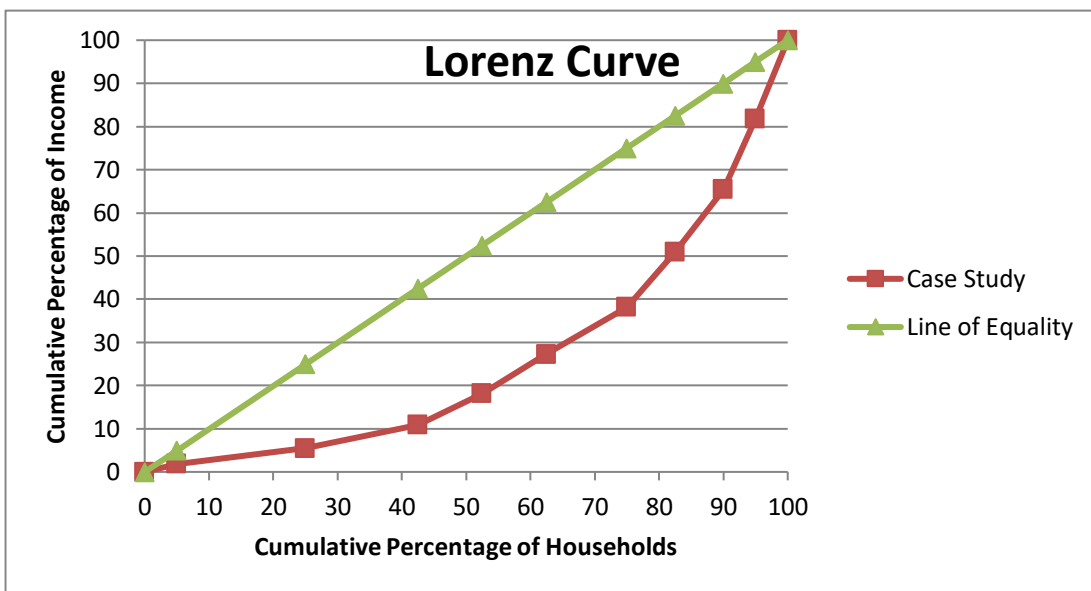
Source: Field Survey, 2015

Table 5.21 shows the result of the income inequality in the study area before inflows of remittance income. The result show that the Gini-coefficient in of the sample households was 0.48 which is quite high than the national average. As discussed in Chapter 3 a Lorenz Curve is one of the important methods of measuring inequality of income. Before receiving remittance

income, the maximum income earned by the migrant households was Rs.12,000 and minimum income was Rs.1,000. The Gini-coefficient of income distribution is 0.48. Figure 5.1 is the Lorenz curve drawn based on Table 5.21.

Taylor (1992) argued that beyond the direct effect of remittances on income, remittances also relax the credit constraints for people with liquidity restrictions. Remittances provide poorer households with the possibility of access to the credit market, which in turn finance the accumulation of productive assets increasing future income. So, in the initial stages of migration history, the remittances sent by the migrants have the effect of increasing levels of income inequality.

**Figure 5.1: Lorenz Curve of Income Distribution before Foreign Employment**



Source: Based on Table 5.21

The network effects will then make migration affordable for households in the lowest levels of income distribution and remittances sent by these migrants will tend to reduce income inequality. Countries with higher educational levels and higher levels of financial sector development can more quickly reach the inequality decreasing position.

### 5.12 Income Distribution after Receiving Remittance

Surprisingly, the Gini-coefficient of the study area has been increased dramatically after receiving remittance income. Before receiving remittance income, the Gini-coefficient of sample households was 0.48 but as Table 5.22 shows, after inflows of remittance income the Gini-coefficient is 0.61.

**Table 5.22: Calculation of Gini-Coefficient after Receiving Remittance Income**

Population (X)	Income (Y)	% of (X <sub>i</sub> )	% of (Y <sub>i</sub> )	Cum (X <sub>i</sub> )	Cum (Y <sub>i</sub> )	$X_i Y_{i+1}$	$X_{i+1} Y_i$
11	15000	27.5	4	28	4	257	0
5	20000	12.5	5.33	40	9	640	160
10	25000	25	6.67	65	16	1560	607
5	30000	12.5	8	78	24	2583	1240
3	35000	7.5	9.33	85	33	3740	2040
1	40000	2.5	10.67	88	44	4900	2917
1	45000	2.5	12	90	56	6240	3960
1	50000	2.5	13.33	93	69	7770	5180
1	55000	2.5	14.67	95	84	9500	6587
2	60000	5	16	100	100	0	8400
Total:	375000	100	100			$\sum X_i Y_{i+1} = 37190$	$\sum X_{i+1} Y_i = 31090$
$GC = \frac{1}{100^2} \sum X_i Y_{i+1} - \sum X_{i+1} Y_i = 0.61$							

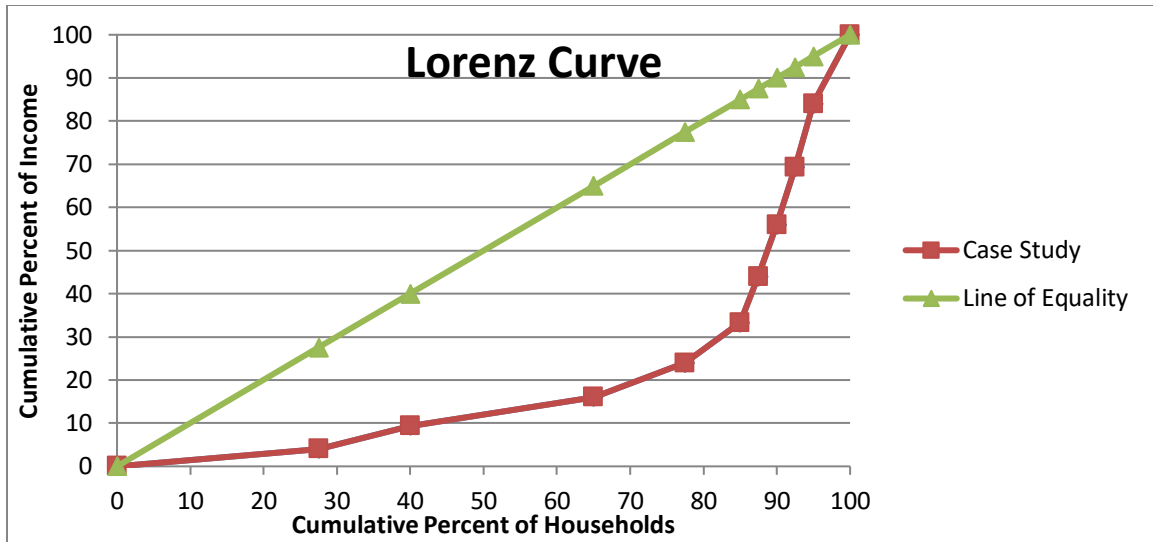
Source: Field Survey, 2015

Figure 5.2 shows the same thing which is drawn based on Table 5.22. The income distribution after remittance income ranges from Rs. 10,000 to Rs. 105,000. The income distribution among the respondent before going to foreign employment was more equal relative to the income distribution after foreign employment. Visually, it can be seen that the latter Lorenz curve is flatter than the previous one. The curve has more flat for the income distribution of upper quintiles after household's foreign employment.

The Lorenz curve is located much far away from perfect equality line for the income distribution after foreign employment. This means the household's income has been more divergent when they go for foreign employment. The Gini-Coefficient increased at 13 percent from 48 to 61.

**Figure 5.2: Lorenz Curve of Income Distribution after Foreign Employment**





Source: Based on Table 5.22

### 5.13 Conclusions

This chapter was the key component of this study as it provided the presentation, analysis and discussion of data. This chapter analysed the socioeconomic and demographic features. This chapter explained different aspects of contributions of remittance inflow and measured the inequality of sample households before and after foreign employment. The analysis demonstrated that there was positive effects of remittance transfer in different socioeconomic aspects in the sample households. The analysis showed that there was gradual increase in regular monthly income and hence reduction of poverty level in the period of five years after out-migration. There was a jump in education level as compared to five years ago. Additionally, with the increase in income, the facilities of people such as the communication, drinking water, transportation, and housing have also improved. All these improvements happened due to the increase in the inflows of remittances. However, there was a high level of income inequality among the sample households and the level of inequality was escalating after receiving remittance income. This chapter was basically related to second and third objective of the study. Answering the research question second and third this chapter successfully fulfilled those objectives.

## **CHAPTER SIX: MAJOR FINDINGS AND RECOMMENDATIONS**

### **6.1 Introduction**

This concluding chapter summarises the empirical findings and presents a set of important policy implications. Section 6.2 provides major findings of the study. Section 6.3 offers policy recommendations. Section 6.4 outlines relevant issues for future research and finally an epilogue is provided in Section 6.5.

### **6.2 Major Findings**

From the discussion of above chapters, it is obvious that Nepal has already achieved a large and sustained increase in remittances. In fact, migration with the help of remittances, can contribute positively to the developmental activity of a country, including economic growth, poverty reduction, social empowerment and technological progress. The impact of remittances has been tremendous for both the household as well as the country like Nepal which is characterized by persistence of abject poverty and lack of opportunity for the active youngster in every aspect of their lives. Remittances, as a result of international migration, have emerged as one of the most fruitful panacea to get rid of such economic problems.

The general objective of the study was to analyze the extent to which the remittance transfers impact on socioeconomic development of rural households whereas the specific objectives of the study were to examine the contributions of remittance income with regard to socioeconomic development of migrant families in Nepal; to analyze the changes in socioeconomic conditions of rural households brought about by foreign remittances; and to measure the extent of inequality to which the distribution of income among the sample households within the VDC deviates before and after receiving foreign remittances. The key points of research findings that follow from the analysis are summarised in the following subsections. In general, subsection A is related to objective 1 of the study. Similarly, subsection B and C are concerned to objective 2 and 3 respectively.

#### **A. The contributions of Remittance Income with Regard to Socioeconomic Development in Nepal:**

- ❖ India is the most common destination for Nepalese migrants where around 72% of the total migrants go. Among the rest 28 percent, 64% go to Gulf countries, 19% to Malaysia and 15% to other developed countries including Australia, Japan, the UK and the US. More women go to India followed by Kuwait, Qatar, Saudi Arabia and other developed

countries across the world. Women's earnings from migration are relatively higher than those of men. Poor people used to go to India, Gulf States and Malaysia while rich people go towards Japan, South Korea, North America and Europe.

- ❖ In Nepal, about half the remittances from abroad come from Gulf countries. Among the rest 50 percent, about 21 percent comes from developed countries including Australia, Japan, the UK and the US, 19 percent from India and 10 percent from Malaysia.
- ❖ The remittance inflow that rose by 34.1 percent in the first eight months of the previous year has increased only by 4.0 percent totalling Rs. 371.0 in the same period in 2014/15. Similarly, in US dollar term, remittance income that recorded a growth of 17.5 percent during the first eight months of fiscal year 2013/14, increased by 4.8 percent, amounting US dollar 3.76 billion during the same period of fiscal year 2014/15.
- ❖ Surprisingly, official remittances have grown by an average of 24% over the past 10 years. If the growth rate of remittance is continued at present rates, remittance income will exceed the total GDP of Nepal in 2020.
- ❖ Remittance is extremely important to Nepal. In 2013, among the 42 LDCs in the world, Nepal ranked at the top recipient of remittance relating to the share of the GDP. In this year, contribution of remittance inflow to Nepal's GDP was 25 percent.
- ❖ Still, the BOP and current account surplus largely depends on the amount of remittance inflow. The overall BOP recorded a surplus of Rs. 34.07 billion in the first eight months of the last fiscal year 2014/15 as compared to a surplus of Rs. 102.81 billion in the same period of the previous fiscal year. In the same way, in the first eight months of the last fiscal year 2014/15, the current account registered a surplus of Rs. 11.65 93 billion compared to Rs. 68.41 billion during the same period of the previous year. The reason for such a low level of the surplus in the BOP and current account during this period is mainly attributable to the low increment in remittance inflows.
- ❖ Along with agriculture which contributes more than 30 percent of the GDP, remittance sector have emerged as another major contributor to the GDP. Moreover, remittance has contributed significantly to the reduction of poverty. Remittance and migration driven economy has reduced poverty in Nepal from 42 percent in 1996 to 25.16 percent in 2011.

- ❖ Remittance was one of the factors behind Nepal's remarkable success in human development in the last 40 years. Nepal emerged one of the world's fastest movers in Human Development Index (HDI) since 1970.

#### **B. Changes in Socioeconomic Conditions of Rural Households Brought about by Foreign Remittances:**

- ❖ Out of the total population of sample households 58.57% are economically active. A large proportion of active population in the sample households i.e., 27.66 percent is unemployed. The dependency ratio of the sample households is 70.75 percent which is higher than the national average of 64 percent. Major reasons to seek foreign employment include unemployment, family debt burden and to fulfil their basic needs.
- ❖ The average cost paid for foreign employment by the sample households was Rs. 70 thousands which ranges between Rs. 2 thousand and 1089 thousand. About 53.8 percent of the migrant workers financed their cost by loan, 29.8 percent from family savings and 16.4 percent from property selling.
- ❖ Major sector of foreign employment for Nepalese workers were building construction (34 percent) and mechanical (29 percent). The average stay duration of the respondents was 2.8 years.
- ❖ The larger amount of remittance income had been used for household expenses (37.5 percent) followed by loan repayment (29.8%), investment (16.34%) and social activities (5.76%)
- ❖ Among the returnees from foreign employment, only 35 percent of the workers were using their skill learned from foreign employment where as the rest 65 percent of the respondents have not benefited with respect to new skills. It is because of the lack of technology, lack of capital, lack of market and lack of positive social attitude and so on.
- ❖ The remittance inflows have substantially increased the socioeconomic condition; 81.73 percent households' economic status, 54.8 percent households' standard of living, 59 percent of households' social attitude and 67.3 percent of households' skills. Remittance has improved 76.92 percent households' housing condition, 69 percent households'

education level of their children, 65 percent households' health condition, 66.34 percent households' clothing and 51.92 percent households' liquidity problem.

**C. The extent of Inequality and the Distribution of Income among the Sample Households Before and After Receiving Foreign Remittances:**

- ❖ Income inequality in the study area is found quite high than the national average. Before receiving remittance income, the maximum income earned by the migrant households was Rs.12,000 and minimum income was Rs.1,000. The Gini-coefficient of income distribution was 0.48. However, the income distribution after remittance income ranged from Rs. 10,000 to Rs. 105,000.
- ❖ The household's income had more divergent after foreign employment. The Gini-coefficient increased at 13 percent from 48 to 61. The Lorenz curve has more flat for the income distribution of upper quintiles after household's foreign employment and consequently significantly far away from perfect equality line for the income distribution.

To sum up, there are positive changes in the status of families of the migrant households due to remittance income. The economic and social conditions of majority of families who have involved in foreign employment have increased. Therefore, it can be concluded that remittance is playing a vital role in reducing the level of poverty in the study area.

### **6.3 Policy Recommendations**

As discussed earlier remittances have the potential to affect many of the macroeconomic variables including foreign exchange reserve. In a capital scarce country like Nepal, remittances can be used as a source of external development finance, the balance of trade deficit or the current account deficit. However, for this to be applicable in reality, appropriate government policies on mobilizing and attracting migrant's remittances and redirecting them to formal channels is most. The migrants or their families of the sample households provided valuable feedbacks for socioeconomic development of migrants and their families and the pivotal role of the government. It is obvious that remittance inflow plays a vital role for the economic development and poverty alleviation in Nepal. It is therefore, essential to manage the inflows of remittance properly for the welfare of the migrants' families as well as the country as a whole. The analysis implies a number of policy recommendations, notably the need to focus on provision of forms with regard to international migration and remittance inflow as follows:

- ❖ Addressing problems in recruitment can encourage migration and enhance remittance. The government needs to reduce the high cost incurred for international migration, particularly exorbitant fees paid by low-skilled workers to manpower agencies and simplify and systematize the recruitment approval process in consultation with recruiters and returnee migrant workers. The government needs to stop the activities of brokers and agents who exploit the potential migrants. At the same time agencies dealing with migration should follow the approved government guidelines. Nepal has the basic laws and regulations for managing foreign labour migration, but it also has a poor record of implementation and enforcement of rules. So, the government needs to develop and implement an effective monitoring and regulating system that rewards good recruitment practice and penalizes malpractice.
- ❖ By reason of political uncertainties and the poor business climate, very few jobs are being created for those people entering the job market annually. Out migration is therefore, expected to continue. Most of the unskilled and semi-skilled Nepalese workers are compelled to go to limited countries including Gulf countries and Malaysia but workers in these countries earn relatively less than other destinations like Japan, South Korea, Hong Kong, UK and USA. So, the government should explore new potential destinations and review periodically the restrictions on migration to specific countries and lift the bans, where applicable.
- ❖ Government needs to take necessary measures to stop physical torture against women migrants. The government should focus attention on issues affecting women migrants. This may require changing rules and regulations and mindsets, in a country where patriarchal norms exist. The labour contract should be done between two countries to give safe environment for the workers. Given the likelihood of the number of women migrants increasing, the government should begin dialogue with destination country governments to negotiate special provisions to guard against trafficking and ensure better care and conditions at the work place.
- ❖ The government should raise awareness in a preventive strategy to reduce abuses and, particularly, human trafficking and the incidence of infectious diseases. A zero-tolerance policy on trafficking should be adopted to make migration respectable and dignified.

- ❖ Nepalese economy has received large amount of remittance income but remittance is still being transferred through informal channels. Formal channels should be developed and promoted for sending remittance easily in low-cost using an efficient electronic funds-transfer mechanism, to improve the payment system. At least one financial institution in each destination must be established to facilitate remittance transfer. Different incentives should be provided by the government level for encouraging the people to remit earned money through formal channels.
- ❖ Most of the migrants of rural areas come from lower income groups and based on agriculture occupations. So, they cannot afford the fees charged by agents of foreign employment and therefore, go India. In India they earn very less relative to the migrant of other destinations. Thus, the government needs to establish a separate bank, such as foreign employment bank, for the purpose of providing cheap loans to those who want to go to foreign employment.
- ❖ Most Nepalese migrants work as unskilled labourers and earn too less income than skilled workers. So, good quality training enhances skills and capabilities of migrant workers to enable them to get higher paying jobs abroad.
- ❖ Migrants need to learn the basic language of destination countries to cope with the new environment. So, general language training related to the migrant receiving country and orientation before going to foreign employment strengthen to make them more effective.
- ❖ A large amount of remittance income has been used in unproductive sectors, which does not give any return in the future. Policy makers should put in place measures that would ensure that remittance inflows are channelled into productive sectors of the economy. Efforts should be directed at creating incentives for individual recipients to save a portion of their remittance incomes with financial institutions which can augment the resource base of financial institutions and hence, reduce constraints to credit extensions. More importantly, returnees should be given more opportunities to utilize their newly learned skills from foreign employment. Furthermore, to maximize the development benefits of remittance, it has to be channelled to small and micro enterprises through financial intermediaries as deposits rather than expecting migrant's to directly invest. In this case,

the policy focus might be to induce micro finance institutions to capture remittances to be in turn used to fuel productive activities.

- ❖ The concept of economic diplomacy should be implemented by the government to increase the demand of Nepalese labour in the foreign labour market. Nepal needs to establish bilateral agreements, where they do not yet exist, and equip Nepalese embassies in destination countries with the resources to carry out economic diplomacy. A labour desk should be set up at the airports of the major labour migrating countries to help the Nepalese labour in case of problem.
- ❖ Policies on recruitment and remittance services need to be reviewed and updated by setting up mechanisms to collect information within Nepal and destination countries for dissemination to potential and actual migrants and their families.

#### **6.4 Issues for Future Research**

This study mainly concentrated in three objectives: the contributions of remittance in the economic development of the country, the changes brought about by foreign remittances and the extent of inequality after and prior to foreign departure. In general, this study successfully achieved all these objectives. The issues of migration and remittance are complex. The issues remained to be investigated in the future are targeted studies on the migration to all major destinations, including India covering workplace and living conditions, individual migrant experiences and so on.

#### **6.5 Epilogue**

This study analysed current issues of the Nepalese economy with regard to the out migration, remittance inflows from foreign employment and the extent of inequality. Though the study conducted covering a VDC area, the findings and general conclusions derived from this study may be applicable to those areas in Nepal and other part of the world where similar contexts and conditions prevail.

The study showed that remittances have succeeded in laying the firm foundation and creating essential pre-conditions of development in Nepal. Migration has become the key development strategy of Nepal.

Remittance has been the lifeblood of the economy. It provides a short-term boost to the economy but in the long run, it will cause devastation on the economy. As remittance flows are fuelling increased consumption Nepal's competitiveness and productivity continue to decline over the long term. So, the most important, at both macro and household levels, is to improve



the investment climate and create domestic employment so that migration becomes an option rather than a strategy for survival. An improved investment climate could help create more domestic job opportunities and prevent Dutch disease from spreading.

After the announcement of the promulgation of new “Constitution of Nepal, 2072” the country has entered in a new era. However, a major earthquake on April 25 and a powerful aftershock on May 12 have raised a major challenge to the economy. Continued protests in the *Terai* region followed by an unofficial blockade imposed by India have badly hit all sectors of the economy.

In this juncture, immediate neighbours and the global community at large have stood in solidarity with Nepal by sending unprecedented volumes of technical, financial and humanitarian aid. At the same time the country has to attract attention of multinational enterprises for FDI in manufacturing, services and infrastructural development. Hydropower may be the main attraction in Nepal. There is high expectation that investments from well wishers across the globe including neighbouring Chinese and Indian may help boost foreign investment to Nepal in the near future. If scarce resources including remittance and FDI are properly managed through policy programmes, the economy has now reached the stage from where one can expect sustained growth and development with further reduction in poverty and inequality in coming years.

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