

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

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

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

Movement of people to other countries in search of employment is by no means a new phenomenon because labor mobility has been an important and essential feature of the economic and social development of societies throughout human history. Labor migration for overseas employment has become a topic of popular attention of various labor surplus countries in recent years especially after the speedy globalization. The movement of population has been essential

component of economic development, social change and population dynamics. The recent trends in Asian Labor migration are characterized by changing destinations from Middle East to fast growing economies in Asia and Pacific region.

There is a trend of temporary migration of labor from underdeveloped to developing and developed countries with a clear domination by outflows of semi-skilled and unskilled workers. The trend also encompasses explosive growth in irregular migration and commercialization of the recruitment businesses. The recent movement of labor from underdeveloped countries on temporary basis, first o the Middle East and later within Asia has certain distinctive features (Pathak, 2005). There is worldwide phenomenon in which millions of people move out from their normal place of residence to alien lands in search of better future, fortune, comprises different patterns depending on the socio-economic factors relevant to the period and places of origin. At present, virtually all developed nations and the rising nations receive immigrants from variety of less developed countries and immigration rapidly transforming the social and economic composition of sending and receiving societies alike.

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

1.2 Statement of the Problem

It was only after the Gulf War, which prompted the countries in the Middle East to open their door demanding for labors to restructure their shattered economy. Because of this a greater pool of workforce from South Asian countries have started going to the Middle East to overcome the problem of unemployment in their country of origin. Since then the number of people going to the Middle East and Malaysia are in an increasing trend and the flow of people going to these

countries dominates the flow of people going to other countries. Nepal, unable to overcome its ever increasing problem of unemployment, has not been an exception to these.

Foreign employment is cited as the most suitable remedy for the ever increasing unemployment problem prevailing in the country in today's context. Various manpower agencies have been working as a facilitator helping people who want to go abroad for better employment opportunities hence bridging the gap between the larger pools of idle workforce available in Nepal to meet the demand of larger workforce in other countries. This has given rise to international migration not only in Nepal but is seen worldwide. Positive consequence of people leaving ones country of origin is that their earnings in the destination country would enter inside the country of origin in the form of inward remittance whereas the brain drain from the country of origin can be a biggest threat to it and can be taken as a negative consequence.

1.3 Purpose of the Study

The main focus of this study is to analyze the impact of foreign employment in the flow of inward remittance and its contribution in different sector of national economy.

1.4 Objectives of the Study

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

- a. To assess the contribution of remittance to different sectors of economy.
- b. To assess the economic impact of current state of Foreign Employment and inward remittance in Nepal.

1.5 Research Questions

Recognizing the development potential of flows of money, the study "Economic Implications of Foreign Employment and Inward Remittance Business in Nepal" explores some key questions that still remain to be answered

- a. How remittance can be utilized in other different sectors of economy?
- b. What is the economic impact of foreign employment and remittances on the underdeveloped country like Nepal?

1.6 Scope and Limitation

This research explains and analyzes the subject matter with the help of published data and surveyed data, therefore as a conclusion oriented research, it doesn't concern with fundamental and decision oriented research. Considering the above matter, following are the limitations of the research:

- a. Since very few researches have done in this area in the context of Nepal, the study depends upon the published data and data gathered from the survey.
- b. Since large volumes of inward remittance are entering inside the country through informal channels, official data excludes these figures. However various efforts were made to cover these data to the extent possible.
- c. As a research student the study is unbiased but resources and time period is limited.
- d. The truth of the research result is based upon the available data from the survey and other sources.

CHAPTER 2

LITERATURE REVIEW

In recent years, various individuals and organizations on the topic of remittance with regard to foreign employment and remittance economy of Nepal have studied a number of studies. However, few of these researches have been devoted to practical realities and are mostly based on micro- level studies. Though various researches have been studied, this study tries to identify the features, characteristics, levels and trends of the Nepalese labor employment and remittance. Based on the various theories, laws, and the social structure of the country, the research has been done.

2.1 Conceptual Review

This section includes articles related to concepts, meaning, scenario and applications of foreign employment and remittance. This review begins with the definition of key factors like foreign employment, migration, remittances etc. It would be then followed by various theories regarding the foreign employment and remittances, the transfer mechanism of remittances from one country to another country. Moreover, it contains the history of foreign employment and remittances in Nepalese context.

2.1.1 An overview of foreign employment and remittance

Foreign labor migration and remittance have emerged over the last two decades as a prominent feature of most of the country's economy.

International Labor Organization (2003) have discussed about the international migrants. According to them, international migrants are the people who have moved more or less “voluntarily” (example, short and long term workers ranging from unskilled laborers to highly skilled “professional, technical and kindred” [PTK] workers), as well as those whose movement is in some sense “forced” (e.g., refugees and bona fide asylum seekers, and people who move for environmental reasons or “eco-migrants”)

United Nation (2002) in International Migration Report, Geneva have discussed about the policies in the area of foreign employment. The policies have developed along four major paths: growing restrictiveness and selectiveness in the admission of labor migrants in developed countries; a significant increase in the number of countries, particularly developing countries that have become host to foreign workers the rising recognition that the rights of migrants workers and their families need to be protected and the adoption of regional agreements on the free movement of person.

Shiva Shrestha (2006) in his article published by Nepal Rastra Bank, foreign employment is one of the salient features of the globalize world, emanating from a combination of push and pull factors, including poverty, unemployment, demand of the labor market, political conflicts, improved communications and transport, among others.

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

The increase of the flow of remittances has paved the way for South Asian economies such as Bangladesh, Sri Lanka and Pakistan to keep their BOP situation in a healthy state. The strong inflow of remittances allows foreign exchange reserve to increase and provides the confidence to float a country’s currency. It has been found that the remittance money have become a crucial component for Nepalese economy. The GDP has also accounted remittances as one of the major sources of national income of the country. The remittances have contributed much to maintain Nepal’s BOP position favorable. Not only this, this sector has become one of the prime sources of foreign currency earning and mitigating ever-growing imports bills for Nepal. The expansion of banking and financial sector has been possible due to presence of remittances in Nepal.

Meaningful utilization of remittance money paves the way for boosting socio-economic activities towards deprived people and remote areas of the nation. Mere collection of remittances in banks and financial institutions does not bring desired outcome in the economy. Such funds should be channelized in different layers of the economy to meet twin goals: poverty alleviation and

sustainable development of Nepal. The GDP of the nation could be magnified in the long run with the better use of remittances.

2.1.2 Theories regarding foreign employment and remittance

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

Gurushri Swamy (2007) in his working paper for World Bank “International Migrants Workers Remittances: Issues and Prospects” have discussed about the various theories that have been developed by great scholars in 18th and 19th centuries.

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

M.P. Todaro (1976) states that migration is stimulated primarily by rational economic consideration of relative benefit which are mostly financial. Decision to migrate is influenced by the difference between expected income between two places, the odds, probability of getting job in new area is inversely related to unemployment rate in the new area.

The other types of migration theories are connected with economic growth. W.A. Lewis (1984) distinguishes subsistence sector and developed sector within the economy. The first is agro-based, underdeveloped or rural area and second is industrial, developed, urban territory. The prime reason for migration is due to wage differences. Unlimited supply of labor force prevailing at low wage rate are attracted into industrial sector until subsistence sector i.e. migration exists whenever wage differential exists and elimination of such differential causes to end labor mobility. D.J. Bougue (1954) too identifies the causes of migration to be lack of employment opportunities, decrease in the natural resources etc.

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

Ray Chaudhari, J. (2003) in his research paper “Migration and Remittance inter urban and rural urban linkage” has quoted five different researches conducted by i) H. Remple, R. Lobdell ii) G.E. Jonson and W.E. Whitelaw in Kenya iii) Remple and Cobdell in Pakistan iv) B. Banrjee in Delhi v) ILO and presented by A.S. Oberai and HKM Singh. Their common idea is propensity to remit of all migrants and proportion of remittance is equal and depends on the types of work received abroad, level of education of migrants, marital status, origin of migrant rural or urban. The proportion of income remitted is more or less same of all types of migrants, but the amount of remittance certainly is not equal. Ray Chaudhari (2003) studied in his own research about the use of remittance. He concludes that first, initial consumption pattern largely affect the use of it. If the recipient is below the poverty line his/her elasticity of demand on necessary thing is high, i.e. it encourages local consumption expenditure. If he/she is above the poverty line; it makes him/her rise in income status, so consumption pattern shifts to goods for facility and luxury. Secondly, expenditure of remittance in receiving household depends upon availability of desired commodities or services too. If they are not available they lead to establish wholesale and retail unit. Thirdly, the use of it depends on propensity to save and it is affected by level of income and ceremonial duties like marriage. If they are high one's propensity to invest reduce. The fourth element proposed by Chaudhari that affects the use is value system and attitude towards different types of occupation.

Elbadwi and R. Rocha (2008) in their paper “Determination of Expatriate Workers Remittance in North Africa and Europe” synthesized the old researches in two categories: endogenous migration and international workers' remittance concerns the income differential and wage rate between two place, there is 'required' level of remittance which must be equal to average income of family and community, on the other hand portfolio approach to international workers' remittance suggests volume if remittance depend upon decision whether to save in host country or remit to the home country. The volume of remittances are affected by relative rate of return of

interest rate, foreign exchange, real estate values and rate of inflation and difference in the black market exchange rate and official exchange rate. The first approach considers income and demographic variables as the main determinant, economic policy influences less, and so it is long run analysis, and second insists on macroeconomic policies, economic and social environment for higher remittance and short run treatment.

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

2.1.3 Remittance Transfers to Nepal: Overview of Remittance Transfer Methods

Seddon, David (April – June 2003) in his research paper “*Migration and Remittances: The Case of Nepal*” stated remittances as “The money that migrant workers bring or send back home, to their country of origin”. Remittances are transferred to Nepal through the ‘Hundi’ system, the ‘Hand carry’ system, or through ‘Banks system’.

a. Hundi

“Hundi” or “Hawala” is an indigenous, informal banking money transfer system (Passas, 2009). Funds are transferred without an actual movement of money. This system predates conventional western banking. A hundi is an unconditional order made by a person directing another person to pay a certain sum of money to a person named in the order. The terms “hawaladar” and “hundiwala” refer to the hawala and hundi operator. Some researchers date hawala or hundi back to more than a century ago, when Indian immigrant communities in Africa and South East Asia devised it as means of setting accounts. Others place the origins of hundi/hawala several centuries ago, when traders sought a secure system to transfer money, and through which travelers found a way to protect themselves against thieves.

Hundis, being a part of the informal system, have no legal status and are not covered under the Act that regulates bills of exchange, promissory notes and cheques (i.e. the Negotiable Instruments Act 1881). They are normally regarded as bills of exchange, even though they were

more often used as equivalents of cheques, issued by indigenous bankers (<http://www.museum.rbi.org.in/m-hundi.html>, 28.4.2008).

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

Hand Carriage

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

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

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

b. Bank System

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

The main reasons for not using a commercial bank is the lack of banks, limited knowledge about commercial banking and the slow transfer process (Hand carriage and hundi are much faster). People also trust their traditional ways of remittance transfer more than they trust commercial banks.

2.1.4 Banking facilities for Immigrants

Roberto Suro (2002) in his paper, “Billions in Motion: Latino Immigrants, Remittance and banking” has discussed about the various facilities that Latin Banks have provided to capture a large share of Latino Immigrants remittance market. The study is conducted from the standard survey technique for ensuring randomness and representativeness which is followed by in-depth investigation of remittance sending practices and attitude towards financial institutions.

The Latin American Banks have provided various facilities like open an account in third country by submitting the required documents in nearby branch office. While opening the account minimum balance required maintaining and the transaction fees are key elements because many remitters and their families do not have more amount of money to maintain the minimum balance while opening the account. The migrants can instruct the bankers to transfer the money by various mode of transmission like SWIFT, Telex Transfer, Demand Drafts etc. the mode of transmission depends upon the cost migrants are willing to pay to send money and time taken to reach to receivers. However, many migrants are unaware about the full costs they are paying to send the money.

The author further cited that the migrants can take advantage on deposit and loan schemes provided by the banks. The migrants have a choice of two schemes for depositing their savings with the Latin American Bank. These are:

-) Foreign Currency Non Resident account (FCNR)
-) Non-Resident External account (NRE)

The comparative features of these two accounts are summarized as:

Table 2.1: Comparative features of FCNR and NRE accounts

Particulars	FCNR	NRE
Who can open accounts	Foreign Migrants	Foreign Migrants
Joint accounts of two or more migrants	Acceptable	Acceptable
Joint accounts with home country residents	Acceptable	Acceptable
Nomination facilities	Offered	Offered
Other Currency of account	USD, GBP, EUR, JPY, AUS, CAD	USD
Repatriability	Principal and interest	Principal and interest
Type of account	Term Deposits	Saving, current and term deposits
Period	12 months to 5 years	12 months to 7 years
Minimum amount	USD 1,500 GBP 1,000 EUR 1,500 JPY 50,000 AUD 1,000 CAD 1,000	

Despite these deposits, the banks also provide special schemes of loans to migrants workers. The loans are permitted to migrants against the deposits, shares, securities and fixed assets or properties. The loans for personal/business are provided against security of FCNR/ NRE deposits. Looking at the proportion of remittance send by migrants“ worker the loan is provided to their family members.

According to the author, banks have marketed the innovation of new age where migrants are willing to entertain the money transfer products and are not particularly cautious of new technologies such as the use of ATMs for the transactions. The banks have maintained the high level of security and reliability while migrants operate on the sending end and receiving end. This provides trust and ease to senders and receivers while sending and receiving money.

The author had concluded that banks facilities to migrants workers have helped in increase the inflow of remittance and banking operation in foreign countries. Due to banking facilities provided by Latin American banks, the inflow of remittance has increased almost double and transaction of bank in term of deposits and loan are also in good position.

2.1.5 History of Foreign Employment and remittance in Nepal

Kanskar (2006) in his research, "Migration, Remittance and Rural Development", reviewed preceding of migration with reference to remittance. He found the origin of Nepalese emigration to be after the Anglo Nepali War in 1814 and was totally for recruitment in the army. The Indian Army was not only open to Nepalese soldiers for recruitment but also managed for their permanent settlement. Government had no official policies to encourage it. The Prime Minister, Bir Shumsher JBR, encouraged the people to join the British recruitment. About 200,000 Nepalese males jointed the British regiment even during the First World War. The Anglo-Nepal convention held on 15 May 1815, created alternative labor market to the Nepalese in India. The emigration to India accelerated because of disequilibria in labor growth and employment opportunity growth and miserable day-to-day life of Nepalese hill area.

David Seddon (2002), in his book, "Foreign Labor Employment and Remittance Economy of Nepal" shows the history of labor migration from Nepal. Data backs at least to the beginning of the early 19th century and closely linked to British imperial politics. Recruitment of so called "Gurkha" soldiers into the (British) India army was institutionalized in 1816 after Nepal had lost the war with the British East India Company. Prior to that, some Nepalese had sought employment in the army of the Sikh ruler Ranjit Singh in Lahore and other joined them after the defeat of the Nepalese army by the British. This tradition, until today is reflected in the name "Lahure" for soldiers. Nevertheless, today the "Foreign Employment Act" regulates it. With the enactment of foreign employment act, Nepalese started to migrate beyond India particularly to

the Gulf, where oil boom had created massive demand for foreign labor. There was significant growth of Nepalese migrants in East Asia, South East Asia and the Gulf.

The research report of NRB (2006) conducted by the Special Study Section of NRB entitled "Foreign Employment, Remittance Economy and Nepal" states that the migration of Nepalese workers started after 1816's peace treaty between Nepal and Britain. Most of the people at that time are migrated to work in the British Regiments. This study examines about the historical perspectives, present condition, the trend and dimension of remittance, the problems associated with the remittance and its measurements, the use of the gained money as well as the skills, the investment pattern of that remittance and also the employment condition of the people returned from the foreign employment. It also examines about the Nepalese foreign employment system and its objectives with other questions related with the remittance. This study concludes that apart from India, about 86 percent of the people are migrated to Gulf Countries like Malaysia, Saudi Arab, Qatar, Dubai etc. Rest percent are migrated to the other countries of the World. This study examine about the role of manpower agencies in the field of foreign employment. This study concludes that even though the role of manpower agencies in obtaining Work Permit, Government acceptance letter, tickets etc is very helpful but most of the manpower agencies of Nepal are looting the people in the name of foreign employment.

This research report found in its conclusion that the main problems of this Foreign employment are lack of Proper technical as well as the practical knowledge about the works which he/she had to perform in that countries, lack of required information and the help from the manpower agencies, problem of languages, culture and habitual activities, lack of the safe and reliable financial institutions to send money from abroad, lack of required social as well as economic equalities between the local workers and the Nepalese migrated workers, the problem of Capital loans and management of that capital which is required for the processing and the tickets for foreign employment apart from those after reaching to the destination countries the Nepalese workers are facing so many problems like not getting that proper work which was promised in Nepal, retirements before the agreement time, not getting the salary in time, unnecessary reduce in the salary, not getting the minimum wage level also, not getting bonus and other facilities available from the company, extended work time without extra salary or over time salary etc.

2.2 Empirical Review

This section includes the Working Papers, Research Papers related to the past, present, and to an extent the future scenario of remittances. It also includes the review in terms of general trend in the remittance and labor employment along with the global perspective in terms of the inflow of remittance due to migration. It is clear fact that, the remittance money will be used in some types of work. Thus, the uses of remittances and its impact on economy have been studied along with its contribution on poverty alleviation and employment.

2.2.1 Foreign employment and remittance: A trend

The report “Workers remittance flow in Southeast Asia” prepared by Asian Development Bank (2006) have examined the trend of migrants’ worker and flow of remittance in Southeast Asian countries (Hongkong, China, Malaysia, Japan, Singapore, Thailand). The report seeks to determine the migration trends, remittance flow and its market place channel and competition.

The report was prepared using various secondary data from respective countries and primary data has also been used like survey and interviews. Each Southeast Asian country represents the proportion of world market for labour migration and remittance. The report provides the actual figure regarding the trend in selected country.

Table 2.2: Migration trend in Southeast Asian countries from 2001 to 2005

Country	2001	2002	2003	2004	2005
Hongkong	159,620	165,781	168,329	170,367	179,301
China	256,391	264,280	271,570	283,549	295,251
Japan	106,289	110,438	123,563	134,653	141,453
Malaysia	226,794	238,547	242,548	267,508	288,432
Singapore	98,420	104,548	109,548	113,564	121,005
Thailand	65,369	74,361	79,328	82,471	97,473

Source: Report of ADB

Table 2.2 shows the trend of migrants in selected Southeast Asian countries. In 2002, a higher proportion of migration is seen in Thailand whereas more number of employees is to China. The migrated workers live legally in the host countries with their valid passport and working visa.

The more number of workers migrated to China are from Hongkong. In Japan, more numbers of immigrants are from Philippines, Malaysia and Indonesia. The report further details that most of the workers in Japan are female workers (about 68%) from Philippines. Singapore permits three types of immigrant: work permit, employment pass and “S” pass. Work permit is for unskilled workers, employment pass is for skilled workers and “S” pass is for semi-skilled workers. About 55% of workers in Singapore hold work permit, 25% hold employment pass and rest 20% hold “S” pass. The minimum wages for the employees are not declared by the government of Singapore. According to the skill and nature of job the workers were paid. The wages paid to the employee's are sent back to their home country in the form of remittance to their respective households.

Table 2.3: Remittance trend from Southeast Asian countries from 2001 to 2004

Country	2001	2002	2003	2004
Hongkong	0.53	0.62	0.68	0.81
China	1.32	1.43	1.66	1.93
Japan	1.34	1.46	1.73	1.87
Malaysia	1.65	1.87	2.24	2.56
Singapore	1.14	1.20	1.32	1.40
Thailand	0.43	0.49	0.57	0.61

(US\$ in Billions)

Source: Report of ADB

Table 2.3 shows the total remittance sent from the listed Southeast Asian countries. The data of remittance has been extracted from the central bank of the respective country. It has been found for this could be that numbers of immigrants in Malaysia are high in comparison to other. The report further discusses about the cost of living of the country. In countries like Singapore, China, Japan the cost of living is high so that the saving out of earning would be low. So from these countries the remittance outflow is low.

The report from ADB gives clear picture regarding the labour migration and remittance flow from Southeast Asian countries. This report helps in making projection for further years regarding the foreign employment and remittances in Southeast Asian countries.

2.2.2 Money Transfer Service

Mohammad Adnan Badran (2009) in his report “Money Transfer Service” has studied the different factors on the choice of different money transfer channels. The report was made conducting a survey in between banks employees in North Cyprus. The author discussed about various mode of money transfer system like SWIFT, Telex Transfer, Demand Draft, Post Office, Telephonic money transfer etc.

The author discussed remittance, which is the fund flow from immigrants workers to the country, as one of the source of income to the household in Cyprus. World becoming a globalized and due to the development of various advance technology with internationalized business various ideas are generating regarding the transfer of funds from one country to another very easily and in secure way. The demand for fund transfer channel to respective countries is increasing because of increase in number of migrants“ worker around the world. Due to more number of immigrants the needs of transfer of funds have increased. The transfer of money has developed from using formal and informal channel of fund transfer. The formal ways of fund transfer are banks which are regulated and informal are transfer through intermediary and hence are not authorized and regulated. The transfer of fund differs in cost, speed, ease usage and security. So the mode of transfer of fund differs for all users or senders.

Citing the work of author, SWIFT among the all other mode of transmission of fund is most cheap way of fund transfer and most of the sender were using this mode of transfer because this ode also fits with the need of sender who send large amounts of money. However, it also depends on the urgency for the senders and/ or receivers. For example: the level of urgency might differ from among students and businessman as sender or receiver. It means that the urgency or need of student might be different from the need of businessman in terms of both speed and cost. It has been found that, 75% and above senders of remittance prefer the channelized way to transfer fund from SWIFT. Remaining less than 25% prefer other mode of transmission according to their needs and urgency.

The author also focuses on the informal channel of fund transfer. People usually use informal channel though there is cheap, easy and reliable ways of funds transfer system. It is because to

transfer the funds from informal channel i.e. through intermediary, senders do not require any bank account and any other information about sender and receiver.

2.2.3 Remittance: as a source of foreign currency

Manuel Orozco (2004) in his report “Remittance to Latin America and the Caribbean” has discussed about the trend of immigrants and the role of remittance to inflow foreign currency in Latin American Countries (LAC). The study seek to show that it is not only the foreign aid or investments in various sector which is the main reason behind flow of foreign currencies in LAC but remittance money sent by Latin American living outside the country is also a notable source.

Table 2.4: Foreign Currency inflow in the form of remittance to LAC

Countries	Years		
	2001	2002	2003
Mexico	9273	10502	13929
Brazil	2600	4600	5355
Columbia	1600	2431	3220
Guatemala	584	1689	2211
El. Salvador	1920	2111	2210
Dominican Republic	1807	2106	2164
Ecuador	1400	1575	1657
Jamaica	967	1288	1426
Cuba	930	1265	1296
Peru	905	1138	1155
Honduras	460	770	862
Haiti	810	831	851
Nicaragua	610	759	788
Bolivia	103	104	340
Costa Rica			321
Venezuela		235	196
Guyana		119	137
Trinidad and Tobago		59	93
Belize	42	48	74

Source: Inter-American Development Bank and Central Banks of each country.

As noted from table 2.4, the author tries to show the trend of flow of foreign currency through remittance. The trend in each year to each country of LAC can be seen as positive and increasing trend. The inflow of foreign currency does not have negative trend in any year which shows there is some role of remittance in earning foreign currencies by LAC. The potential too for this transfer of remittance in LAC is bank. Thus, many U.S. banks are entering in LAC through remittance market for transferring the money. Banks are in the process of attracting the customers providing various facilities and new products like Visa-Debit cards.

The author concludes by giving positive effect of remittance in generating foreign currency. As numbers of immigrants are departing for employment, the more amount of money will be transferred to home country through bank and other channel in the form of remittance.

2.2.4 Remittance Receiving Mechanism

Michael Blackwell and David Seddon (2004) in their report to DFID “Remittance from the UK: Values, Flows and Mechanism” have discussed about the channel through which remittance sent out from UK to other developing countries. The report highlights the formal channel and informal channel for remittance from UK. The formal channels are defined as authorized money transfer agencies approved by government like bank. The informal channels are defined as unauthorized channel other than formal channel like hawala.

These authors stated that the numbers of immigrants’ household in 2001 to be 1,544,757 which increased to 2,021,469 in 2003. All these immigrants sent money through some route to their home country. The transfer method of money from UK is shown in table 2.5 according to the report.

Table 2.5: Transfer method of money from UK

Transfer method	Percent
Cash or goods in kind (as gift)	42
International money transfer companies	30
Banks	5
Other Methods	23

The authorized formal channel of money transfer is 35% where as rest of the 65% are from informal channel. Based on the availability of data, the authors estimate that out of £1.4 billion of total remittance outflow from UK only £0.5 flows from the formal

channel. The author further discuss about the time required to hand over the cash and cost of sending money to Pakistan.

Table 2.6: Time required for handling over the cash and cost of sending money to Pakistan from UK

Company	Cost of sending £100 to Pakistan	Destination	Time (Days)
Western Union Money Transfer	£25	Local branch office for pick up	1
Money gram	£12	As western union	1
HSBC bank via electronic fund transfer	£17.50 to HSBC a/c, £20 to non HSBC a/c	Bank account only	1
HSBC bank via priority payment	£15	Bank Account only	4-5
HABC via world pay	£9	Bank Account only	7-10
Leinster foreign exchange	£15	Bank Account only	2
Thomas exchange Global	£12.50	Bank Account only	4-5
Lloyds TCB via international money movers- Express	£19	Bank Account only	2-3
Lloyds TCB via international money movers- Standard	£13	Bank Account only	3-5
Lloyds TCB via international money movers- Economy	£5.50 plus receiving bank charge	Bank Account only	5

Source: A Report to DIDF

Table 2.6 highlights the charge to sent £ 100 from UK to Pakistan which shows as the charge of transfer is high the number of days to transfer money in destination will be low and vice versa.

Nepal Rastra Bank (NRB) annual report (2010) has published the remittance receiving mechanism in Nepal. There were 28 commercial banks as of Fiscal Year 2009-10. The commercial bank has authority to deal with foreign currency. Therefore, all the 28 banks can operate money transfer of workers’ remittance. Among these 28 commercial banks, only 2 banks have their branches in 75 districts covering all area of Nepal and also have authority to deal with money transfer. Remaining 26 commercial banks have branches not in all 75 districts but they have been operating branches in various districts and are authorized to deal with money transfer.

Table 2.7: Distribution of Financial Institutions Dealing with Money Transfer

S.No.	Transferring Agencies	No.	District Coverage
1.	Commercial Bank	2	75
2.	Commercial Bank	26	47
3.	Finance Company	2	18

4.	Licensed Money Transferring Agencies	45	75
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Source: Nepal Rastra Bank (NRB)

The report reveals that there are 70 development banks and 77 finance companies as of 2009-10. Development banks and finance companies need to get license from NRB to deal with money transfer in foreign currency. Yet no development bank has obtained the license while 2 finance companies are permitted by NRB to deal with money transfer in foreign currency. NRB has granted license to 45 money transfer agencies to engage in money transfer and they operate in 75 districts. Thus, 26 commercial banks, 2 finance companies and 45 money transferring agencies are dealing with money transfer as shown in table 2.7.

According to the report, money transferring agencies need not take permission from Nepal Rastra Bank to appoint their agent and they can appoint an individual or person engaged in other business such as shop keeper, petrol pump stations and through local merchants. As workers remittance is inflow of foreign exchange in the country, Nepal Rastra bank have taken liberal policy in this respect. This policy helped to reduce the operating cost of money transferring agencies as well. As it is not their primary job they need not operate branches and not even appoint full time agent or pay less to shop owner or merchant.

The report also focuses on agencies which have networks in rural areas also. For example, IME, one of the popular remittance transfer agencies, has branches in 7 districts, and operates in 71 districts. IME has 600 plus agents all over Nepal and provide service through its branches and agents. It also helps to increase the remittance in the country because of having more operation and agents in rural area people are interested for foreign employment.

2.2.5 Remittance on economic development

Nagendra Lal Srivastava and Shashi K. Chaudhary (December 2007) in their article “Role of Remittance in Economic Development of Nepal” have explained about the direct impact of remittance on three development indicators: GDP, GNP and Per Capita Income of the country. According to the research analysis, most remarkable impact of remittance has been seen in the GDP and GNP in both nominal and real terms.

Remittance provides the major contribution to the national economy than other activities like tourism, manufacturing, investment, exports etc. Moreover, it is mentioned that, the biggest

contribution of remittance has been found to the welfare and improved livelihood of the receiving households in terms of basic needs, better health and education and to a smaller extent in terms of savings. Though, the amount are spent for fulfilling the basic necessities which are the safe investments, but in macro-economic point of view all the above investments are non-productive assets which doesn't have any impact on country's real income.

Adolfo Barajas, et al (July 2009) in their paper "Do Worker's Remittance Promote Economic Growth?" have answered the key empirical question— whether remittance serve to promote long-run economic growth? Yes, it's true fact that remittance have grown to become one of the largest sources of financial flows to developing countries. Remittances are relatively larger to other financial and foreign direct investment flows to developing countries. To analyze the economic growth, two variables need to be used as instruments for remittance flow:

- Instruments must be correlated with potentially endogenous explanatory variable, and their effect on individual country growth must operate solely through its effect on that variable.
- The interpretation of results obtained using many obvious instruments, such as GDP per capita in the recipient country and growth in a country where migrants reside.

The instruments that have been used as explanatory variables are foreign and domestic macroeconomic variables. The relationship between distance and growth rate have been shown; where it is found that distance instruments may be strongly correlated with the growth rate in remittance receiving countries.

This paper criticized the findings of Rajan, Raghuram and Arcind Subramanian (October 2005), "What undermines aid's impact on Growth?" where it is pointed out that there is very little evidence that decades of official transfers have contributed much to the growth of developing economies. Very little contribution has been made by remittances to economic growth in remittance receiving economies. If remittances are measured properly specifying growth equation, robust and significant positive impact of remittances on long- term growth cannot be found.

Abu Siddique, E A Selvanathan and Saroja Selvanathan (August 2010) have discussed about the remittance and economic growth with empirical evidence from Bangladesh, India and Srilanka. The focus of the study was to know whether remittances are significant factor in determining

economic growth or not. Remittance has become an important source of migrant workers in South Asian countries; it is because these countries are known for labor intensive countries.

The remittances sent by migrant workers to their home countries have played an important role to promote economic development in South Asian countries. South Asian countries were assisted by increase in remittance flow which helps to minimize the problem arising from shortage of foreign exchange reserve which is necessary to pay the import bills. According to Rahman et al.2006, remittance do not contribute to economic growth point to their expenditure on prominent consumption and that any savings are being spent on consumption rather than for the accumulation of productive assets.

However, it cannot be denied that remittances are very important source of income for South Asian countries. Though there is much debate on the role that remittance plays in the economic development of the countries. Some economists argue against its impact due to conspicuous consumption. In some of the countries like Bangladesh, the major part of remittance payments are used for consumption purposes as opposed to investment and savings. Despite this facts, Guiliano & Ruiz- Arranz (2005) have illustrate that the remittance do contribute to economic growth in Bangladesh.

Natalia Catrinescu et al. (May 2006) in their research paper “Remittance, Institutions and Economic growth” have explained about the contribution of remittance in the economic development for longer term growth by building human and financial capital or degrade long-run growth by creating labor substitution. This paper suggests that contradictory findings have emerged when looking at the remittance- growth link because previous studies have not correctly controlled for endogeneity. The researchers have used Dynamic data panel estimates where they found remittances put forth a weakly positive impact on long-term macroeconomic growth. Moreover, the paper also considers the proportion that the longer- term developmental impact of remittance is increased in the presence of sound economic policies and institution.

Some of the empirical evidence have also been cited in the research paper where remittances lead to positive economic growth, be it their positive impact on consumption, savings or investment.

- Lucas (2005) in his various case studies has shown the sign that remittance may indeed have served to accelerate investment in countries like Morocco, Pakistan and India.
- Roberts and Baniaian (2004) a remittance in Armenia conclude that overall, empirical evidence suggest that the propensity to save out of remittance income is high which is almost 40%.

However, in contrary, Giuliano, Paola and Marta Ruiz- Arranz (2005), in their paper “Remittance, Financial Development and Growth” have found that remittances relationship with per capita GDP is not statistically significant, remittance do have robust positive impact on financial development.

2.2.6 Inward remittance through migration: A global perspective

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

Remittances have become the second largest capital flow behind Foreign Direct Investment (FDI) and ahead of Overseas Development Assistance (ODA) to developing countries.

According to the World Bank study, overall remittances constituted 1.5 percent of GDP and 5.1 percent of imports to this group of countries in 2004. For developing countries, remittances are also relatively more important by contributing 66.2 percent of FDI inflows and 250.0 percent of net official finance. In 2004, remittances were larger than both official and private flows in 36 developing countries.

Table 2.8: Capital Flows in Developing Countries in Billion US \$

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

**Estimate*

Source: Global Development Finance, World Bank – 2006

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

Regionally Latin America and the Caribbean have estimated to receive the lion share of remittances in nominal terms with \$29.6 billion in 2005 followed by South Asia with \$18.2 billion. Relative to GDP, however South Asia was the largest recipient with remittances receipt amounting to 2.5 percent of GDP in 2004. Till 2000 India was the top country of the world that received highest remittances followed by Mexico. Since 2001, Mexico has outpaced all the developing countries. In 2002, Mexico received \$11.0 billion followed by India at \$8.4 billion. In 2005, Mexico is supposed to receive \$13.2 billion and India \$8.4 billion. Philippines are the third highest remittance-receiving developing country, received \$7.4 billion in 2004, and are estimated to receive \$ 8.0 billion in 2005.

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

2.2.7 Uses and Impact of remittance

Bichaka Fayissa and Christian Nsiah (February 2008) in their working paper “ The impact of remittance on Economic growth and development in Africa” have discussed about the effect of remittances relative to the other external sources of capital like foreign direct investment and foreign aid on the economic growth and growth of African countries. The macroeconomic impacts of remittances have been disregarded because remittances are mainly used for consumption purposes and, hence have minimal impact on investment. However, *Stahl and Arnold (2006)* in his research paper have argued that the use of remittances for consumption may have a positive effect on growth because of multiplier effect. Whereas, according to *Gupta et al. (2007)*, remittances are neither a solution nor a substitute for a sustained and domestically engineered development effort for curing the problems of low – income countries.

From the view point of African countries, remittance do have positive impact on economic growth. It has been found that 10% increase in remittances lead to a 0.3% increase in GDP per capita income. Moreover, there is conventional growth in sector like investment in physical and human capital, household spending which can enhance their productivity and spur their economic growth.

Nepal Rastra Bank (2001), in their economic bulletin, states the major portion of the remittance is used for meeting household consumption and paying off loans borrowed to go abroad. Remittances are used for meeting daily necessities like food, clothing and payment of debt and interest. However, the survey done by department of women development under ministry of women, children and social welfare, on employment of women (2003) found that families were

living out of remittance money. And remittance was helping to prevent more people from falling below poverty line. Use of remittance for the improvement of the living standard is referred to by several studies (Seddon, 2003, NRB, 2001). Improvement in living standard includes housing improvement; higher expenditure on food, on personal items, domestic, equipment and other consumer durable.

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

David Seddon (2003) in his article shows that the real statistic of foreign employment is much higher than the official data. Official source accounted only Rs.2.9 billion remittances in 1996/97 but he estimated more than 35 billion. The authors tried to analyze dynamic of remittance it use and impact on rural economy.

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

John Connell and Richard P.C. Brown (2005), in their paper “Remittances in Pacific an Overview” states the majority of studies of remittance use in the Pacific suggest that regardless of considerable diversity they primarily are spent on consumption. A World Bank report on Tonga stated that, “Large private remittances and official grant inflows have enhanced consumption and resulted in negative gross domestic savings equivalent to nearly a quarter of gross domestic product” (World Bank 2003). Narayan Prasad similarly argued that, “The strategy (or nonstrategy) of depending on remittances provides crucial revenue and contributes to the balance of payments in small countries, but creates a consumption society, where productive economic activities hardly exist” (2003). The researchers thus identified some of the uses of remittances

a. Debt Repayment:

Migration can be costly hence remittances are often first used to repay debts that migrants (and their families) incurred in moving. This use emphasizes social obligations. In this sense at least the first sign of remittances constitutes informal loan arrangements within families (Brown and Poirine 2004) and is far from being an incidental or random by product of migration. In many places of Papua New Guinea, migrants even repay their parents for the money they spent educating them.

b. Consumption:

It has been found that food is one of the main items purchased with remittances. Expenditure on food, much of which is imported, has in fact become so widespread that the cost of food imports is considerable in some states. In many of the country the evident has found that households spent fully 88% of all remittance income on food.

There has been a switch from using remittances to purchase basics such as food, to spending them on goods such as outboard motors and construction materials. More recent studies have shown not only that remittances are more likely to be used for modern goods such as sound systems rather than for basic needs, but that as in the case of Fijians in the United States these goods include luxury goods like telephones, televisions, and video systems.

c. Housing:

The construction and/or purchase of fully equipped housing is sometimes perceived as a form of consumption rather than as an investment or a welfare gain. Overall, expenditure

on improved housing contributes to safety & security, prestige, and income generation. Using remittances for housing is so widespread in some countries such as Tonga that informal inspection of a village shows which households have migrants overseas.

d. Saving:

There has been very little indication of remittances directly contributing to savings or to other financial investments. However, according to study done by James Dennis in 2003; in the case of Tuvaluan seafarers where actual use is more visible and where return migration is necessary, as much as 37% of remittances went into personal bank accounts rather than to partners or families.

e. Air Fares and Education:

In a different sense, in two ways remittances are invested in the future. Firstly, they are used to purchase airline tickets for other family members. It has been found two thirds of Tongan remitters in Auckland asserted to have paid for at least one airfare for a relative, and some migrants had paid for up to ten. Secondly, Remittances for school fees are also important and tend to have a standard value because education is the investment on their siblings for future income. After food, education was the most important use of remittances in Tuvalu and probably in Kiribati since education is specifically regarded as an investment in the future.

2.2.8 Contribution of Remittance on poverty alleviation and employment

Juthathip Jongwanich (January 2007) in his paper, “ Workers’ remittances and poverty in developing Asia and the Pacific countries” have explained about the impact of remittances on poverty reduction; and key reason of remittances affecting poverty.

To measure the poverty, the model propounded by Dollar and Kraay, 2002 and Berg and Krueger, 2003 has been used. The equation is:

$$Pov_{it} = \beta_0 + \beta_1 g_{it} + \beta_2 In_{it} + \beta_3 Remit_{it} + \beta_4 X_{it} + \epsilon_i + \epsilon_{it}$$

Where, *Pov* is the measure of poverty, *g* is the economic growth, *In* is the inequality, *Remit* is remittance and *X* is the control variables. The control variables (*X*) include human capital (*H*),

inflation (Inf) and openness (open), μ_i is an unobserved country-specific effect and ϵ_{it} is the error item.

In the above equation, β_1 is coefficient of GDP, which could be both positive and negative. If income of the poor tends to grow proportionally with per capita growth then their coefficients are expected to be negative. Whereas, the positive coefficients are expected while there is worsen income distribution and an increase in inflation tend to have a negative impact on poverty reduction. Moreover, it would be positive when increase in human capital factor increases opportunity of the poor to generate income.

According to the poverty equation, it has been found that, an increase in remittances can directly lead to poverty reduction. If other things remains same, 10% increase in remittances can lead to reduction in poverty incidence by 2.8%. From this, it can be concluded that remittances can directly increase income of poor people, smooth household consumption and ease capital constraints.

However, in terms of empirical evidences from Pakistan, Lucas (2005) in his paper “International Migration and Economic Development” have argued that remittances probably contributed in a significant way to poverty alleviation process because many of migrants were relatively poor, possessing little or no education and coming overwhelmingly from rural areas.

Carlos Vargas- Silva et al. (December 2009), in their paper “Remittance in Asia: Implications for the fight against poverty” have examined the potential of remittances for promoting economic growth and reducing poverty in Asian countries. The result indicates that remittances positively affect home country real gross domestic product (GDP) per capita growth. A 10% increase in remittances as a share of GDP leads to a 0.9% - 1.2% increase in GDP growth. The findings also show that remittances only have a negligible effect in the overall poverty rate, but they tend to decrease the poverty gap and thereby reorganize the depth of poverty. Moreover, the estimates suggest that a 10% increase in remittances decreases the poverty gap by about 0.7% - 1.4%. In short run, remittances may have positive impact on GDP per capita income. Remittance seems to have a positive impact on output, but the relationship may not be significant in long run. Thus, the impact of remittances in the overall poverty rate is not straight forward.

Brown, R. (2008), in his paper “A Comparative Econometric Assessment of the Effects of Migrants’ Remittances on Income and Welfare in Armenia, Azerbaijan, the Kyrgyz Republic and

Tajikistan” looks at the issue of remittances and poverty using the survey data from these countries. A series of counterfactual experiments have been conducted to recognize remittances are preceded in most cases by migration of one or more household members. As such, to receive remittances, most likely the household had to forfeit the income that the migrant would have been otherwise contributing to the household. The experiment is done using two scenarios. Firstly, the experiment was done where an assumption has been made a world without migration. In this scenario, the household income would be the same as observed non-remittance income. It means that, this scenario assumes the migrant does not contribute to household income. Given that this is an unrealistic scenario for most households, another assumption has been made as a second scenario where a world is without migration household income depends on the characteristics of the migrant members. The analysis has been done which suggest that remittances are important in reducing poverty in the Kyrgyz Republic and Tajikistan, but not so much in Armenia and Azerbaijan.

2.2.9 Remittance Flows: Magnitude and Direction

“World Bank report has listed Nepal as one of 20 top remittances recipient countries of the world. According to the report, Nepal’s remittance on fiscal year 2004/05 was US \$ 775 Million, which constituted 18 percent of the nation’s GDP.”(New Business Age) According to NRB, annual statistics reveal that total remittances income during the fiscal year 2004/05 earned over US \$ 922 Million from overseas workers – accounting for 12.4 percent of national GDP. Likewise, the fiscal year 2005/06 touched Rs. 97.54 Billion (US \$ 1.32 Billion) which is contributed on nation’s GDP by 17.5 percent.

IMF figures depict that developing countries receive more than US \$ 60 billion a year in remittance. That is US \$ 6 billion more than net official aid from OECD countries. Additionally, remittance have become the second largest capital flow behind For FDI and ahead of ODA to developing countries for example, in 2001, remittance represented 42 percent of total FDI flows and 200 percent of ODA, remittance flows have surpassed ODA since 1995. According to the World Bank, study overall remittance constituted 1.5 percent of GDP and 5.1 percent of imports to this group of countries in 2002. For developing countries, remittances are also relatively more important by contributing 66.2 percent of FDI inflows and 250 percent of Net Official Finance.

In 2002, remittance larger than both official and private flows on 36 developing countries. The largest recipient of remittance is South Asia are India, Pakistan and Bangladesh respectively. Sri Lanka lags on this pace and Nepal is still behind to that of Sri Lanka.

While figures vary by sources and assumptions, most studies on the magnitude and direction of remittance flows usually arrive at two key observation, first, remittances are considered substantial and increasingly important sources of external finance that are growing not only nominally but also relatively in relation to others transfers to developing countries. Second, even though high-income countries remain the dominant sources of remittance, a non-negligible portion originate from developing countries. The World Bank estimated in 2005 put the official figure of remittances to developing countries at \$ 167 billion, a 73 percent increase from the 2001 figure of 72.3 billion. India topped the list in 2005 with a “spectacular” reported remittance flow increase of \$ 18 billion and is followed closely by China, Mexico and the Philippines.

The World Bank highlights how remittances, more than doubled in the past decade with quantity of remittances going to developing countries doubling in the past five years. Even Sub-Saharan Africa, long at the bottom in terms of remittance receipts, officially registered almost US \$ 8.1 billion in remittances in 2005, a 72 percent increase from the 2001 figure of US \$ 4.7 billion in outward remittances in 2004. Saudi Arabia used to be the largest source of remittance payments in the world up until the mid-1990s, and it still is the largest source on a per capita basis. Germany, Belgium, and Switzerland are the other top sources cited by the World Bank. Not surprisingly, the US – Mexico corridor registered the largest sources of remittance flows. Other large flows originate in Saudi Arabia and go to Asian and Arab countries and from the United States to China, the Philippines, India and Vietnam. A good proportion of remittance follow also originate in developing countries. The World Bank notes that these so-called South - South remittance flows make up between 30 and 45 percent of total remittances received by developing countries.

In fact, remittance flows to poor countries actually originate largely in the middle-income developing countries. China, Malaysia, and the Russian Federation, for example, are among the top 20 sources of remittances. This, according to Ratha, reflects the fact that over half of migrants from developing countries migrate to other developing countries. Other studies confirm

this trend. Carling notes that about one-third of global remittances are estimated to flow between Asian countries with the world's third largest flow of remittances going from Malaysia to Indonesia. African countries also receive more remittances from elsewhere in Africa than they do from other continents. This is particularly true in Sub-Saharan Africa since the inflows from Europe and Asia are concentrated to North Africa. Carling particularly finds Côte d'Ivoire and Angola as important source of remittances, in addition to South Africa. Similarly, Fagen and Bump, looking into Latin America and Caribbean, noted that of the estimated US \$32 billion in total remittances in 2002, US \$1.5 billion were actually interregional. Another study of migration flows between Costa Rica and Nicaragua also suggests that about one-third of remittances received in Nicaragua are sent from Costa Rica (Agunias, www.migrationpolicy.org)

Regionally Latin America and the Caribbean have estimated to receive the lion share of remittances in normal Terms with US \$ 29.6 billion in 2003 followed by South Asia with US \$ 18.2 billion. Relative to GDP however South Asia was the largest recipient with remittance receipt amounting to 2.5 percent of GDP in 2002. Till 2000 India was the top country of the world that received highest remittances and Mexico, the Second. Since 2001, Mexico has outpaced all the developing countries. In 2002, Mexico received US \$ 11 billion followed by India at US \$ 8.4 billion. In 2005 Mexico is supposed to receive US \$ 13.2 billion and India US \$ 8.4 billion. Philippines is the third highest remittance-receiving developing country and received US \$ 7.4 billion in 2002 and is estimated to receive US \$ 8.0 billion in 2003.

The United States and the Saudi Arabia are the largest sources of workers' remittances to developing countries with US \$ 31.4 billion and US \$ 15.9 billion payments of remittances respectively in 2002. The other top sources of remittance are Germany, Belgium and Switzerland. Until the mid 1990, Saudi Arabia was the largest sources of remittance paying countries in the world. Since, 1995, as economic activities have slowed remittances from Saudi Arabia have also stagnated. However, the remittances from the United States nearly doubled driven by the economic boom.

2.3 Contextual Review

The remittance industry is particularly susceptible to external economic factors because it affects and depends on substantial number of industries and individual households. So, in this section various papers and articles regarding positive and negative externalities, issues such as fiscal and monetary policies (both within and outside countries of destination), and challenges regarding the remittances are discussed. Along with this, the problem faced by the migrants' workers in the employed country will also be taken into consideration.

2.3.1 Effect of positive and negative externalities

Maurice Kugler (September 2005) in his paper “ Migrant Remittances, Human Capital Formation and Job Creation Externalities in Colombia” discussed about the effect of migrant remittances on job creation and human capital formation or employment opportunity. The survey is done on migration and remittances using a model in which remittances affects the human capital and labor supply in the source economy. The assumption is made that the skilled members of the family are the potential migrants while the other members face frictions in the home labor market. The form of model is given as:

$$U(y, x, e) = ey + (1-e) x$$

Where, e is fraction of household members who are migrants; y is disposable income after transfer and x is income for the stayer.

The above simulations based on model show that remittances can have offsetting effect on equilibrium human capital and labor market outcome in the country of origin of migrants. Remittances enhance schooling opportunities for recipient households and human capital formation can be amplified. On the other hand, an increase in human capital supply by recipient households encourages job creation as labor demand increases in the origin country. The job creation run over in local labor markets increases the rate of return to schooling for non-recipient households, whose members are less likely to migrate. As a result, there are more incentives and motivational factors to substitute consumption for human capital investment. The calibration and simulation analyses suggest that the net effect of remittances depends upon the accessibility of education and the degree and labor market frictions in the origin country as well as the immigration policy in the destination country of migrants.

Alladin S. Diega (2008) in his paper “Negative Impact of Remittances” have explained about the negative impact that happens in the economy of Philippines due to the flow of remittance. For three decades now, the government and the private sector have been announcing the positive impact of remittances. Aside from easing the debt burden, remittances has somewhat tamed the inflation. In general, these have contributed to the blushing picture of the Philippine economy. These remittances-related outcomes were by the government to push further its labor export policy. This can be glanced from the active marketing missions of trade and labor officials regularly sent by the Philippine government to potential OFWs receiving countries.

Filipino migrant workers can be grouped into two major categories. These are the highly skilled and semi-skilled or non-skilled workers. Both groups however, represent the better-educated Filipinos.

The migration of the first group often causes interference in the country’s economic activity. The constancy of the labor market depends, to such extent, to the constant supply of labor force with needed skills and experience. The quality of goods and services will depend on the specific behavior and training of replacement workers. This is particularly noticeable in the area of education and healthcare services in which the most experienced were the ones leaving the country to work abroad. As a result, the quality of education and healthcare in the country is fast worsening. Of course, the decline in the quality of these two important social services can be partly held responsible to the cuts in their financial plan, which in the first place, is one of the reasons why these experienced workers are leaving for more gainful employment abroad.

The migration of the second group gives emphasis to a persistent problem of unemployment. Because of lack of job opportunities in the country, those with limited work experience are forced to look for work abroad even with low salaries and merciless working condition. For instance, Kanlungan Centre Foundation have clients who are twice or thrice sufferers of illegal recruitment or trafficking, yet they have no choice but to work abroad even with the possibility of again being sufferers simply because they cannot find jobs in the country.

It is interesting however, to consider the “positive” effect of remittances to the expenditures of Filipino households. A considerable part of migrant workers’ earnings is remitted for household everyday expenditure. The immediate effect of remittances at this level is that it enhances family

incomes. The expenditure capacity of families receiving remittances may decrease in the long run however, should the family members trim down their work effort. It is also on this level that the over-dependence of family members to remittances is affected. It seems however, that recipient families are comparatively better-off with remittances.

At the larger level in the community, inequality and poverty are said to be alleviated, but income inequality deteriorates if the main recipient of remittances are the richer families. Admittedly, the capacity of the beneficiaries to spend improves which in turn generate further spending. But it should always be remembered that creation of jobs and trading opportunities often results from investment and greater demand for goods and services. If the remittances are not tied together along this line, the potential benefit of remittances will never be maximized.

Currently, remittances are a major source of foreign exchange, particularly for countries with fiscal deficits, external debts, huge trade imbalances and limited foreign-direct investment. However, these hard currency inflows may spur a real appreciation of the exchange rate which limits the development of export/import oriented industries. Huge amount of remittance money may also hazy the necessity for economic reform and better governance, while breaking OFWs family members, a greater portion of the Philippine community, into smugness.

2.3.2 Effect of monetary and fiscal policy

Isabel Ruiz and Carlos Vargas- Silva (2008) in their paper “Monetary Policy and International Remittances” study the response of Mexico’s monetary policy to inflow of workers’ remittances; understand whether and how central banks in receiving countries respond to these flows of money. Remittances provide a source of foreign exchange to relax balance of payment constraints and finance imports; to promote economic growth and investment. Moreover, the remittances are capable of increasing the price of non-tradable in receiving countries which produces the inflationary pressure. In Mexico, remittances are the third sources of earning foreign currency after oil exports and Maquiladoras and are the largest recipient of workers’ remittances in Latin America. In the study, impulse response function and variance decomposition derived from a vector autoregressive (VAR) model is used to study the impact of remittances in monetary policy. The variables used for the study are U.S. real interest rate, Mexico’s output gap, Mexico’s inflation gap, Mexico’s exchange rate gap, Mexico’s Central

Bank, Mexico's real interest rate and remittances. The result indicates that Mexico's monetary policy variables do not respond to remittance shocks. Mexican Central Bank does not actively respond to remittance flow which furthermore supports the stated commitment of Mexico's Central Bank to maintain an inflation target and a flexible exchange rate. This seems to suggest that Mexico's Central Bank main concern is inflation and that the potential appreciation of the Mexican currency as a result of increased remittance inflows might not be a priority.

Ralph Chami et al (January 2005) in their paper "Beware of Emigrants Bearing Gifts: Optimal Fiscal and Monetary Policy in the Presence of Remittances" examines the effects of countercyclical remittance income transfer on optimal government policy and economic decisions of households and finds that remittances have both positive and negative economic effects. Remittances may lead to reductions in poverty, but may also lead to higher rate of labor taxation, debt, and inflation as the government is forced to raise revenue from a smaller base of domestic production. Remittance flows are quickly surpassing private capital flows and official aid in magnitude and rate of growth, making them the single most important form of income flows into developing and emerging economies. Remittances can reduce poverty by raising disposable income and consumption, and that these flows assure households against income shocks, thereby raising household wellbeing. However, remittances, although countercyclical in nature, increase business cycle volatility. In the course of their effect on household labor supply, these flows amplify the correlation between labor and output, causing higher employment and output risk. Moreover, these flows can also result in higher taxes, inflation and debt levels in countries that receive them.

2.3.3 Challenges for labor employment and remittance

Manuel Orozco and Eve Hamilton (February 2005) in their report "Development and Remittances to Guatemala" have discussed about challenges in working with remittance transfers. The report provides five challenges that are met on remittances and financial intermediation; competition, Regulatory & Reporting, How to Lower Costs, Developing a Savings and Long-term Investment Culture and Positively Impacting GDP.

a. Competition:

A key challenge the cooperatives stressed was their ability to conduct speedy negotiations with other companies. The remittance service providers reduced the fees that were charged for remittances. Numerous agencies are still in the country who are conducting their business illegally, due to this the competition in the market is intense. Thus, countries should define the adequacy of licensing or registration requirements based on their specific circumstances. To lower the competition, registration of such remittance service provider should make strick which will lower the entry barriers to new remittances service providers.

b. Regulatory & Reporting:

In support of the deregulated currency markets in Guatemala, central bank have not instituted any regulations that specifically address remittance operations. While there have been no universal crises of mention, important data capture relating to remittances has been sacrificed. As a result, remittance inflows which, form such an important part of the BOP has to be estimated because of a lack of formal reporting mechanisms.

c. How to Lower Costs:

All operators need to maintain significant volume levels for viability. For institutions whose business is to provide lower cost financial services, lower costs will typically mean a longer turnaround time for transactions. These institutions must compete with those, which can have the funds for to promote service in minutes at higher costs in economies where there is typically a weak savings culture.

d. Developing a Savings and Long-term Investment Culture:

In order for countries like Guatemala to be able to take remittances to the next level where they are used as a true development tool that positively impact economic growth; it must stimulate the development of a savings and long-term investment culture. By this, it is meant that recipients have to be persuaded to view the remittance as a means to, and not the end of economic independence.

e. Positively Impacting GDP:

As we develop the savings and investment culture, and the informal sector grows through micro-enterprise, the significance of this sector to the development of Guatemala in

particular, should justify a reclassification of the sector from informal to formal and the appropriate measurements included in the computation of GDP.

2.3.4 Problem faced by migrant workers

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

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

This has been further complicated by a burgeoning number of private job placement agencies that have found that it is very profitable to step into the system and offer their services to Thais who want quick jobs abroad. These job brokers travel to village after village offering quick overseas employment and present a picture of instant wealth to villagers who are very vulnerable to their spiel. The condition for such employment, of course, is paying the broker a placement fee. The official fee is roughly 60,000 baht (USD 1,350) but in fact, the amount being paid fluctuates according to the demands of the job broker and the gullibility of the job-seeking workers. Often the figure is closer to three times the official quota.

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

There is much activity at present at the Ministry of Labor to update their procedures to be more relevant to the situation and more protective of the workers seeking overseas employment. Thai overseas workers tend to be non-confrontational to employers, hard working, and docile so they are in demand. The Thai Government actively promotes overseas jobs and tolerates the job brokers' involvement.

2.3.5 Impact of Emigration in Nepalese Economy

Damodar Kshetry (2004) in his paper “Emigrating Workers in National Perspective” has studied the impact of foreign employment in national economy and concluded that the single most important aspects of emigrant workers are the remittance they send to the country. He has also identified transfer of technology and management skills as another positive aspect that emigrating workers usually bring into the country. Nepal has not been able to demonstrate such benefits distinctly. Mostly very few who have the experience of foreign job up to stay back and start their own enterprise based on work experience. Otherwise they are tempted to go overseas again. The changes in socio-demographic and management skills were another positive aspects that emigrating workers noticeably showed. Nation is devoid of the labor of prime age because of foreign employment. It has been distinct in the farm sector. Labor is becoming scarce in rural areas because of the able people leaving the rural area either for overseas jobs or for urban work. It has mixed implications both positive and negative. The plus point is that as deforestation has been reduced there is large population pressure on forest based resources. Negative aspect of emigration was noticed from increased small plots of land as well as reduced productivity in rural agricultural farms.

Pokharel (2004) identifies Nepali overseas worker sending foreign exchange to Nepal as the backbone of Nepalese economy. They bring with them not only money but also special skills, knowledge and exposure. With appropriate strategies and programs this resource plays an important role in rural transformation.

Shrestha (2004) in his publication for NRB states that in recent years remittances emerged as one of the primer source of foreign exchange received through foreign employment. Nepal Rastra Bank (2002) indicates that foreign employment can play vital role in improving rural economy and reducing poverty and unemployment.

2.3.6 Factors Determining the Remittances Income

Bhubanesh Pant (July, 2009) in his paper, “The Emerging Role of Remittances for Economic Sustainability” highlights the five factors that determine the remittance income, as:

- 1. Number of migrants and the length of stay:** An important factor is, of course, the number of migrants. It is natural that if more migrants went for work abroad and if they stayed for a longer period they remit more. But, according to the study of the World

Bank, temporary migrant workers tend to remit a larger portion of their income than immigrants who plan to settle down. The temporary workers who have planned to return home soon have the ties with family left behind. The propensity to remit (Remittances as a share of income – R/Y) has been believed to decline with time. The remittance behavior of the migrant workers also varies with skill and gender. The skilled workers may earn more and send a large nominal amount than unskilled workers. The unskilled workers may send a larger share of income. Women are believed to remit a larger proportion of income and more regularly than men.

2. Macro Economic Activities:

The nominal remittances sent by the migrants depend upon the comparative macroeconomic activities of the migrant sending and receiving countries. If the labor sending economy is in expansion phase then the remittances enter in the form of cash. Similarly remittances enter through the formal channel if the banking facilities are provided in the rural sector. In case the economy is in contraction phase the remittances enter in the informal form.

3. Foreign Exchange Regime:

Whether the migrants sent remittances through formal or informal channel would depend on the difference between the official exchange rate of domestic currency and the black market rate. If the recipient country has parallel foreign exchange market, then the remittances enter through the informal channel. Because the unofficial market rate is always higher than the official exchange rates used by the banks for converting the remittances into the local currencies.

4. Level of Education:

The level of education of the migrants also determines the amount and the channel of remittance. The educated migrant knows well the banking system and the advantage of sending money through the banking channel. The uneducated migrant prefers to send through the informal channel.

5. Political Stability:

The political stability of the migrant sending country determines the amount of the money sent to the country. In a politically stable country there is a positive investment climate, which can make effective utilization of remittances.

2.3.7 A study of Foreign Employment and Remittance in Nepal

Pushpa Shrestha Malla (March 2009), in her paper “Foreign Employment and remittance in Nepal” reviews the trend of foreign employment and remittance in Nepal. Long back, Nepalese migrants used to leave the country for foreign employment with various motives like to get employment and earn money to spend their future life happily with their family. It has been found that, to some extent due to the demand for Nepalese workers abroad has relieved the unemployment problem and the remitted fund has contributed to reduce the poverty level of the country to a large extent. The remitted funds are being used in various sectors like reducing poverty, creating economic security and enhancing social status within the household and the community. Beyond this, the remittances have been playing crucial role by comforting foreign exchange restraint, increasing contribution to GDP and spiraling the balance of payment situation of the country.

The report further discusses about the major factors attributing to large scale out migration from Nepal which are high growth of labour force, high rate of unemployment, limited employment opportunities outside the farm sector, low salary structure in the economy and insecurity in the rural areas because of insurgency. In order to encourage remittance inflow in the country through official channels various policy measures have been undertaken by the concerned authorities. Thus, due to the recent global economic crisis, the concerned authorities were compelled to revise policies and programs regarding foreign employment rule of the country.

The remittance however is sent through the various money transfer agencies. But, the maximum share of remittance is sent through the informal or illegal channel called as Hundi system. Hence the paper emphasizes that the banking system and authorized money transfer agencies need to pay the attention regarding channel of inflow of remittance in the country. The paper further tries to make aware the government to make strict rules and regulation regarding the channel of inflow of remittances.

Bam Dev Sigdel (2008) conducted a study entitled “An Overview on Remittance Industry of Nepal” with the aim for evaluating the significance of inward remittance in the overall economic development of the country. Employment abroad has not only helped Nepal ever-growing unemployment problem but it has also injected much needed foreign currency into Nepalese economy to fill up foreign exchange and investment gap, thereby helping the country to avoid a major BOP crisis.

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

Meaningful utilization of remittance money paves the way for boosting socio-economic activities towards deprived people and remote areas of the nation. Mere collection of remittances in banks and financial institutions does not bring desired outcome in the economy. Such funds should be channelized in different layers of the economy to meet twin goals: poverty alleviation and sustainable development of Nepal. The GDP of the nation could be magnified in the long run with the better use of remittances.

International Monetary Fund (March 2010) in their report titled “Nepal may see slower growth in Remittance” has explained that Nepal is unlikely to see the strong growth from remittance in the near future. The IMF’s consultation mission also suggested the government to take into account a slow remittance growth while projecting the revenue mobilization for the next fiscal year. The report further explains about the expectation of sluggish remittance growth to slow down the national economy. Moreover, according to the report, remittance growth in Nepal will float at just over 10% in the next two fiscal years. Nepal had registered strong growth in remittance

inflow in the last two fiscal years. The inflow of remittance had lead to high credit growth, financed high imports while increasing foreign reserves and played vital role in the economy.

Hence, the effects of growth will have direct impact in financial system, indirect impact on tax revenue growth and consumption and imports. The growth of tax revenue will also be hit by the declaration in remittance growth. Due to sluggish remittance growth, Nepal's economy will suddenly enter into a critical phase. This has blown up country's balance of payment scarcity, exhausted foreign currency reserve and deteriorate liquidity in the market.

This chapter highlighted the cases of remittances of migrant employees and economic turnarounds due to the foreign employment and remittances. It also shed light on the increasing trend of the remittance and consequently increases in money transfer mechanism within the industry. The present study focuses on the trend of foreign employment and remittance along with the money transfer mechanism, challenges for financial institutions to promote formal channel of remittances and remittances as an important source of earning foreign currency.

CHAPTER 3

RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research problem. It refers to the various sequential steps that are to be adopted by a researcher during the course of studying the problem with certain objectives. This study is exploratory in nature. It is an attempt to study the role of remittance in development of national economy. In this chapter, focus is on research methodology used for the study. The strategies and approaches in the research along with certain method adopted are discussed in this chapter.

3.1 Research Design

The study is mainly based on primary and secondary data. The secondary data are obtained from published and unpublished sources by the various governmental and semi-governmental organizations. The following materials and sources were extensively used for secondary data during the purpose of study.

- Labor and Employment Promotion Department.
- Various issues of Economic Survey, Ministry of Finance.
- Population Census Reports, Central Bureau of Statistics.
- Quarterly Economic Bulletin, published quarterly by the Nepal Rastra Bank (NRB) and other relevant publication of NRB.

The primary data are obtained from beneficiaries, who are coming to collect the fund through IME Center on different districts. To be more specific, of such people coming to collect the funds sent from abroad 55 were selected as samples for this study using cluster sampling method. Clusters comprised of people coming to collect the fund and amongst such clusters few persons were randomly selected and interviewed.

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

1. Kathmandu
2. Biratnagar, Morang
3. Janakpur, Dhanusha
4. Birgunj, Parsa
5. Hetauda, Makwanpur
6. Narayangarh, Chitwan
7. Butwal, Rupandehi
8. Pokhara, Kaski
9. Baglung, Baglung
10. Beni, Myagdi

3.2 Population and Sample

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

The number of people leaving the country for foreign employment is in an increasing trend. Inward remittances entering inside the country of origin are the result of the efforts made by such people opting to go abroad for foreign employment. They send their hard earned money to their belongings here in their country of origin either through the banking channels or by some other informal channels. These funds are collected either from banks or other institutions working as sub agents at various locations. People coming to collect such funds have been selected as the sample for this study. To be more specific, of such people coming to collect the funds sent from abroad 55 were selected as samples for this study using cluster sampling method. Clusters comprised of people coming to collect the fund and amongst such clusters few persons were randomly selected and interviewed.

3.3 Data Collection Procedures

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

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

3.4 Sample Characteristics

The sample comprised of 55 respondents who had come to collect the remittance sent by their relatives from abroad. Due to the time constraint the samples were selected on the basis of their presence at the money collecting centres at various places. Out of the total respondents only 2 were the ones who had personally remitted the funds from abroad and had come home during their vacation.

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

3.5 Method of Data Presentation and Analysis

The presentation of data is the basic organization and classification of the data for analysis. After data collection is completed, the data will be in what researchers call “the raw form”. The data will still be on questionnaires, data collection forms, and note cards. It is necessary to arrange the data so that it makes some sense to the researcher and so that it can later be presented to the readers of the thesis. Different types of data require different methods of summary and presentation. There are a number of methods, which can be used to simplify the data.

3.5.1 Primary Data Presentation and Analysis

The primary data are presented in charts, graphs, and tables form. But even before one can arrange data in tables and charts, it is necessary to rearrange the raw data. Organization and processing of data require knowledge of some technical methods. There is a definite sequence for analyzing data. The overall process of analyzing data can be viewed as involving a number of separate and sequential steps. The activities in data processing include editing, coding, classification, and tabulation of information.

3.5.2 Secondary Data Presentation and Analysis

The secondary data gathered from various sources were presented in tables, charts and graphs. We analyze the secondary data into change in percentage and co relation form.

CHAPTER 4

ANALYSIS AND INTERPRETATION

This chapter analyzes the implication of foreign employment and remittance in Nepalese economy. Based on the analysis of information, this chapter was prepared. This chapter covered background information on migration and trends in Nepal, characteristics of the remittance industry, regulatory and business environment, remittance costs, remittance volume and contribution to the national economy and the primary data analysis and interpretation.

4.1 Secondary data Analysis

4.1.1 Foreign employment pattern of Nepal

According to department of labor till 2003 near about 5 million non-residential Nepalese are spread over more than forty countries. The supply of Nepalese youth in foreign countries in search of work is increasing day by day at a high rate.

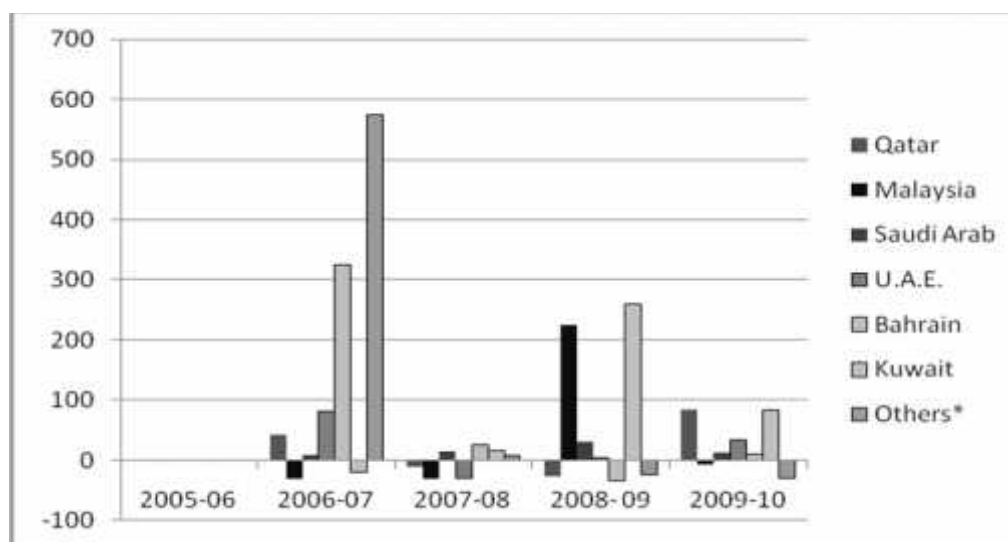
The computed values of foreign employment and percentage change over the last five years are summarized in table 4.1. The trend in percentage changes in the bar diagram is shown in fig 4.1.

Table 4.1: Trend of Nepalese Workers for Foreign Employment.

Country	Fiscal Years					% Change in Fiscal Years				
	2005-06	2006-07	2007-08	2008-09	2009-10	2005-06	2006-07	2007-08	2008-09	2009-10
Qatar	59705	85442	76175	55940	102966	0.00	43.11	-10.85	-26.56	84.07
Malaysia	74029	50554	35070	113982	105906	0.00	-31.71	-30.63	225.0	-7.09
Saudi Arab	39279	42394	48749	63400	71116	0.00	7.93	14.99	30.05	12.17
U.A.E.	25172	45342	31688	33188	44464	0.00	80.13	-30.11	4.73	33.98
Bahrain	1200	5099	6360	4234	4647	0.00	324.92	24.73	-33.43	9.75
Kuwait	2441	1967	2291	8255	15187	0.00	-19.42	16.47	260.3	83.97
Others*	2707	18253	19632	15095	10430	0.00	574.29	7.55	-23.11	-30.90

(Source: Labor and Employment Promotion Department)

Figure 4.1: Percentage Change of Nepalese Foreign Employers



The following observations are noteworthy:

- We can see the fluctuating trend in the foreign employment in various countries. The data is provided according to the most favored countries that workers used to migrate regarding foreign employment. In the year 2006-07, the growth rate is negative for Malaysia and Kuwait. For Malaysia, the negative growth rate is almost about 32% and for Kuwait the negative figure is almost 20%. Such negative changes for those countries might be due to the starting phase of recession. As in the year 2007-08, the countries like Qatar, Malaysia and U.A.E. have negative growth rate. These Arabian countries in this year have to face the impact of recession. Many real estate companies face those problems due to which the demand of workers in those countries got reduced. The negative changes in these countries are 11%, 31% and 30%. In the fiscal year 2008-09 and 2009-10, the negative trend seems decreased.
- Beside this, in some countries like Saudi Arabia, the migrants' worker is not in negative change. There is some drop in the growth rate (like in the year 2009-10 the growth rate decreased from nearly 30% to 12%). Regarding this issue, after talking with the Director General of Labor and Employment Promotion Department Mr. Narendra Raj Sharma, it came to know that the wage rate in this country is lower in comparison to other most favored countries for Nepalese employees. However, the migrant trend is not negative in

Saudi Arab because due to heavy unemployment in Nepal the workers used to choose the country even if the wage rate is lower.

- In average, even though the growth of emigrated labor force seems fluctuating but the trend is increasing. Due to high unemployment in Nepal, the workers are available paying the low wages which prompt foreign employers to take Nepalese workers. If looked at the trend in total, the total percentage change from 2005-06 to 2009-10 is nearly about 74%. Thus it can be concluded that, there is increasing trend in outflow of foreign employees from Nepal.

4.1.2 Most favored nation of Nepalese workers

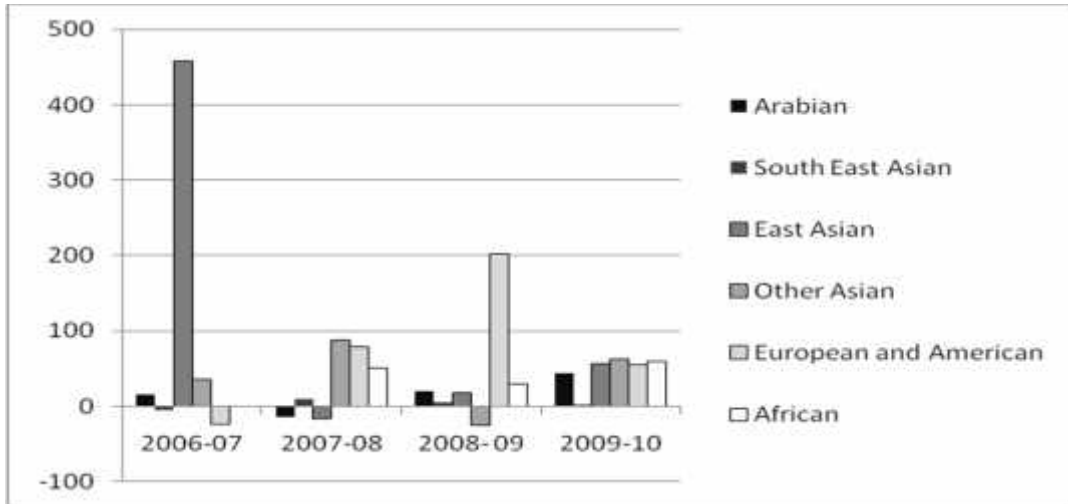
The most favored countries of destination to Nepalese workers for foreign employment is defined from the perspective of the number of workers in that country. The countries which have maximum number of Nepalese workers in different fiscal years are given in the table 4.2.

Table 4.2: Most Favored Countries for Nepalese Workers

Regions/ Countries	Fiscal years					% change			
	2005- 06	2006- 07	2007- 08	2008- 09	2009- 10	2006-07	2007- 08	2008- 09	2009- 10
Arabian	198185	228831	198042	238999	344286	15.46	-13.45	20.68	44.05
South East Asian	82798	78476	86402	90572	93019	-5.22	10.10	4.83	2.70
East Asian	414	2308	1946	2290	3588	457.49	-15.68	17.68	56.68
Other Asian	931	1263	2380	1796	2907	35.66	88.44	-24.54	61.86
European and American	82	63	113	342	529	-23.17	79.37	202.65	54.68
African	0	18	27	35	56	0.00	50.00	29.63	60.00

(Source: Foreign and Labor Promotion Department)

Figure 4.2: Percentage change for most favored countries.



Interpretation

- As per the data, maximum number of employees chooses the Arabian Countries or the Gulf countries which includes Qatar, Malaysia, Saudi Arab, U.A.E., Oman etc. The number of employees departs for Arabian countries are more than 3 billion. The employees growth rate however is less in comparison to other regions but the number of worker migrated in these Arabian countries are far higher than rest of the others. From the figure it can be seen clearly that in year 2006-07 the growth rate is negative (6.48%) for Arabian countries; the reason might be due to recession at that time when banks fail to finance the real estate business.
- South East Asian Countries includes countries like Cambodia, Laos, Myanmar, Thailand and Vietnam which has been found the second favored nation for Nepalese workers. According to the source in these countries more than 2 billion Nepalese workers are working. Though the trend shows that there is decrease in foreign employment in these countries from the year 2007-08 (growth rate 10.10%) to next two consecutive years 2008-09 and 2009-10 whose growth rate is 4.83% and 2.70% simultaneously.
- In East Asian countries and rest of the Asian countries, however the growth rate is higher and the number of employees depart for these countries are much lower than other Asian and Arabian countries. The maximum change in growth rate is 457.49% for East Asian Countries in the year 2006-07. At the same time, the number of workers departs in these

countries are 2308 in this particular year. The sudden increase in growth rate in 2006-07 could be because; the recession makes no impact in these countries.

- In European, American and African countries, the rate of employees' migration is much lower. The skilled and educated workers used to migrate in these countries. It has been found that in African countries like Congo, Sudan, Somalia; most of the workers working for United Nation have migrated.
- Overall, there is increasing trend of foreign employment. We can see the positive growth rate in the last fiscal year 2009-10 which proves that the foreign employment is increasing trend. On the basis of labor migration to foreign country for employment, Arabian countries are found to be most favored destination. Usually, uneducated and for low skilled job Nepalese workers tend to migrate in these countries.

4.1.3 Migrants Characteristics

There are some characteristics that define foreign employment flows in the various countries of the world. Demographic features such as gender, as well as the income level of migrants and duration of stay in the host country are some of the characteristics which potentially influence in sending remittance to the home country.

a. Gender of migrants

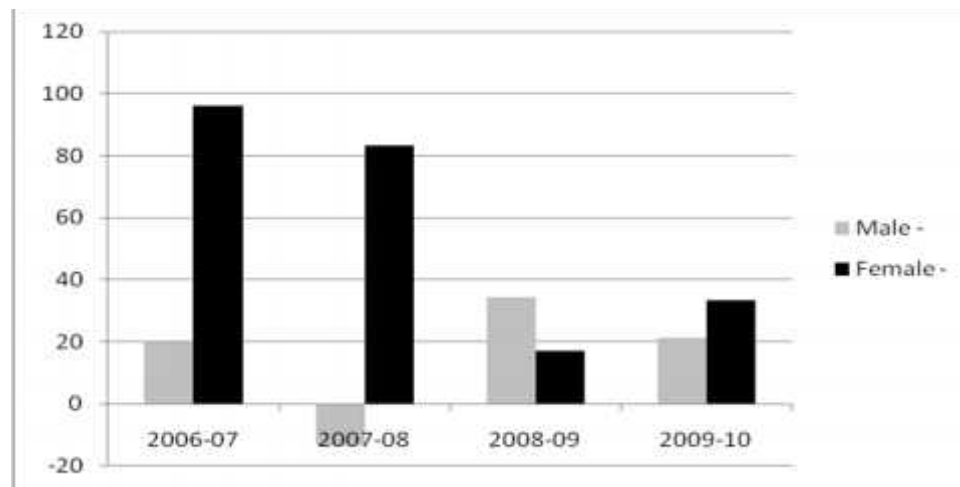
Foreign employment flows tend to be predominantly male. However, in recent years from Nepal the female workers have also been increased rapidly. The segregation of total migrants' workers into male and female workers is given in following table:

Table 4.3: Foreign migrants' workers according to Gender

Fiscal Years	Gender		% Change in Gender	
	Male	Female	Male	Female
2005-06	204143	2390	-	-
2006-07	244366	4685	19.70	96.03
2007-08	211371	8594	-13.50	83.44
2008-09	284038	10056	34.38	17.01
2009-10	344300	13416	21.22	33.41

(Source: Foreign and Labor Promotion Department)

Figure 4.3: Percentage Change of Foreign Migrants' According to Gender



- Table no. 4.3 in the previous page indicates that the migration flows tend to be predominantly male. In the year 2005-06, the ratio between male and female migrant workers are 85:1. However, the ratio consequently decreases in the following year. From above data and analysis, it has become clear that the maximum number of workers tend to migrate in Arabian countries for employment. In those countries, they usually used to work for construction where female workers demands are less in comparison to male. Thus, due to the nature and availability of the work female worker in previous years migrate in less volume.
- However, if we see the change percentage during the year 2005-06 to 2009-10, none of the year has negative change for the female workers. But, the change shows the negative impact for male workers in the year 2007-08 by 13.50%. It is because; in this year due to recession the demand of workers decreased for construction, manufacturing and other low skilled job because banks and other financial institutions at this time stopped financing the projects. At the same time female workers used to migrate for household work where no any financing is needed, as a result the rate of migration is not negative however, it is somewhat decreased than previous year.
- Despite the percentage change for female migrants workers in 2007-08 is decreased from about 83% to 17%, the numbers of migrants are in increasing trend. Regarding male migrant workers the percentage change in 2009-10 has decreased by about 21%. The reason behind this decreasing trend is, in this year many people used to make their

investment in purchase of land and building where many people work as broker and thus, can earn good amount of money.

b. Age of Migrants

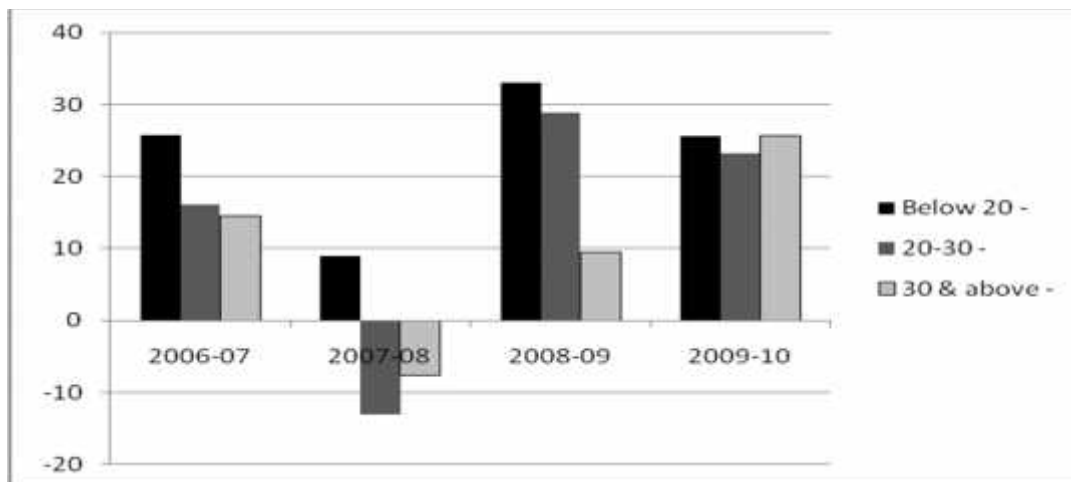
Age of any worker is the major factor that decides the nature of work the worker can perform. Migrants from Nepal are young, with majority of workers ranging in age from 20 to 30 years. The detail data regarding age factor are summarized in table 4.4. The trend in percentage change in bar graph is shown in fig 4.4.

Table 4.4: Foreign Migrants' According to Age

Years	Age in years			% Change in age		
	Below 20	20-30	30 & above	Below 20	20-30	30 & above
2005-06	9504	145309	61639	-	-	-
2006-07	11953	168675	70561	25.77	16.08	14.47
2007-08	13025	146749	65217	8.97	-13.00	-7.57
2008-09	17320	189032	71391	32.98	28.81	9.47
2009-10	21765	232903	89732	25.66	23.21	25.69

(Source: International Labor Organization)

Figure 4.4: Percentage Change of Foreign Migrants' According to Age



The observations made are:

- The minimum number of migrant workers for foreign employment in different countries of the world ranges below 20 years. It is because almost all of the countries in the world have law for child labor so many countries don't allow the worker below 16 years. Regarding the international standard, below 16 years is classified as child. For the Nepalese workers, due to the heavy unemployment problem in the country the trend to migrate for employment in foreign country is increasing. The percentage however is decreased in the year 2007-08 almost by 17%, it again increased in following year almost by 24%. Though the change in percentage is decreasing trend the number of workers migrated are increasing. Among the total workers, about 6% are between the ages of below 20 years.
- The maximum number of migrant workers for foreign employment ranges from 20-30 years. From the survey report of International Labor Organization it has been found that many educated and skilled workers between these ages are also migrating in search of employment. Of the total workers, about 67% of the workers are in between the age of 20-30 years. During the recession time, the change in number of workers is negative. Comparing all five fiscal years, the overall trend of migrant workers between age group of 20-30 is increasing.
- There might be more than the above given number of employees between the age group of 30 & above it is because there age increases according to the duration of workers in destination country. Looking at the figure 4.4 the negative change of 7% is seen in the year of 2007-08. Beside this year, no any negative change is observed which implies that though there is decrease in percentage for foreign employment the number of workers are increasing.

c. Total Wage paid for migrant worker

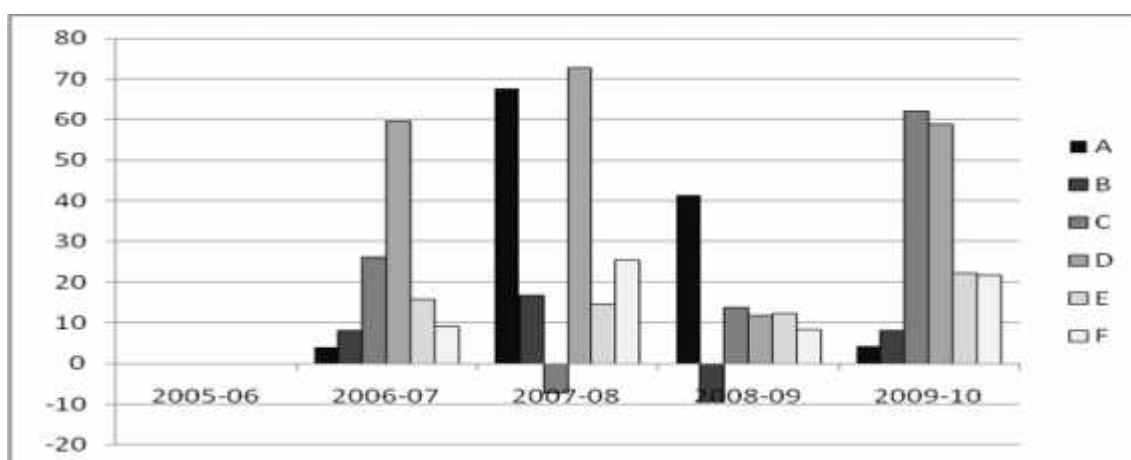
The total wage paid for migrant worker is an indicator of the total labor migrant per average salary paid to these workers. Clearly, a percentage change can be either because of change in total migrant workers, or due to a change in salary paid.

$$\text{Total migrant workers} \times \text{Average salary per worker}$$

Table 4.5: Average Wage Received by Nepalese Foreign Employees

Years/ Wages	Countries						% Change of Wages					
	A	B	C	D	E	F	A	B	C	D	E	F
2005-06	69364.8	37669	915.5	474.81	1182	1168.5	-	-	-	-	-	-
2006-07	72081.8	40698	1154	757.8	1367.6	1273.6	3.92	8.04	26.05	59.60	15.70	8.99
2007-08	120805.6	47521	1070.3	1309	1564.9	1598.8	67.60	16.76	-7.25	72.74	14.42	25.54
2008-09	170884.3	43021.7	1218.3	1463.7	1757.3	1730.5	41.45	-9.47	13.83	11.82	12.30	8.24
2009-10	177995.9	46509.5	1973.4	2325.6	2148.7	2104.3	4.16	8.11	61.98	58.88	22.27	21.60
A= Arabian Countries												
B= South East Asian Countries												
C= East Asian Countries												
D= American Countries												
E= European Countries												
F= Other Countries												

Figure 4.5: Percentage Change of Wages Received



The above shown are the average wages that are received by foreign workers who are working in different parts of the world. Looking at the table and bar diagram, following observations are noted:

- The trend of wages received by Nepalese workers in Arabian countries is more in comparison to other countries. It is because the number of workers migrates for employments in Arabian countries are maximum. In Fiscal Year 2006-07, the growth rate

of wage in Arabian countries is 3.92%. Similarly, in 2007-08, the growth rate is 67.60% which is about 63% more than previous year. The reason behind this is in Qatar, there is more demand of Engineers and other labors with high range of salary because Qatar is organizing the World Cup football in 2022. So, very heavy construction work is under progress in that country.

- In FY 2008-09, there is negative percentage change in wage for South East Asian Countries. Similarly, the negative trend is seen for East Asian Countries in FY 2007-08. The reason behind this is due to less number of workers migrate in these two regions. If the salary paid is more but number of visa distributed for foreign employment is less than the average salary per annum will be less. In FY 2009-10 for East Asian Countries, the growth rate for wage is almost 62%.
- Beside these two years though the trend is fluctuating, none of the year has negative growth rate. In American Countries the growth rate is maximum of about 73%. The number workers migrate is less in these countries however, the salary scale is more because in these developed countries more often skilled labor used to migrate.

4.1.4 Contribution of Remittance on economy

Remittance brought by British Gorkha soldiers and the wages earned in different parts of India by seasonally employed Nepalese labors were significant in the Nepalese economy since earlier period but no due attention was given to it. There was no accounting of Nepalese employed in India. Remittance these days have contributed in various sector of national economy such as GDP, industry, tourism, agriculture, foreign exchange etc.

a. Trend of inward flow of remittance

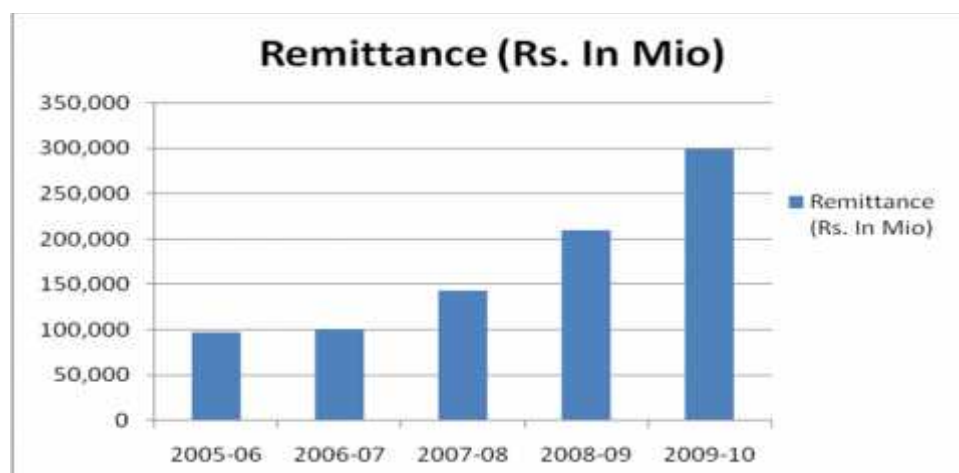
Remittance is an important variable that handles the Nepalese economy. As the number of migrants' workers in foreign countries increases, the inflow of remittance is also in increasing trend. Thus, there is positive correlation between labor migrants and inward remittance. The remittance inflow is provided in table 4.6:

Table 4.6: Trend in Inflow of Remittances

Fiscal Year	Remittance (Rs. In Mio)	% Change
2005-06	97,688.5	-
2006-07	100,144.8	2.51
2007-08	142,682.7	42.48
2008-09	209,698.5	46.97
2009-10	298,746.8	42.46

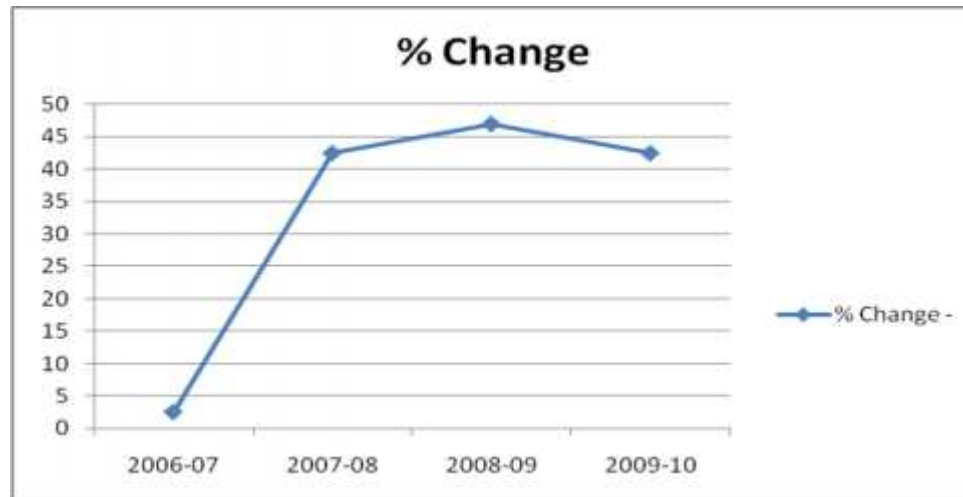
(Source: Economy survey 2010, Ministry of Finance)

Figure 4.6: Trend in Inflow of Remittance



- Workers remittance is one of the major sources of income for Nepalese citizens. In the above figure it can be seen clearly that in each fiscal year the amount of remittance is increasing. The amount of remittance in FY 2005-06 is Rs. 97,688.50 million which has increased to Rs. 298,746.80 million. As the problem of unemployment is in increasing trend in the country, the worker migrants' are also in increasing trend which automatically makes positive impact in inflow of remittance in the country.

Figure 4.7: Percentage Change in Inflow of Remittance



- The above graph shows the percentage change in remittance inflow in the country. For the five fiscal years none of the year has negative growth rate in inflow of remittance. However, in the year 2006-07, the growth rate is minimum i.e. 2.51%. It is because, as discussed earlier in this year due to recession the workers demand in the foreign countries has decreased. Therefore, due to less migrant workers depart for foreign employment in this year the growth rate is very less as compared to other.
- In contrary, in the year 2007-08, the growth rate is 42.48% which is about 40% more than the previous fiscal year. Looking at the trend in this year, the remittance inflow and labor migrants' are positively related. However, the growth rate in the fiscal year 2009-10 is decreased in comparison to 2008-09 by 4.51%, the total amount of money send by workers from destination country is still increasing.

b. Contribution on macro economy

The inflow and outflow of foreign exchange (on cash basis) of a country is reflected in the balance of payments compiled by central bank. In case of Nepal, Nepal Rastra Bank compiles and publishes the balance of payment regularly. In the balance of payment main components are current account, capital account, finance account and miscellaneous items. The current account consists of trade, services and transfers. In the trade sector export earning is the inflow of foreign exchange where as in service sector travel income is the main source of inflow of foreign

exchange. Grants, workers remittance, pension and other excise refund are the contributing factors for inflow of foreign exchange in the transfer component.

c. Remittance and Transfer Credit

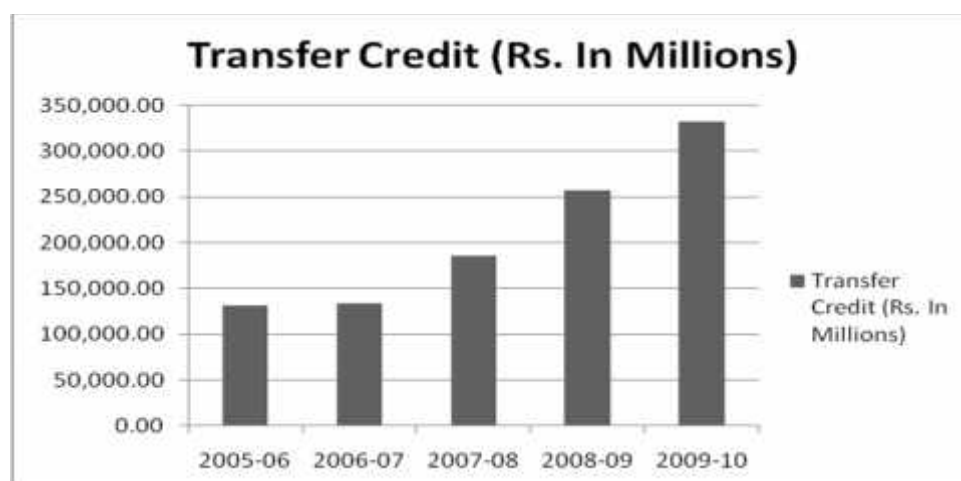
In Nepalese context, transfer credit has significant role in the foreign exchange earnings. The table below shows the amount of transfer credit and its change in percentage.

Table 4.7: Amount of Transfer Credit

Fiscal Year	Transfer Credit (Rs. In Millions)	% Change
2005-06	130,862.70	-
2006-07	133,196.80	1.78
2007-08	185,462.90	39.24
2008-09	257,461.30	38.82
2009-10	332,338.30	29.08

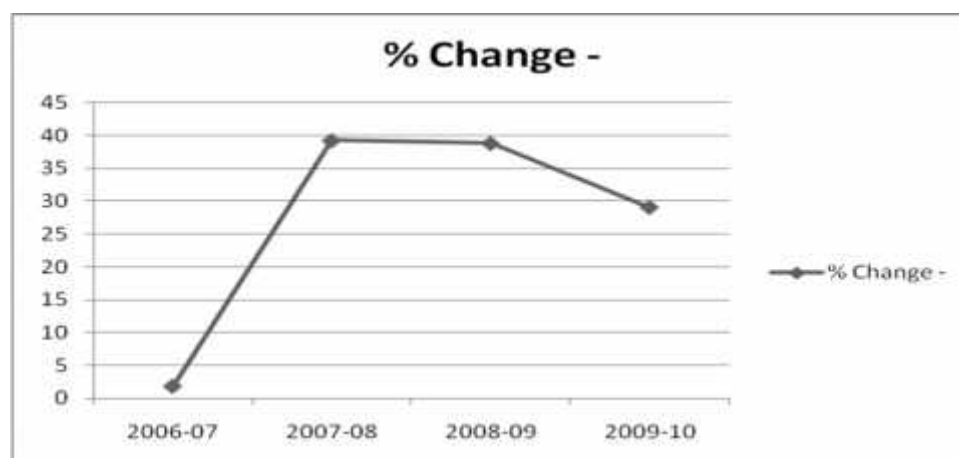
(Source: Nepal Rastra Bank)

Figure 4.8: Amount of Transfer Credit



Transfer credit was only Rs. 130,816.7 million in the FY 2005-06 that reached Rs. 298746.80 million in the FY 2009-10. It has increased to 29.2% in the FY 2005-06 compared to only 1.8% in the FY 2006-07 and it remarkably increased by 39.2% and 38.8% in the FY 2007-08 and 2008-09 respectively. The above mentioned figure is the transfer credit which is contribution of workers' remittances.

Figure 4.9: Percentage Change of Transfer Credit



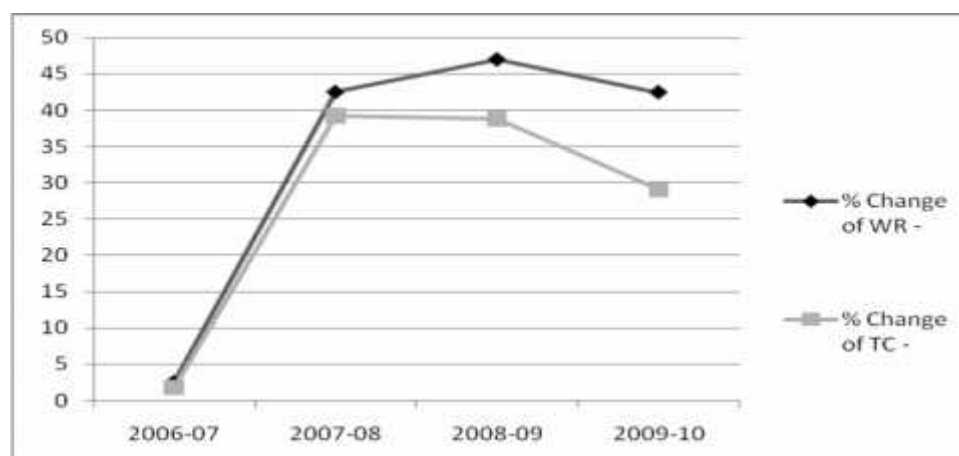
- Workers' remittance is a major component of transfer credit and has an average of 77% contribution during Fiscal Year 2005-06 to FY 2009-10. Moreover, there is positive correlation between workers' remittance and transfer credit. The table below and figure shows the positive relation between them.

Table 4.8: Relationship between Percentage Change of Remittance and Transfer Credit

Year	% Change of WR	% Change of TC
2005-06	-	-
2006-07	2.51	1.78
2007-08	42.48	39.24
2008-09	46.97	38.82
2009-10	42.46	29.08

- The table above shows the percentage change in both workers' remittances and transfer credit. As we can see in every fiscal year the change in percentage of transfer credit is in accordance to change in worker remittance. It can be noted that in every fiscal year, if the change in workers remittance has increased then the percentage change in transfer credit has also increased and vice versa. The diagram of above table on the form of line chart is shown below:

Figure 4.10: Percentage Change between Workers' Remittances and Transfer Credit



d. Remittance and Gross Domestic Product (GDP)

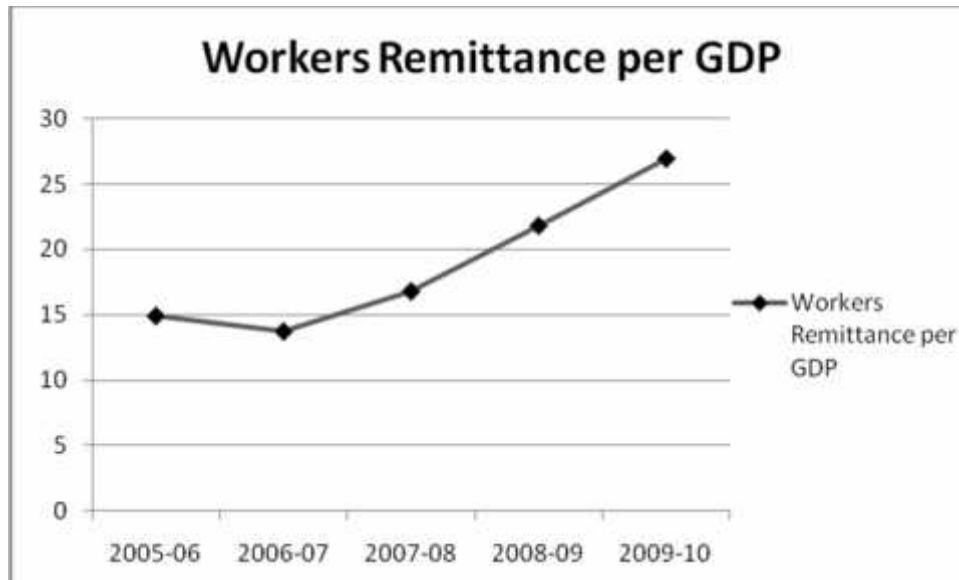
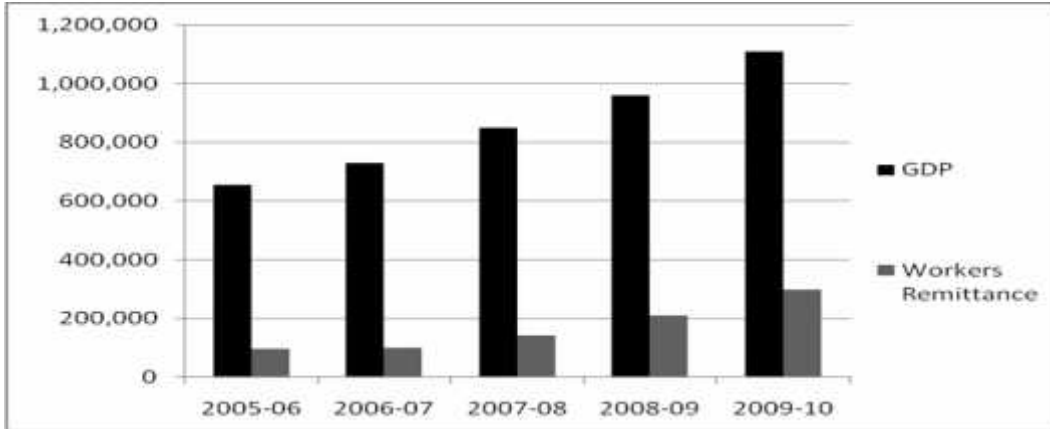
Gross Domestic Product refers to market value of all final goods and services produced in a country within a given period. The table below shows the contribution of workers remittance per GDP.

Table 4.9: Contribution of Remittances on GDP

(Rs. In Million)			
Year	GDP	Workers Remittance	Workers Remittance per GDP
2005-06	654,084	97,688.50	14.94
2006-07	728,178	100,144.80	13.75
2007-08	848,402	142,682.70	16.82
2008-09	960,012	209,698.50	21.84
2009-10	11,08,268	298,746.8	26.96

(Source: Ministry of Finance, Nepal Rastra Bank)

Figure 4.11: Contribution of Remittances on GDP



e. Remittance and Balance of Payment

Balance of payment (BOP) is the difference between export and imports made of goods and services. BOP will be positive if exports exceed the imports and vice versa reveal to be negative BOP. For Nepalese economy, the contribution of export is less than the portion of import. This is the reason for the balance of payment to be negative.

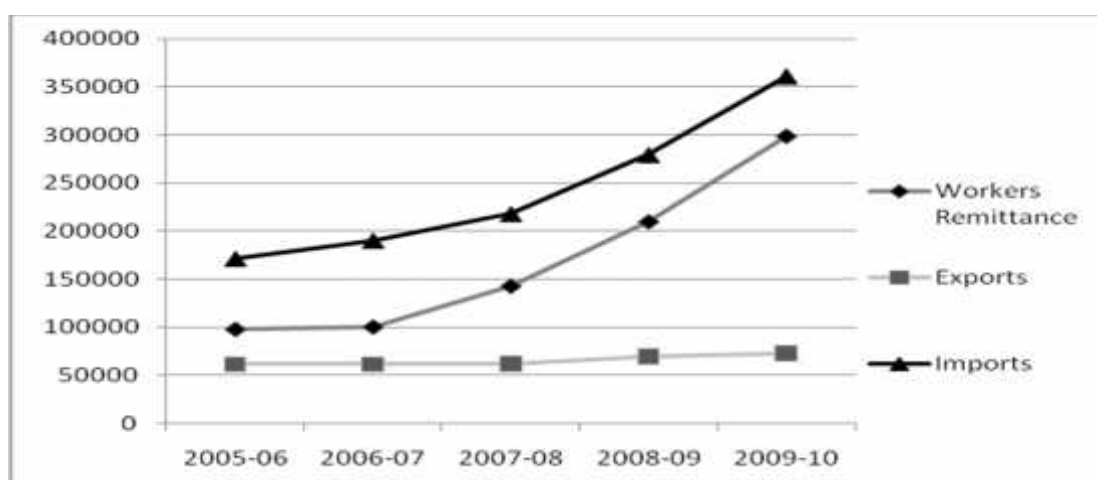
Table 4.10: Trend and Percentage Change of Balance of Payments

						(Rs. In Millions)
Year	WR	Exports	Imports	BOP	% Change of BOP	% Change of Remittance

2005-06	97688.5	61,482.40	171,541	-110,058.60	-	-
2006-07	100144.8	61,488.40	190,437	-128,948.60	17.16	2.51
2007-08	142682.7	61,971.10	217,983	-156,011.90	20.99	42.48
2008-09	209698.5	69,906.80	279,228	-209,321.20	34.17	46.97
2009-10	298746.8	72,917.40	360,862	-287,944.60	37.56	42.46

(Source: Nepal Rastra Bank)

Figure 4.112: Trend of Workers Remittance, Exports and Imports

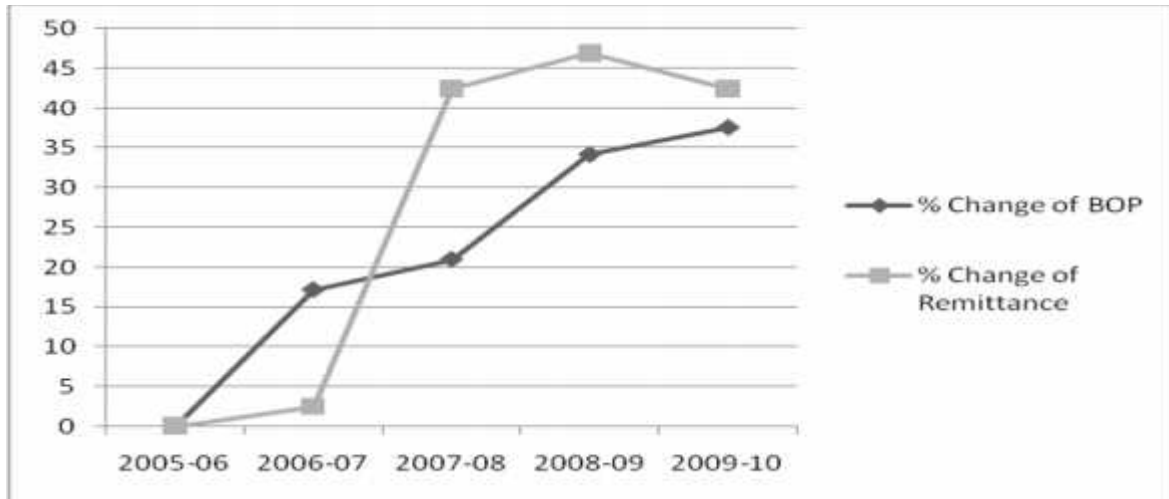


The following observations are noted:

- In Nepal, the Balance of Payment is negative for all the fiscal years. As we can see in the above table 4.10 the negative BOP is in increasing trend which implies that people used to import more goods and services rather than export. The purchasing capacity of people within the country has increased so people used to import the goods and service required for them.
- Looking individually for exports and imports, the ratio of increment of export is much lower than that of the import. In the year 2005-06, the ratio between import and export is nearly 3:1. It means that import is 3 times more than the export. The ratio in 2009-10 reached nearly about 5:1. The reason behind increasing of import is the purchasing capacity of individuals. As remittance inflow goes on increasing the purchasing capacity of people also increase so people started using the imported products. It also shows that remittance gives rise to the inflation because as people imports goods the demand of

goods and services rises which is followed by the rise in price of goods and services. This rise in price of goods and services is termed as inflation.

Figure 4.13: Percentage Change of Remittance With Respect to BOP



- In the above figure, the trend of percentage change in remittance and BOP is shown. One can note that both the trend is in increasing pattern. As discussed earlier, due to the increasing trend of inflow of remittance in the country the negative BOP is also increasing trend. This directly makes impact on foreign exchange reserve because as the import increase with respect to export there will be shortage of foreign currency in the country.

f. Remittance Receiving Mechanism

As per Nepal Rastra Bank (NRB) record there are 28 commercial banks as end of Fiscal Year 2009-10. The commercial bank has authority to deal with foreign currency. Therefore, all the 28 banks can operate money transfer of workers' remittance. Among 28 commercial banks, only 2 banks have their branches in 75 districts covering all area of Nepal and also have authority to deal with money transfer. Remaining 26 commercial banks have branches not in all 75 districts but they have operating branches in various districts and are authorized to deal with money transfer.

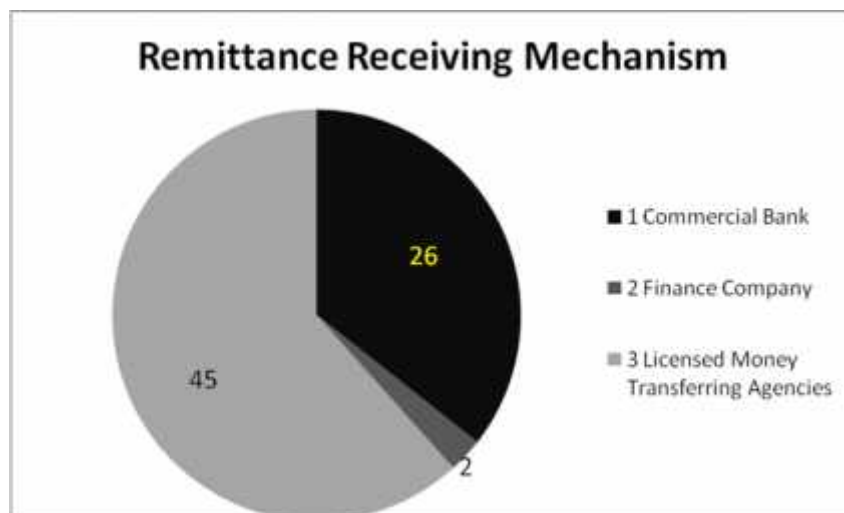
Moreover, there are 70 development banks and 77 finance companies by 2009-10. Development banks and finance companies need to get license from NRB to deal with money transfer in foreign currency. Yet no development bank has obtained the license while 2 finance companies are permitted by NRB to deal with money transfer in foreign currency. NRB has granted license to 45 money transfer agencies to engage in money transfer and they operate in 75 districts. Therefore, 26 commercial banks, 2 finance companies and 45 money transferring agencies are dealing with money transfer.

Table 4.11: Distribution of Financial Institutions Dealing With Money Transfer

S.No.	Transferring Agencies	No.	District Coverage
1.	Commercial Bank	26	47
2.	Finance Company	2	18
3.	Licensed Money Transferring Agencies	45	75

Source: Nepal Rastra Bank (NRB)

Figure 4.14: Remittance Receiving Mechanism



Money transferring agencies need not take permission from Nepal Rastra Bank to appoint their agent and they can appoint an individual or person engaged in other business such as shop keeper, petrol pump stations and through local merchants. As workers remittance is inflow of foreign exchange in country that is why Nepal Rastra bank have taken liberal policy in this

respect. This policy helped to reduce the operating cost of money transferring agencies as well. As it is not their primary job they need not operate branches and not even appoint full time agent or pay less to shop owner or merchant. The list of commercial banks, finance companies and money transferring agencies is provided in appendix I.

Remittance transfer agencies have networks in rural areas also. For example, IME, one of the popular remittance transfer agencies, has branches in 7 districts, and operates in 71 districts. IME has 600 plus agents all over Nepal and provide service through its branches and agents.

g. Contribution on Government Revenue

The Nepalese workers working abroad are not only contributing to foreign exchange earnings of the country, they also are contributing directly to the government revenue in the form of passport fee and Value Added Tax (VAT) on passenger service charge of Rs. 1,000. The following table shows the contribution in the government revenue as well as their share in total government revenue and non tax revenue.

Table 4.12: Contribution of Remittance on Government Revenue

FY/ Revenue	Passport Fee + VAT		Government Revenue		Passport Fee + VAT (Rs, In Million) as per % of	
	(i)	% increase	Total (ii)	Non Tax revenue (iii)	(ii)	(iii)
2005-06	847.70	0.00	72,282.10	13,341.50	1.20	6.40
2006-07	1,049.30	23.78	87,712.10	15,559.30	1.20	6.70
2007-08	1,072.40	2.20	107,622.50	19,783.80	1.00	5.40
2008-09	1,128.40	5.22	42,211.30	21,375.30	0.80	5.30
2009-10	1,264.60	12.07	66,319.50	22,316.40	0.85	5.60

(Source: Ministry of Finance and Department of Foreign Employment)

Note: Passport fee of Rs. 5,000 and VAT of Rs. 130 on passenger service is calculated on the basis of Nepalese workers permitted to work abroad (Appendix IV) multiplied by Rs. 5,130 on the assumption that the workers who get the permission from the Department of Foreign employment would also obtain passport and fly on the same Fiscal Year, although some workers may have obtained passport previous year. The same applies to some who depart next year although they have obtained passport this year. Thus, it may not have significant implication in the basis of assumption.

The above table shows that the income earning from the passport fee and VAT are increasing every Fiscal Year but the percentage of revenue is decreasing. The reason for this is high growth rate in tax revenue resulting into a high growth rate in total revenue. Similarly, expansion of other non tax revenue contribution components compelled to low share of this component in non tax revenue. It can be noted that in every year the percentage is decreasing but it has never gone less than zero or negative. It is because the worker migrants' are increasing due to which the revenue for government is also increasing.

h. Contribution to household economy

Labor Force Survey (LFS) and Nepal Living Standard Surveys (NLSS) 2009-10 reveal contribution of remittance to household economy. A comparative picture of the major findings of these two studies during 2009-10 is presented below in table 4.14.

Table 4.13: Contribution of Remittance on Household Economy

Description	2005-06	2006-07	2007-08	2008-09	2009-10
% Households receiving remittances	27.45	28.4	30	33.5	38.7
Average amount of remittance per recipient household (Rs) (A)	42,385	48,852	56,439	67,755	70,437
% Increase in A	0.00	15.26	15.53	20.05	3.96
Share of remittance on the income of recipient households	31.50%	32.60%	34.10%	36.70%	37%
Per capita remittance amount for all Nepal (Rs)	2200	2968	4042	4832	5390
Total remittances received in Nepal (Rs Mio.)	97,688.50	100,144.80	142,682.70	209,698.50	298,746.80

(Source: Central Bureau of Statistics (CBS, 2010))

Figure 4.15: % of Household Receiving Remittances

Figure 4.16: Avg. amt of Remittance per Recipient Household

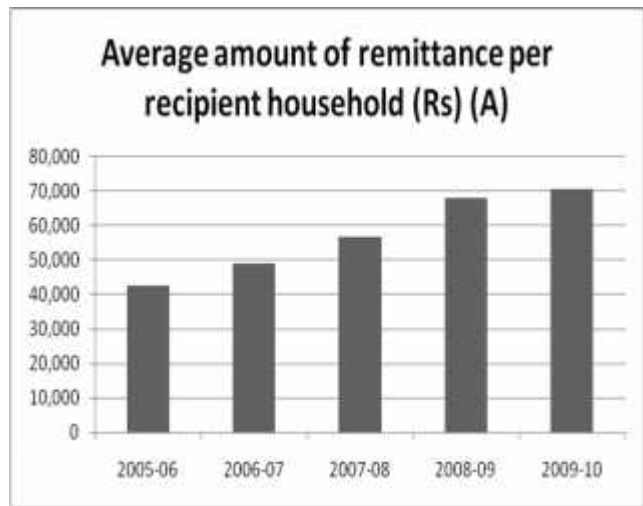
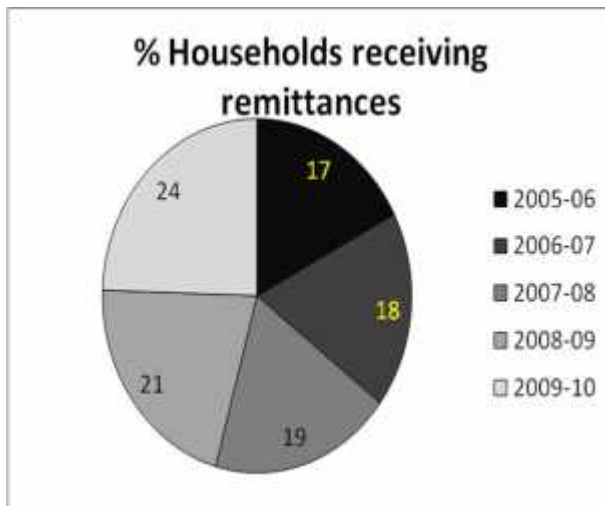
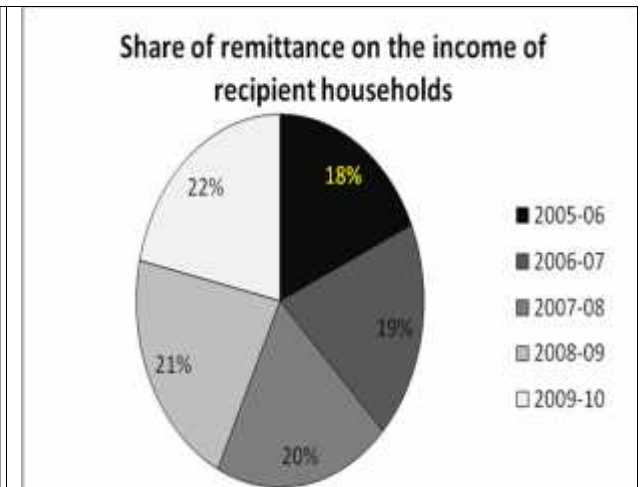
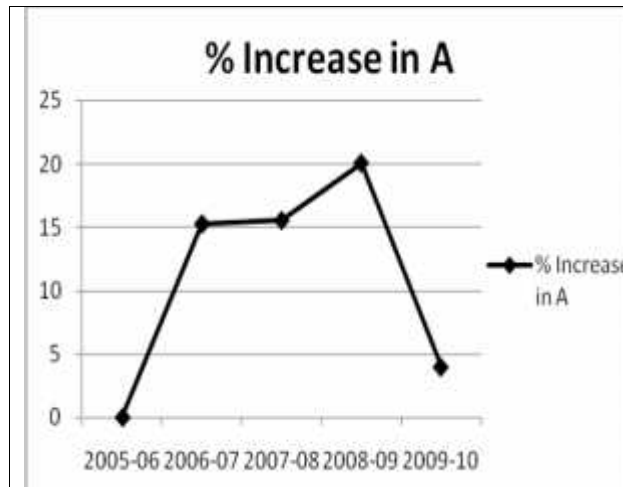


Figure 4.17: Percentage Change of 'A'

Figure 4.18: Share of Remittance on Household



- It can be noted that, the household receiving remittance is increasing every Fiscal year. In 2005-06, there are about 27.45% household who receives remittances which is 17% out of total in all fiscal year. Similarly, the household receiving remittance is in increasing trend in all fiscal year. The percentage of household receiving remittance is 28.40%, 30%, 33.50% and 38.70% in the Fiscal Years 2006-07, 2007-08, 2008-09, 2009-10 respectively. The reason behind this is that the numbers of migrant workers are increasing and previously settled workers also used to send the money.

i. Uses of remittance

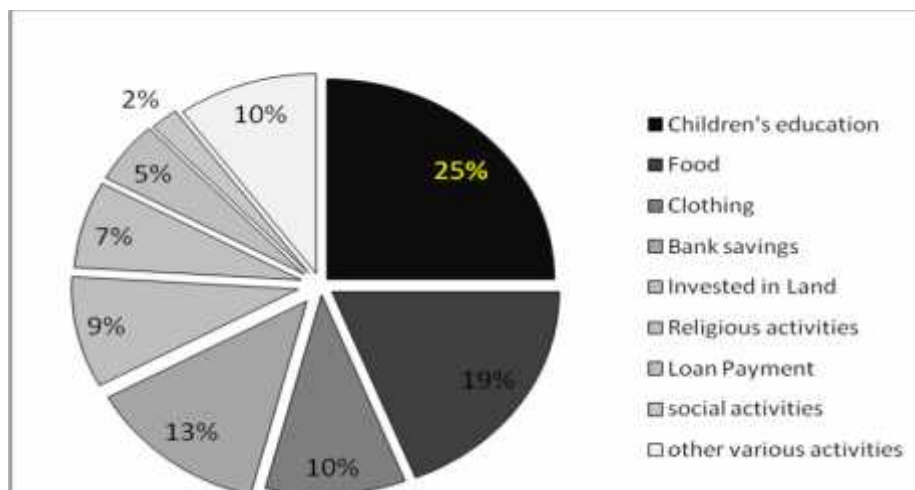
Various studies on the use of remittances has shown that the first priority in the use is payment of loan followed by investment in basic need like food and health, education, investment on land and building etc. Recently in 2009-10, a survey conducted by Nepal Institutes of Development Studies (NIDS) which is a co-partner of United Nation (UN) revealed following activities as the uses of remittance which is summarized in table 4.15:

Table 4.14: Uses of Remittance

Particulars	Use of Remittance (2009-10)
Children's education	25%
Food	19%
Clothing	10%
Bank savings	13%
Invested in Land	9%
Religious activities	7%
Loan Payment	5%
social activities	2%
other various activities	10%

(Source: NIDS Nepal, 2010)

Figure 4.19: Uses of Remittance Money



- The table and figure above present the percentage uses of remittance. According to the data it can be seen that remittance is invested primarily in livelihood improvement. Loan

payment is the primary activity from the remittance; it is only 5% because loan is not paid time and often; once paid then it will be over. However, according to data children education has got more priority from the remittance because these days' people used to think that expenses for children education are an investment which will give return in long term.

- After paying loan, there are three stages in the uses of remittances- short term, medium term and long term purposes. In the short term purpose, the uses of remittance is done primarily to maintain livelihood and meet immediate needs like cloths, fuel and other house expenses. In medium term, remittance is invested on buying cattle and other many productive works. The long-term goal of remittance investment is to buy land, construct new house and invest in children education.
- Apart from money remittances, households also benefit from social remittance, which include non-monetary benefits like improvement in knowledge and skill, habits, social and political empowerment, exposure and the like. It is seen that migrants bring trade skills, which are useful for small businesses; they also bring other values like punctuality, work-ethics, gender sensitivity and the like.

j. Contribution for generation of employment

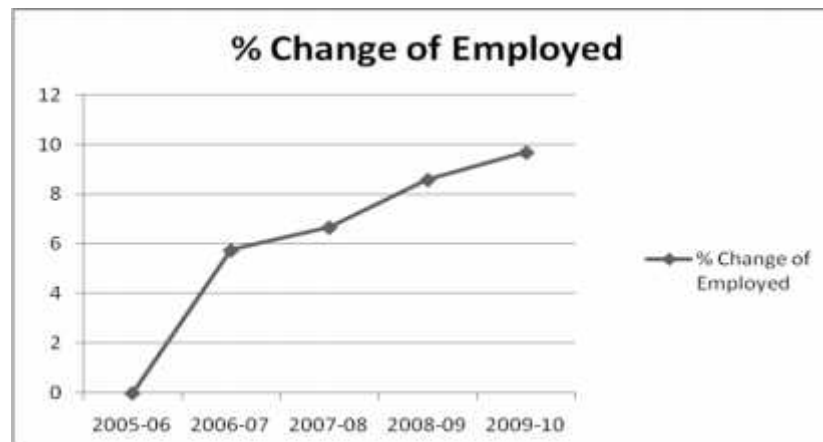
The Foreign Labor Industry also contributes towards generation of local activities through which local people get employment. The possible employment opportunities created by foreign employment process is shown in table. The elaborated form of employment generation due to workers remittance is shown in Appendix VI.

Table 4.15 : Percentage Change of Employment Generation within the Country from Remittance

Years	Total Employed	% Change of Employed
2005-06	65,711	-
2006-07	69,489	5.75
2007-08	74,127	6.67
2008-09	80,495	8.59
2009-10	88,295	9.69

(Source: Labor Employment and Promotion Department)

Figure 4.20: Percentage Change of Employment Generation



- Looking at the data above from table 4.16, the remittance is contributing in generating the employment. More than 0.3 million people got directly employment through foreign employment and remittance. These people got directly employment from the recruitment agencies being agents, trainer for foreign employees, translator, medical in-charge, doing work in various money transfers etc. some might have started their own business on small scale.
- In the FY 2006-07, the growth rate for generating employment is 5.75%, then the growth rate rise to 6.67% in the next FY 2007-08. The increasing trend is followed by being the growth rate of 9.69% in the year 2009-10. In this trend the negative trend is not witnessed it is because the number of labor migrants' for these half decade is in increasing trend and the trend of remittance inflow in the country is also increasing.
- Thus, in a country with very less employment rate, more than 0.3 million people getting employment are also a big thing. So, it can be said that remittance is contributing a great in a part of providing employment in Nepal.

4.1.5 Problems in foreign labor migration

Foreign labor migration is nor without problems. The foreign labor migrants face problems right from the village or locations where they stay and start the process of migration. There are so many agencies involved in the process of migration, and they get cheated in each and every step of migration, including the place where they work in destination country. There is a mechanism to report cheating and fraudulent cases to the government, but many people facing these

problems do not come to put a complaint. According to Foreign Labor and Promotion Department, in 2009 only 449 personal complaints are registered; organizational complaints reached 451 while there were 75 complaints registered in the District court. The amount provided as a compensation for personal complaints in 2009-10 was Rs. 34.40 Mio as compared to Rs. 35.55 Mio for organizational complaints.

In the migration process, i.e., before reaching the destination countries, migrants also faced several problems. These problems are related to problem in generating the sources of finance and in finding the right information. The interest rate of the loan obtained from money lenders was high for a significant number of migrants. They have to pay as high as 3% interest per month which becomes 36% per annum and more. Similarly, arranging the required documents, obtaining citizenship certificate and passports took time for the migrants. This is especially for the uneducated and illiterate migrants, who are also significant in total volume of migrants. Nepal Migration Survey 2009-10, reveals the following problems faced by migrant laborers before migration.

- About 15% current migrants in foreign countries and 22% of returned migrants did not have work permit.
- About half of the returned migrants complain that they did not have contract letter of employment with them.
- About 77.3% of the returned migrants had taken no orientation training before departure, which is mandatory.
- Most migrants were also not familiar with the salary scale and fee involved in migration process. Slightly more than half of the migrants were aware about other aspects of migration.

Similarly, in the destination country also, the migrants have to face several problems. Some of the problems that revealed from the returned migrants workers are:

- About 22% currently working migrants in destination country and 36% of the returned migrants could not get work immediately after departure. On average, they had to wait 4.82 weeks to get the work. Only 0.8% for the job immediately after arriving there, and a majority (58%) for the job within 2 weeks.

- About 22% migrants faced difficulties because of disagreements over the advance payment and 25% faced difficulties because of disagreement over the fees and the contract conditions.
- 40% of the migrants did not get work or job as per their qualification.
- 25.3% migrants received injuries while working and 45% were ill because caused by the work. 22.4% also reported that they would probably be fired if they had fallen ill.
- Language problem was prominent for many (about 40% of them).
- About 37% also faced problems in getting than the expected salary, 21% faced the problem of delayed salary, 13% had problem because of bankruptcy of the company, 18% were transferred to different employer, and 26% had to work in the condition other than what was agreed.

4.2 Primary Data Presentation and Analysis

4.2.1 Size of the Family Members and Major Sources of Income

Among the 55 respondents during the survey conducted at the above mentioned locations, 34 of them i.e. 62 percent have a family size of 1 – 3; another 25 percent having a family size of 4 – 6 and 13 percent were having a family size of more than 6 persons living together.

During the survey, it was found that there were few houses which had more than three of their family members living abroad i.e. had opted to go abroad for foreign employment as they could not find a job here in Nepal and was finding it difficult to meet the expenses for their basic needs such as food and shelter. Amongst the respondents, 78 percent had one of their family member working abroad to support their families here in Nepal. Similarly 16 percent had two, 6 percent had three and none of them had more than three of their family members working abroad.

Nepal, a small agrarian economy in South Asia has a different picture as was revealed during the survey. The dependence over the earnings made from the agricultural produce has now shifted to some other sources. 67 percent of people had their major sources of income as the inward remittance from foreign employment that they receive on a periodic basis followed by 22 percent as service, 9 percent from the cattle they own the rest 2 percent from agricultural product.

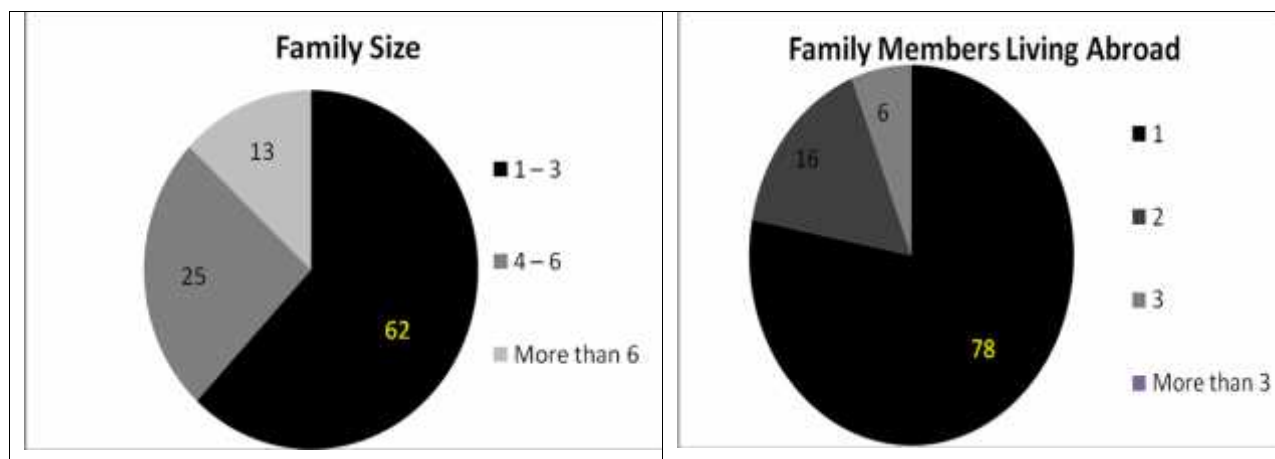
From this it was seen that the growing unemployment problem prevailing in the country and the growing poverty has led the large pool of work force to search for some other better options to earn their living. The country unable to absorb all the workforce entering into the labour market every year has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

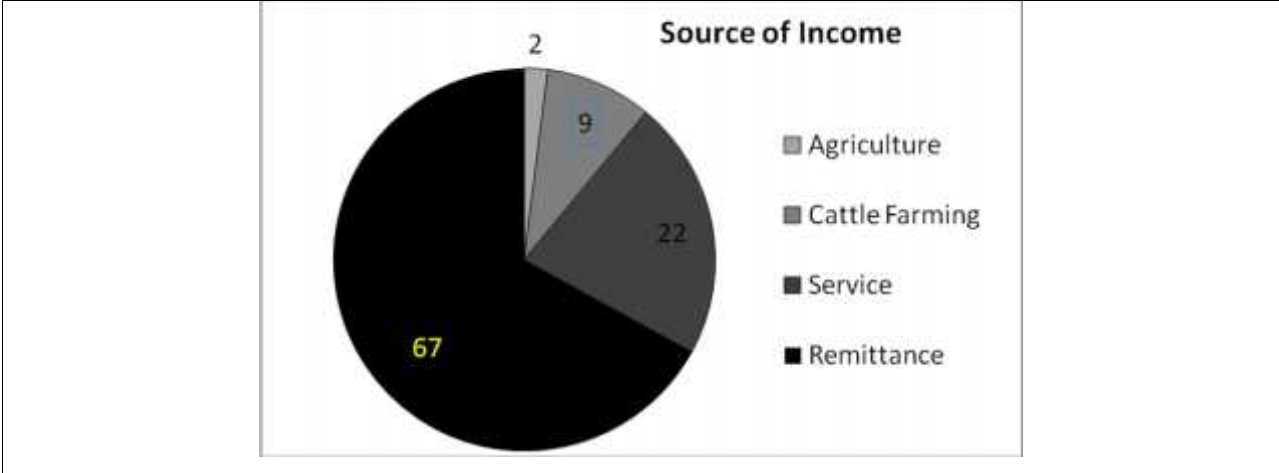
Table 4.16: Family Size and Sources of Income

Particulars		Percentage
Family Size	1 – 3	62
	4 – 6	25
	More than 6	13
Family members living abroad	1	78
	2	16
	3	6
	More than 3	0
Sources of Income	Agriculture	2
	Cattle Farming	9
	Service	22
	Remittance	67

Source: Field Survey at various Places, 2012

Figure 4.21: Family Size and Sources of Income





4.2.2 Structure of Foreign Employment of Nepalese Labour

In the early periods and even today, the volume and trends of international labour migrants is concentrated to India because of the open border between India and Nepal.

Due to the open border between India and Nepal it has been very difficult to estimate the figure of Nepalese currently working who might have migrated there during such a long period of time. Ignoring the number of Nepalese working in India, it has now been observed that the craze of people going abroad i.e. in the Middle East for foreign employment has increased considerably. It may have been due to the fact of getting higher salaries in comparison to India. The Nepalese going to Gulf countries and India for job belong to poor families comparing to those going to South East Asian countries.

The number of labour migrants has begun rapidly only after 1998/99. This signifies that people started to migrate from their usual place of residence after the Maoist origination in 1996. And the volume has been larger and larger when the armed conflict made impact in all part of the country, one year after another. The impact of information and communication all around the country is another factor to justify the increased volume of labour migrants in the past few years. Media are very powerful and scattered around the country. Even the general people have access to media and they are well known about opportunities in foreign employment through the public information of manpower agencies. People’s interest to be engaged in new forms of job in a new environment is also another factor for the increasing volume of labour migration from Nepal.

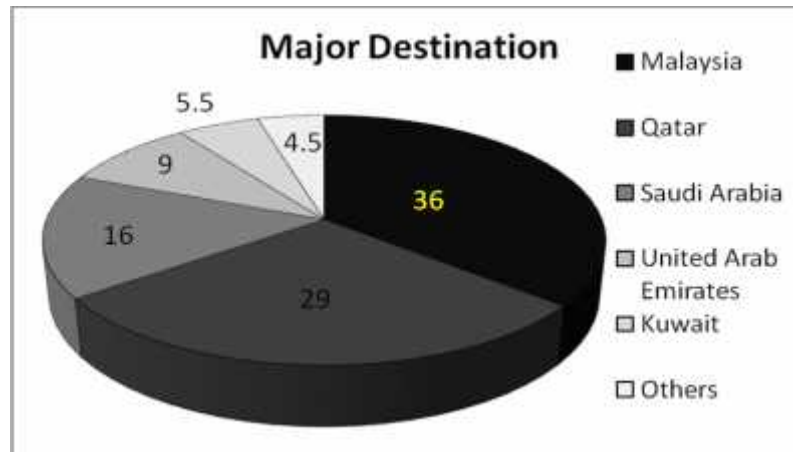
During the field survey conducted at various places it was found that amongst the respondents 36 percent had gone to Malaysia, followed by Qatar (29 percent), Saudi Arabia (16 percent) United Arab Emirates (9 percent), Kuwait (5.5 percent) and rest to other countries i.e. Israel and Japan. This figure however excludes the data of people migrating to India in search of employment.

Table 4.17: Major Destination and Proportion of Nepalese workforce

Name of the country	Percentage
Malaysia	36
Doha, Qatar	29
Saudi Arabia	16
United Arab Emirates	9
Kuwait	5.5
Others	4.5

Source: Field Survey at various Places, 2012

Figure 4.22: Nepalese Foreign Employment Structure As per Field Survey



4.2.3 Age, Educational Qualification and Duration of Contract to Work

The current trend shows that the flow of people going abroad for foreign employment mostly comprises of labour class people. Due to the modality of such work it requires young, energetic and healthy people to be recruited. Amongst all the respondents on behalf of their relatives working abroad, about 60 percent of Nepalese workers' age was found to be between 20 to 30

years. Similarly 34.5 percent were over 30 years and 5.5 percent were young people of not more than 20 years old.

Educational qualification is something which is considered less important for the large pool of workforce leaving the country daily in search of foreign employment especially for those going towards the Middle East as revealed in the survey. Most of the people going for foreign employment belong to the semi-skilled or unskilled category hence requiring lower or no educational qualification at all. According to the survey, the largest portion of the labour force have an educational qualification of intermediate level and represent 46 percent of the total population, followed by 31 percent who have passed S.L.C., 13 percent had only the primary education i. e. below S.L.C. and those having a qualification of graduate level covers 10 percent of total population.

It was observed that the labour demanding states do not directly recruit its employees on a long term basis. It is done on a contractual basis and is normally for a duration ranging from 1 – 5 years with the provision of extending it provided that there is no bad record against such employee. However, the extension decision completely depends upon their discretion. According to the survey, amongst people who have gone abroad for foreign employment about 33 percent were found to have gone for a duration of 1 year, whereas people staying for 1 – 3 years comprised of 44 percent. Similarly 18 percent were found to have been working there for duration of 3 – 5 years and the rest 5 percent were found to have been working there since last 5 years i.e. for more than 5 years.

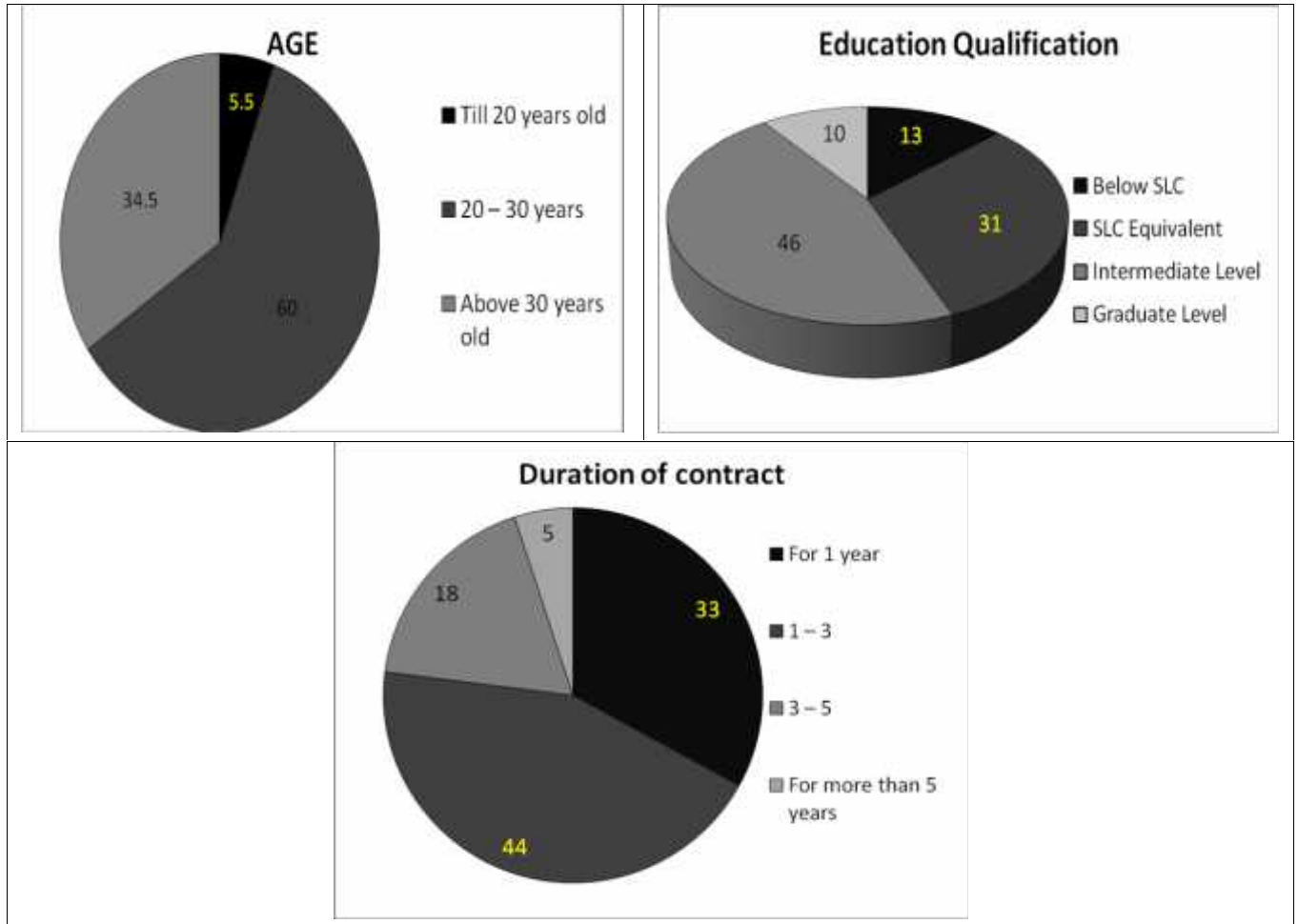
Table 4.18: Details of individuals going abroad for foreign employment

Particulars		Percentage
Age	Till 20 years old	5.5
	20 – 30 years	60
	Above 30 years old	34.5
	Below SLC	13
	SLC Equivalent	31

Educational Qualification	Intermediate Level	46
	Graduate Level	10
Duration of Contract to Work	For 1 year	33
	1 – 3	44
	3 – 5	18
	For more than 5 years	5

Source: Field Survey at various Places, 2012

Figure 4.23: Details of Individuals Going Abroad For Foreign Employment



4.2.4 Mode of going abroad for foreign employment

There are altogether 1032 Manpower Agencies who have taken license from The’s Government of Nepal, Department of Labour and Employment Promotion out of which only 767 are currently in operation. Out of the respondents, the largest portion of 69 percent had gone abroad for foreign employment through Manpower Agencies followed by 22 percent of people who were helped by their friends abroad; similarly 5 percent had initiated the process themselves followed by 4 percent through other means.

Expenses Incurred while going abroad for foreign employment

The licence-holder i.e. the Manpower Agencies are allowed to take service charge as prescribed for providing foreign employment as per the Employment Act. Depending upon the country of

destination, nature of work, duration of the contract etc Manpower Agencies take certain charges with each individual. When inquired about the expenses incurred while going abroad for foreign employment it was found that it ranged from NRs. 50,000 to NRs. 300,000. Out of the total respondents who had opted to go abroad through Manpower Agencies, 55.6 percent were found to have incurred an expense ranging from NRs.50,000 to NRs.100,000 followed by 37.2 percent in the range of NRs.100,000 – 150,000, 5.1 percent in the range of NRs.150,000 – 200,000 and 2.1 percent having incurred an expense of more than NRs.200,000.

Table 4.19: Mode of going abroad for foreign employment and expenses incurred

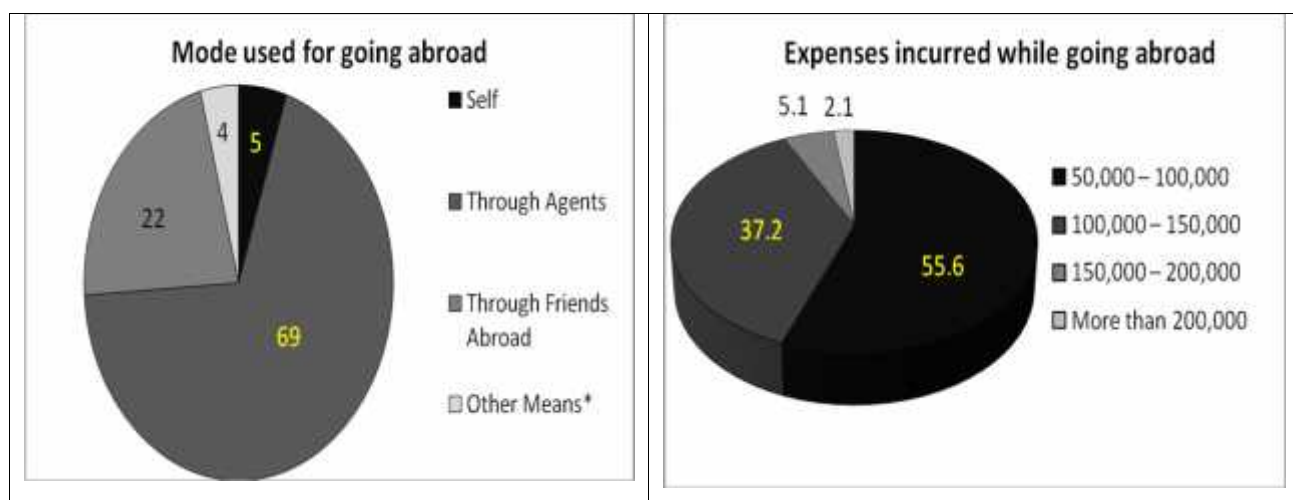
Particulars		Percentage
Mode used for going abroad for foreign employment	Self	5
	Through Agents	69
	Through Friends Abroad	22
	Other Means*	4
Expenses incurred while going abroad for foreign employment (In NRs.)	50,000 – 100,000	55.6
	100,000 – 150,000	37.2
	150,000 – 200,000	5.1
	More than 200,000	2.1

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

Source: Field Survey at various Places, 2012

Figure 4.24: Mode and Expenses Incurred While Going Abroad For Foreign Employment

4.2.5 Source of Expenses incurred while going abroad for Foreign



Employment

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

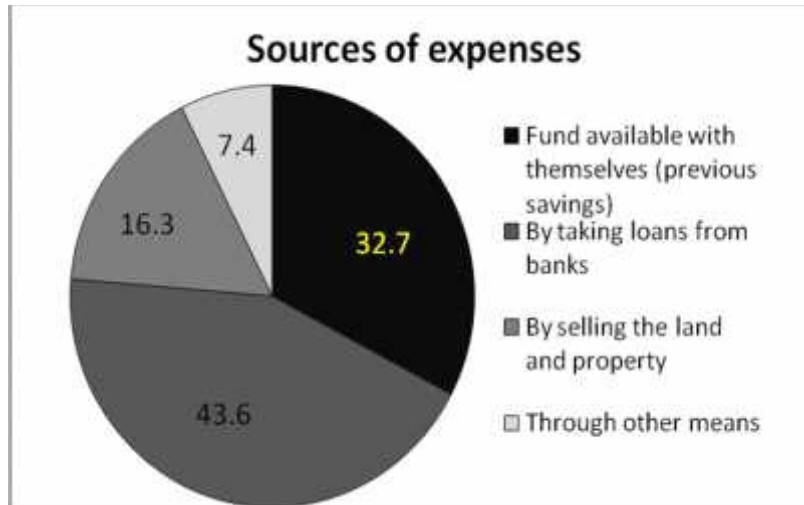
The survey showed that 43.6 percent of people used loans from banks to go abroad for foreign employment followed by 32.7 percent of people used previous savings i.e. the fund available with themselves. Similarly, 16.3 percent of people could only proceed forward with the process after they sold their land and property and the rest 7.4 percent had gone through other means i.e. their expenses were all incurred by the employer or they had taken interest free loans through their relatives (Table – 4.6).

Table 4.20: Sources of Expenses Incurred

Sources of Expenses Incurred	Percentage
Fund available with themselves (Previous Savings)	32.7
By taking loans from banks	43.6
By selling the land and property	16.3
Through other means	7.4
Total	100.0

Source: Field Survey at various places, 2012

Figure 4.25: Sources of Expenses Incurred



4.2.6 Types of work for which the Nepalese People are recruited

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

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

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

Field survey showed that 56 percent of the people were involved in the clerical jobs followed by the next 40 percent involved in labour class jobs and the rest 4 percent were found to have been involved in highly qualified jobs such as engineers, internal auditors, etc (Table – 4.22).

People involved in the labour class jobs mostly comprised of the illiterate people under either semi-skilled or unskilled categories. It is their illiteracy which has forced them to accept the labour class jobs. People involved in the clerical jobs mostly had an educational qualification of

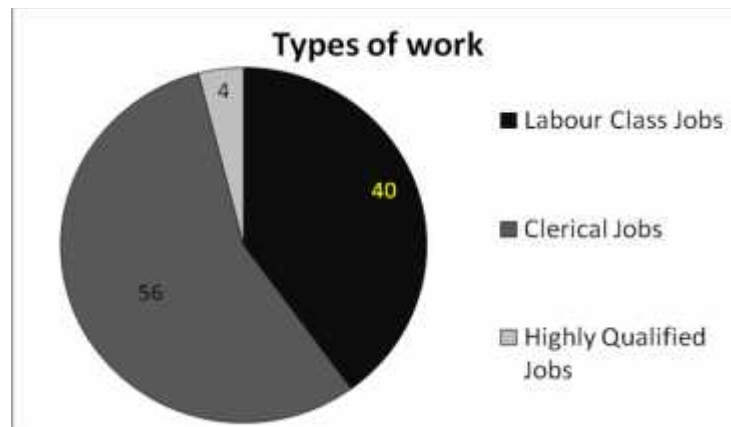
intermediate to bachelor level. Their job descriptions involved looking after certain departments, recordkeeping, accounting etc. Highly qualified jobs comprised of people such as engineers, managers, system analysts etc. They are the ones who are highly paid unlike the two other categories of workers.

Table 4.21: Types of Work Nepalese People are involved into

Particulars	Percentage
Labour Class Jobs	40
Clerical Jobs	56
Highly Qualified Jobs	4
Total	100

Source: Field Survey at various places, 2012

Figure 4.26: Types of Work Nepalese People are Involved Into



4.2.7 Income Status of Nepalese Workers Abroad

During the survey, it was found that 27 of the population i.e. 49 percent of respondents had their remitter's monthly income of NRs. 15,001 – 30,000. 32.7 percent followed with the monthly income range of NRs.30,001 – 45,000. Similarly 10.9 percent of people had their monthly income NRs. 15,000 followed by 5.6 percent of them having the income range of NRs.45,001 – 60,000 and the rest 1.8 percent having the income range of above NRs.60,000 (Table – 4.8).

When asked about the first money transfer received by the beneficiary since the remitter left their country of their origin, it was found that 54.5 percent took the time of 6-12 months after their joining of work abroad, followed by 38 percent who had sent during 2 – 6 months. Similarly 5.7 percent of people were found to have made their first remittances after a year of their departure whereas 1.8 percent did it after a month of their joining date (Table – 4.8).

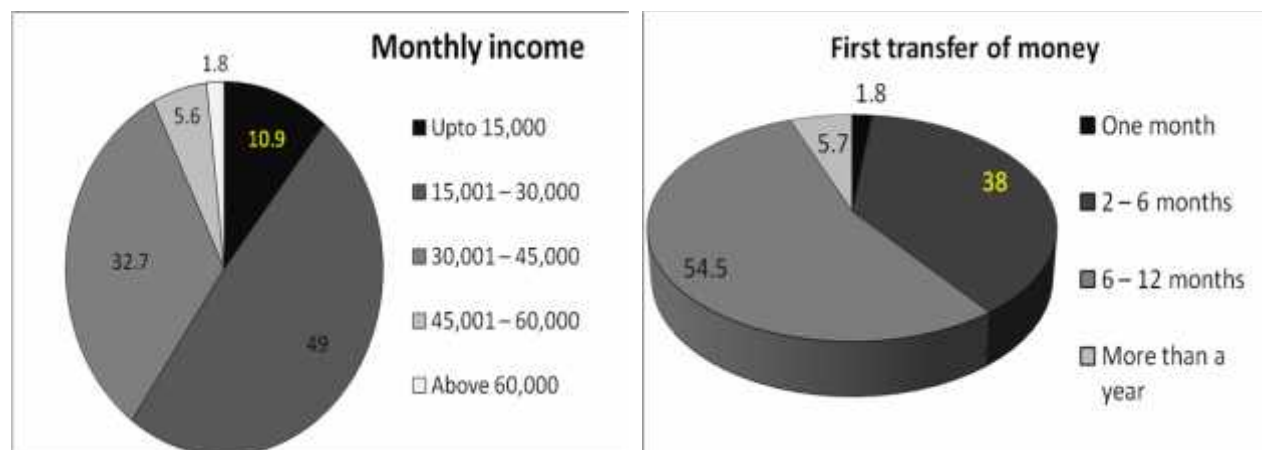
During the field survey it was found that remittance made to Nepal by the Nepalese workers gone abroad especially on a contractual basis largely depends upon the receipt of their monthly income followed by the necessity of funds back home here in Nepal. It was found that some employers paid their workers on a quarterly basis as had been preferred by their employees. They would hence remit on a quarterly basis which would be more cost effective as far as the service charge of remitting of funds is concerned. Settling of high interest bearing loans are another important factor which would compel the Nepalese workers gone abroad to send their initial incomes at the earliest possible. On the other hand it was found that families of few people who were financially well off here in Nepal received their first remittance after a year of his/her departure. However it was found that almost all the Nepalese people going abroad for foreign employment had the tendency to remit fund to support their family members back home in Nepal.

Table 4.22: Income Status of Nepalese workers abroad

Particulars		Percentage
Monthly Income of Nepalese working abroad	Upto 15,000	10.9
	15,001 – 30,000	49
	30,001 – 45,000	32.7
	45,001 – 60,000	5.6
	Above 60,000	1.8
First money transfer made to Nepal from the country of destination by the remitter	One month	1.8
	2 – 6 months	38
	6 – 12 months	54.5
	More than a year	5.7

Source: Field Survey at various places, 2012

Figure 4.27: Monthly Income of Nepalese Workers Abroad



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

The main concern to most of the Nepalese working abroad especially on a contractual basis is to find the most reliable and cheapest mode of transferring their hard earned money to their family members back home. There have been several instances where the beneficiary has been helpless as the fund sent from abroad could not reach to his hand despite going to the concerned place.

This hence calls for the remitter to choose the most reliable and authenticated mode while making such transfers from abroad so that the beneficiary back home does not have to take unnecessary burden to receive it safely.

Mode of fund transfer

Banks, paying agents, hundis, friends, and money orders are the most frequently used mode of transferring funds from abroad. During the field survey it was found that the largest portions of respondent were receiving their funds through the paying agents situated at their villages or towns 76.3 percent (42 respondents out of 55) received their funds through paying agents. Similarly the next large group i.e. 21.8 percent comprised of people who were receiving such transfers from banking channels, The remaining 1.9 percent comprised of people who received their funds from the friends of the remitter who had personally come here on the vacation (Table – 4.24).

Time taken to receive the fund transfer

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

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

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

According to the survey it was found that 67.3 percent of the beneficiaries were receiving the funds On the same day followed by 30.9 percent of people receiving it in 2-7 days. and there were 1.8 percent of people whom it had taken 1-4 weeks to receive the funds after it had been transferred by the remitter (Table – 4.24).

Frequency of remitting funds from abroad

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

Field survey witnessed that 45 percent of the respondents were receiving their funds on a quarterly basis followed by 20 percent receiving on a monthly basis. Similarly 17 percent were found to have been receiving their funds biannually, 7 percent on a yearly basis and the rest 11 percent were not receiving the funds on a regular basis. Beside these according to the respondents it was found that the frequency of remitting funds during the festival seasons like Dashain, Tihar, Chath etc. go very high. The flows of inward remittances during the festival seasons are very high.

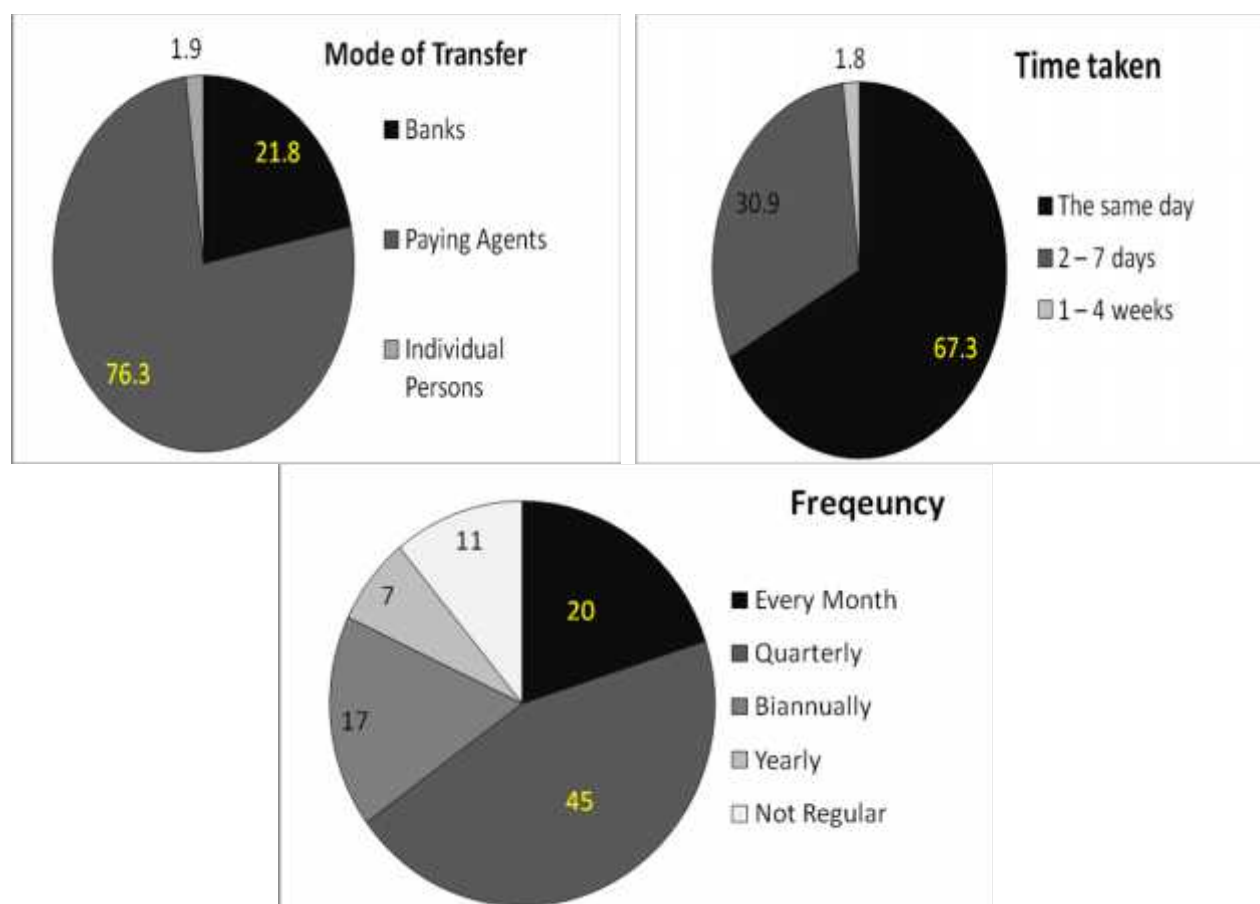
Table 4.23: Mode of fund transfer and time taken to receive such transfers

Particulars		Percentage
Mode of fund transfer from abroad	Banks	21.8
	Paying Agents	76.3
	Individual Persons	1.9
	Hundis or Hawalas	0
Time taken to receive such fund transfers	The same day	67.3
	2 – 7 days	30.9
	1 – 4 weeks	1.8
	More than a month	0
	Every Month	20
	Quarterly	45

Frequency of remitting funds from abroad	Biannually	17
	Yearly	7
	Not Regular	11

Source: Field Survey at various places, 2012

Figure 4.28: Mode and Frequency of Remitting Funds From Abroad



4.2.9 State of the collection of fund transfer from abroad

It was due to this craze of people going abroad for foreign employment and the huge volume of inward remittances soaring inside the country which has attracted banks as well as other financial institutions to invest in this sector. Having identified the potential gain from the inward remittances, various banks paying agents and other financial institutions after having taken the approval from the central bank of Nepal started tying up with the exchange houses abroad. Such tie-up with the exchange houses abroad have initiated both the banks and other financial

institutions to establish sub-agents at various parts of the country so as to facilitate a smooth operation of inward remittance as far as delivery of payment to the concerned beneficiary is concerned.

During the field survey when the respondents were inquired about the distance they would have to travel while collecting the remitted funds the largest portion of people i.e. 81.8 percent of people said that they hardly had to cover any distance for collecting such funds. Similarly 16.4 percent of people said that they had come to collect their fund from as far as 25 kilometers where as the rest 1.8 percent had to come traveling 50 kilometers to collect the fund (Table – 4.25). This clearly indicated that almost all the places where the field survey was conducted there were the presence of paying agents who were either acting on behalf of the banks or other financial institutions involved in remittance business. This to a large extent has eased in the operation of the inward remittance business by making a proper chain for the safe delivery of funds to the beneficiary.

Even though choosing the mode of transferring of funds to their country of origin is completely dependent upon the remitter's choice, however the response from the beneficiary also plays a vital role in choosing amongst the available mode of transferring of funds. While inquired about the place of their preference for receiving the remitted funds 80 percent voted for the paying agents, followed by 16.4 percent of people who preferred receiving through banking channels. Similarly 3.6 percent of people went for the delivery by the individuals coming home from abroad (Table – 4.25).

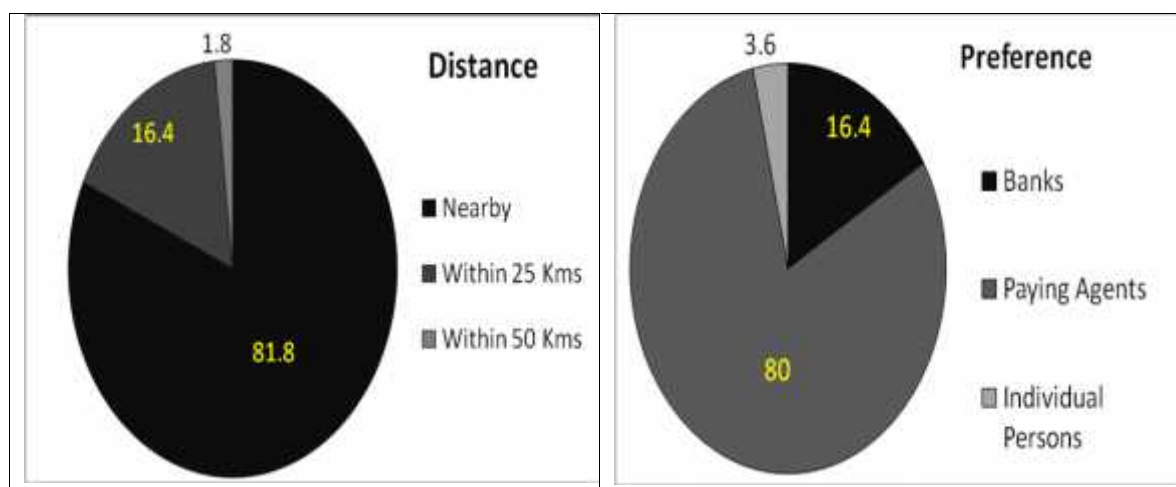
While asked to specify the reason behind preferring particular place to receive the funds most of the people said that they would prefer a place which would be fast, hassle free and does not require more paper works like in Banks for delivering of funds. Similarly other certain people said that they would go for a more reliable place like banks where funds can even be deposited in their own account whereas few said that they would prefer such place where donot require any paper works.

Table 4.24: State of collection of fund transfer from abroad

Particulars		Percentage
Distance traveled to collect the fund	Nearby	81.8
	Within 25 Kms	16.4
	Within 50 Kms	1.8
	Takes more than a day	-
Beneficiary's preference of the mode of fund transfer	Banks	16.4
	Paying Agents	80
	Individual Persons	3.6
	Hundis or Hawalas	0

Source: Field Survey at various places, 2012

Figure 4.29: State of Collection of Fund Transfer from Abroad



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

Volume of remitted fund

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

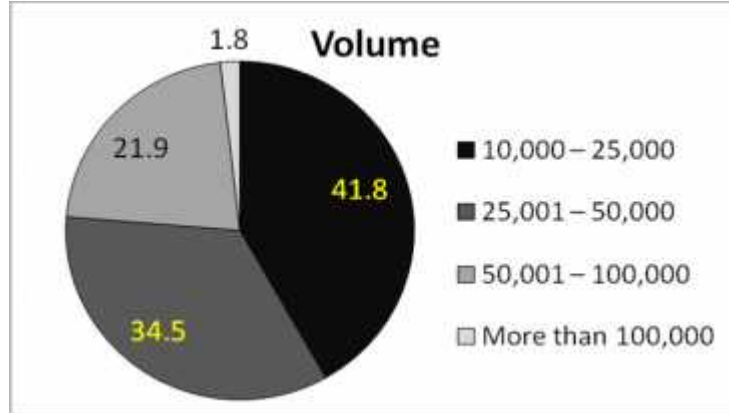
The income status of an individual determines his capability of remitting funds back home as far as the volume of remittance is concerned. When the respondents were inquired about the volume of remittance they receive, 41.8 percent said that they were normally receiving in the range of NRs.10,000 – 25,000, followed by another 34.5 percent of people who claimed of having received in the range of NRs.25,001 – 50,000. Similarly 21.9 percent of people were found to have received in the range of NRs.50,001 – 100,000 and the rest 1.8 percent were receiving more than NRs.100,000 (Table – 4.11).

Table 4.25: Volume of Remitted Fund

Particulars		Percentage
Volume of remitted fund	10,000 – 25,000	41.8
	25,001 – 50,000	34.5
	50,001 – 100,000	21.9
	More than 100,000	1.8

Source: Field Survey at various places, 2012

Figure 4.30: Volume of Remitted Funds per Transfer



4.2.11. Utilization of the remitted funds and saving status of recipients

When the respondents were asked about the end use of the funds remitted from abroad , 43.6 percent of them used it for educating children in good schools, followed by 23.6 percent had to settle the loan they had taken while going abroad, 20 percent of them used the funds for their daily requirements i.e. fulfilling their basic needs, 7.3 percent had invested in some small kind of business like cattle farming, vegetable farming, etc, and the rest 5.5 percent in others like buying land, living a better life, for entertainment, etc.

Since very few people send money on a monthly basis, it is the recipients who would have to save the money so as to meet their monthly expenses. Some have even been able to save substantial amount after having met their basic requirements. Depending upon the monthly income of the remitter and the financial status of the recipients, the monthly saving of any remittance receiving families can be determined.

When the respondents were asked about their savings out of the funds received, 20 percent said that they have not been able to save any funds out of the remitted funds whereas as the rest 80 percent comprised of people who were able to save some after meeting their basic requirements.

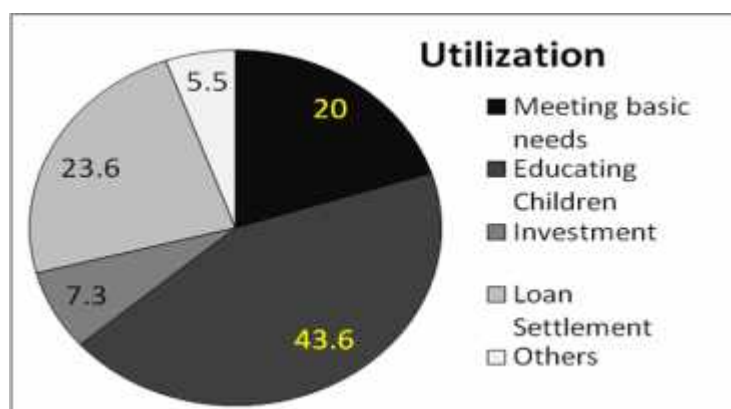
Saving gives a greater financial strength to the recipients as far as meeting any financial obligations are concerned. It also provides a financial cushion to many families having a financial crisis. On the other hand this opens up investment opportunities to the recipients. Savings can easily be converted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

Table 4.26: Utilization of the Remitted Funds and Saving Status of the Recipients

Particulars		Percentage
Utilization of the remitted funds	Meeting basic needs	20
	Educating Children	43.6
	Investment	7.3
	Loan Settlement	23.6
	Others	5.5

Source: Field Survey at various places, 2012

Figure 4.31: Utilization of Remitted Funds of the Recipients



4.2.12 Investment Climate and Investment Opportunities

The country has been badly hit by the ongoing political instability. The country has not witnessed the completion of any big projects due to the prevailing condition. Nepalese economy has given rise to the ever increasing number of Nepalese going abroad for foreign employment.

As witnessed during the field survey, the respondents, when inquired about their intentions to invest in any productive sectors or if they were aware of any investment opportunities most of them said that they were interested in such investment opportunities. 81.4 percent of respondents showed their keenness in making such investments whereas the other 18.6 said that they were currently not in a position to make such investments.

Though many of them were aware of such investment activities and showed their keenness in it, only 18.9 percent of the respondents were found to have really indulged themselves in such activities. Other respondents who were not involved in any sort of investment projects said that

despite having interest in making such investments they were unable to make the decisions. They were urging for some sort of technical assistance from the concerned authority before making any investment decisions.

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

4.2.13. Attraction of the Migrant Workers towards the formal channel

Recently the banks and the private companies are attracting the migrant workers through various programmes. Most of the companies are giving the insurance facilities to the migrant workers before going abroad, some are using cultural promotion like celebrating Dashain and Tihar abroad by organizing some programmes to the customers. Exchange rate is also another reason for the migrants to use the banking channel. There is a kind of competition among the money transfer companies to give higher rates to the customer but this has also helped to the county's economy as the funds will be transmitted through formal channel. Brand promotion is also used by most companies(International Money Express IME , Prabhu Money Transfer distribute T- shirts to their customers). Interest rate is another important factor , if the banks gives more interest rate then the customers send money through banks and deposit in the same bank. Hence all these things have helped to remit the funds through formal channel.

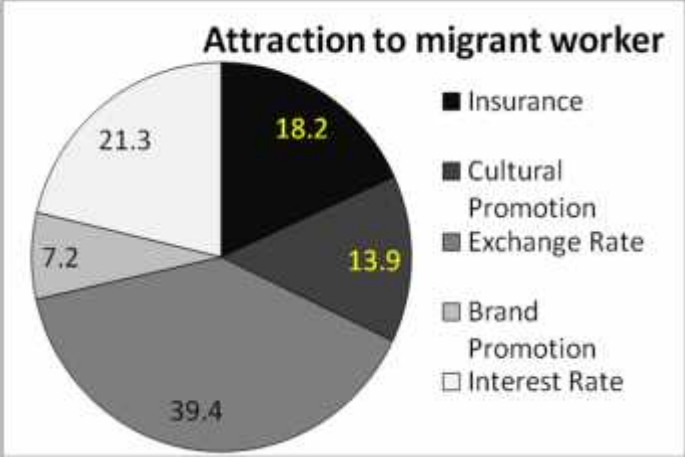
As per the field survey , 39.4 percent of the respondents used banking channel due to the exchange rate followed by interest rate which is 21.3 percent. Other 18.2 percent were attracted due to the insurance facility, 13.9 percent were impressed by the cultural promotion programmes organized to the customers and the rest 7.2 percent liked the brand promotion programmes.

Table 4.27: Attraction of the Migrant Workers towards the formal channel

	Particulars	Percentage
Attraction of Migrant worker	Insurance	18.2
	Cultural Promotion	13.9
	Exchange Rate	39.4
	Brand Promotion	7.2

	Interest Rate	21.3
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Figure 4.32: Attraction of the Migrant Workers for formal channel



4.3 Macroeconomic impacts

1. Macroeconomic impacts of the large scale migration and remittance are significant.

Large worker outflows have reduced domestic un- and under employment in a country where job creation has been limited. Also, the significant foreign exchange inflows have contributed to the balance of payments surplus and higher reserves, but, there are concerns that recent developments are similar to symptoms of Dutch disease although causality is hard to prove. Remittance supports higher consumption and, as a consequence, raises imports and appreciates the real exchange rate. GDP shares of exports and manufacturing value addition are shrinking – as are anecdotally, investments in tradable sectors.

2. In addition, there is a risk that the Nepal government might not fully appreciate the urgent need for policy action to move the economy forward, because of the remittance "cushion". This is also called the vicious policy cycle of large remittance. In this cycle, migrants seek jobs abroad because there are limited opportunities within their own country and send remittances home to recipients, who then become less eager to hold the government accountable for good economic policy than if there had been no remittance income. As a result, The government does not feel pressed by public opinion to improve economic policy; growth and job creation suffer and more migrants need to leave the country for lack of domestic opportunities.

CHAPTER 5

FINDINGS, CONCLUSION AND RECOMMENDATION

The purpose of this study was to analyze the trend of foreign employment in the flow of inward remittance, its economic impact and facilities provided to migrant workers to promote the formal channel of remittances.

5.1 Summary of Findings

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

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

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

- This study reveals that foreign labour migration is a growing sector in terms of volume of labour migrants" going overseas and its contribution to the government revenue in the form of remittances. Even though there is a slight decrease in the number of people going overseas in 2007-08, it has been growing consistently. In total, only negative change in foreign employment was witnessed by around 12% in the year 2007-08.
- Some fluctuations can be noted in various countries for foreign employment. It shows an upward trend in one country while the number has decreased for other. In 2007-08, the negative pattern is seen in Qatar, Malaysia and U.A.E. by -10.85%, 30.63% and 30.11% respectively. On the other side, for the same year in countries like Saudi Arab, Bahrain and Kuwait has positive change by 14.99%, 24.73% and 16.47% respectively.
- The wage received by the migrants" workers from Arabian countries is more in comparison to others. Out of total wage received in 2009-10, 63% of wage is received

from Arabian countries. This percentage reached to about 76% in the FY 2009-10. As the migrants' workers increased the wage received from these countries also increases.

- Most of the foreign employees are attracted towards the gulf countries. More than 70% of the total workers have departed for gulf countries. The reason behind such attraction towards gulf countries is the demand of illiterate workers with lower skills and easy availability of visa in those countries.
- In the year 2007-08, the change trend is negative by -13%. The reduction could be noted due to peaceful political environment in the country which was instrument for the return of those migrated due to conflict. The percentage change is again increased to 28.81% and 23.21% in the year 2008-09 and 2009-10 respectively.
- In FY 2009 "official remittance" measured by the Nepal Rastra Bank (NRB) totaled US\$ 2.7 billion, or 22% of Gross Domestic Product (GDP). This figure excludes remittance received from India and informal flows, and therefore total inflows could easily exceed 25% of GDP. International migration has thus become the most important economic activity in Nepal. Foreign exchange earned from migration is higher than that of export receipts and official aid combined.
- The Nepal migration (2009) puts the number of Nepali work migrants abroad at 2.1 million. Their key destinations are India, the gulf countries and Malaysia, with notable numbers in other developed countries such as Australia, Japan, the United Kingdom, and the United States. India is estimated have 867000 Nepali migrant workers, 41 % of the total working overseas and the gulf countries another 810000 (38%) , Malaysia is said to have 245000 (12%) , while 186000 (8.7%) are in the other developed countries mentioned above. Oft-quoted numbers of migrants in India range between 1.5-3 million.
- Migrants abroad are employed mostly in three sectors: manufacturing (32%), construction (16%), and hotel/catering (16%). In India, manufacturing and hotel/ catering are the top two sectors for migrants (24% and 21%), while agriculture, at 12%, come third. This share of migrants who work in agriculture in India is unexpectedly low, even accounting for seasonal factors. In the gulf countries, manufacturing and construction dominate (35% and 21%), while in Malaysia 62% of Nepali migrants are working in manufacturing, service-sector employment predominates in other developed countries.
- Foreign employment in FY 2009 was NPR 190 billion (US\$ 2.5 billion), or 20% of GDP. If we exclude flows from India –to make it comparable with the NRB figure of 22%-remittance was 16% of GDP. This is much below the NRB's estimate based on information from the financial institutions. The discrepancy is most likely due to understanding of income which is typical of household surveys-especially for households whose inflows are large, remittance from India estimated in this survey -4 % of GDP-may also be an underestimate.

- Of the US\$ 2.5 billion in remittance from abroad, about half (US\$ 1.2 billion) comes from the gulf countries. The remittances received from other destinations are: NPR 41 billion (US\$ 530 million or 21%) from "other developed countries"; NPR 37 billion (US\$ 476 million or 19%) from India; and NPR 20 billion from Malaysia (US\$ 260 million or 10 %)
- The amount of remittance a household receives depends on the destination of its migrant members. On average, households with a migrant in "other developed countries" receive the highest amount of annual remittance (NPR 311000 or US\$ 4050) followed by the gulf (NPR 163000 or US\$ 2120), Malaysia (NPR 113000 or US\$ 1470) and India (NPR 62000 or US\$ 800). Internal migrants –those migrating for work within Nepal –send NPR 75000 home on average, which adds up to 2% of GDP.
- About 735000 work migrants from abroad were back in Nepal at the time of the 2009 migration survey. More than half had used India as a destination; just over one quarter had returned from the Pakistan gulf, and about one-fifth had worked in Malaysia and other developed countries.

5.1.1 Challenges faced by banks and private companies

- An analysis of the responses regarding the handing over cash to relatives the bank officials stated that more time was required to clear the cheques. Banks stated that they require at least a day if the money is sent through SWIFT or Telex Transfer and more than 3 days if it is Demand draft.
- Identifying the customers abroad and make them open an account in respective bank is one of the major challenges to the Nepalese banks because many customers are illiterate and lack of awareness regarding the method in sending money.
- The mode of transfer of money is another challenge because higher proportions of Nepalese customers are illiterate in abroad. The major challenge they face is making this customer understand the mode of transfer of money especially they are illiterate and employed abroad.
- The major problems include lack of understanding of foreign language, distance from bank office to place of resident. The other major problems mentioned was the time taken by clearing house to credit account and credit customer account, credit in wrong customer account with similar name and address and transaction cost.
- The multiple problems faced by banks are time taken by clearing house to credit account and credit in wrong customer account with similar name and address.
- The measures taken by banks in attempt to solve the problems are appointing well trained staffs, agreement with foreign banks to solve customers' problem.
- Informal channel of remitting funds through Hundi or Hawala still dominates the formal channel of remitting funds. This is because of its fast delivery to the concerned

beneficiary and comparatively less troublesome than the remittance sent through formal channels. Due to this it has been very difficult to estimate the volume of inward remittance entering inside the country.

- There is lack of presence of banks in remote areas. Due to the ever increasing number of people opting to go abroad for foreign employment, it is obvious that people from various parts of the country collect their money from the possible means. Non presence of banking facilities forces many people to keep such money at their home hence posing threats of any mishaps.

- India is also the key transit point for nepali migrants using informal channels. Without documentation, they cannot fly out of Kathmandu, so they use informal agents in India and often fly to destinations prohibited by the government of Nepal, such as Afghanistan and Iraq.

5.2 Conclusions

Foreign employment and remittance has shown its potential by supporting the politically and socially unstable undeveloped economies of Nepal. It has provided a source of livelihood to the locals and thus improved the state of living and has been a major source of income to the nation. Developed countries like Qatar, Malaysia, Saudi Arab, Singapore etc. have more demand of low paid workers. Understanding the dominance and its importance to the economy government of those countries are under labor agreement with Nepalese government.

Considering this global picture of Nepalese workers working abroad, the commercial bank and private companies of Nepal are also in a way to promote the remittance business through official and formal channel. There are various mechanisms to send the money from one country to another country but Nepalese commercial banks have started with providing various facilities for Nepalese workers to promote formal channel of remittance. Still this effort of banks is not accomplished fully to achieve their target because it has been known that more than half of the remittances have been receiving through informal and illegal channels. However, the proportion of receiving the money through banks is increasing every year; which proves banks are still in effort to discourage the informal and illegal channel of remittance to promote the formal channel.

However, still a large number of Nepalese workers are unaware of the various mode of transfer of money and its benefits. These commercial banks restrain to old and traditional methods of money transfer and provide adequate knowledge regarding computerized method like SWIFT and Telex Transfer.

With the aim of studying the inter-co-relation between foreign employment and inward remittance and its economic impact, a field survey was conducted at various places where the concentration of people going abroad for foreign employment is higher. Some of the points are concluded are as follows:

5.2.1 The scale of migration and remittance in Nepal is staggering. Almost half of all households have at least one migrant abroad or a returnee. Estimates of the number of nepali

migrants abroad vary widely, but the most frequently cited estimate, including seasonal workers in India and those who use informal channels, is about 4 million-one third of the working male population. Foreign remittances now constitute a quarter of the income of all households and almost two-thirds of the income for those receiving money from abroad. The ubiquity of Nepal migrants is confirmed by its uniform distribution.

5.2.2 The ubiquity of Nepali migration is confirmed by its uniform distribution. Almost everyone is migrating –the rich, the poor, people from the mountains, hills and terai and from all the of the country's five development regions. Migration has spread through networks and now involves the entire country. Worker outflows and remittance inflows are likely to continue, given the scarce domestic job opportunities, large young population, and the reach of the migrants' networks.

5.2.3 Most migrants are aged 20-44, and the out-migration is causing domestic labor supply shortages in many rural areas. Many migrants are in their mid-20s and the age distribution graph of the population remaining in Nepal has a dent around that age. As a result, the labor supply in rural areas has fallen significantly, raising real wages in many cases. Many male members of remittance –receiving households have also less incentive to work and have reduced their labor supply, exacerbating labor shortages.

5.2.4 Migration destination countries vary by wealth status. Everyone, from the poor to the rich migrate, but the likelihood of a household having a member working abroad is highest when the household belongs to the "middle class"-around the fourth quintiles in terms of wealth. There are various economic reasons for this. Households with the least tend to send members to India, but India's attractiveness declines rapidly as wealth increases. The opposite applies in the case of migration to other developed countries, where migration increases in line with wealth increase. For the gulf countries and Malaysia, the relationship is non-linear: migration increases as wealth goes up and peaks at the fourth wealth quintile before declining to the wealthiest quintile. In addition, as the wealth index and human development indicators are correlated, those with less education tend to go to India. Relatively better-off and better-educated migrants are more likely to work in "other developed countries".

5.2.5 Migration destinations tend to vary according to the place of origin of migrants. Most migrants from mid and far western regions travel to India. Migrants from western and eastern regions dominate the Nepali workforces of Malaysia and the gulf countries, with workers from the central region being a distant third. "Other developed countries" are often the destinations of those from eastern, Central and western regions. Migration to those ' other' countries is also common for urban workers in the central development region, where the Kathmandu valley is located. The "likelihood" of migration is highest among people of the

western and far western regions, while those of the central development region have the lowest, though still significant, tendency to migrate.

5.2.6 In terms of ethnicity, the probability of migration is above average for muslims/others, hills dalits, hill janajatis, and Brahman /Chhetri. Muslims others and hill janajatis tend to go to the gulf while the major destination of hill dalits is india. The Brahmin/chhetris migrate to oth india and the gulf, and smaller but not insignificant numbers go to Malaysia and "other developed countries ". newars, who have the lowest probability of migration (21%), have roughly equal preferences for all major destinations (India, the gulf, Malaysia and the others).

5.2.7 About 6-7% of migrant workers are female. In absolute numbers, India, Kuwait and Qatar are the major destinations. Females, on average, earn and remit more than men. Female migration abroad used to be banned out of concern that they were vulnerable to abuse and harassment. But recent legal changes assured equal treatment, because the ban had merely increased female migration through formal channels and exposed them to higher risks. Women still face high risks of abuse, though and also have a history of being trafficked in the subcontinent. The government, to safeguard women, has now mandated that a guarantee letter must be obtained from the relevant Nepali embassy before a female migrant can travel that country. But this practice has reduced female employment opportunities once more, and is driving them back to risky informal channels of recruitment.

5.2.8 Per capita receipt of remittance generally increases with recipients'' household wealth-presumably more skilled and educated migrants tend to receive better income overseas of the total remittance. One third goes to the richest 20% while the poorest 40% receives 19%. However, Remittance reception rates are lowest among the wealthiest, implying that only a few actually receive remittance.

5.2.9 In terms of regions, the western hills and eastern terai receive the most remittance. The western hills send the largest number of migrants (20%), fairly evenly distributed to various destinations. The far eastern terai sends the second largest numbers of migrants (17%), mostly to the gulf and "other developed counties". In contrast, remittances received by mid and far western regions are much lower even though they send many workers to india. This reflects the comparatively low income-per migrant in India.

5.2.10 The channels of money transfer vary by destination. More than two-thirds of remitters in India hand-carry their remittance, either personally or through friends and relatives. The use of official channels (money transfer companies and banks) is highest for workers in the gulf. Workers in Malaysia use both money-transfer companies and banks) is highest for workers in the

gulf. Workers in Malaysia use both money transfer companies and banks, but surprisingly, many workers also use the hundi system. More surprising was the finding that 30% of workers in "developed countries" opted to "hand carry" remittances personally or through friends.

5.2.11 Securing a foreign job can be costly. The average cost for a worker going to gulf countries and Malaysia is NPR 109700 (US\$ 1430) and /NPR 378200 to go to "other developed countries". Getting a job in India costs about NPR 5250. On average, migrants pay for about 24% of the cost from own savings and help from family members. Loans from friends/relatives cover 22% of the cost and loans from village money lenders, nearly a one-half of the cost. The average interest on these loans is high-23% when borrowed from friends and relatives and 30% when acquired from moneylenders.

5.2.12 At the household level, remittance has significantly increased income and consumption. The added income is spent largely on consumption and education of children. Male members of remittance-receiving households also appear to be enjoying more leisure and working less. Consumption has become a major driver of GDP growth. In FY 1996-2004 poverty declined from 42 percent to 31 percent. More than half of the decline is due to remittance. It is tentatively estimated that between FY 2004 and FY 2010, the poverty incidence declined further, to 21 percent. Had there been no increase in remittance from FY 200, poverty would have declined to just 27 percent.

5.2.13 Migration has financial and social costs. Migrants pay high, often excessive, fees to recruitment firms, and the high interest rates charged on these informal loans magnify the overall cost. Reducing these costs and lowering the barriers could help make migration more pro-poor. But there are also social costs in family separation, potential abuse by employer or recruitment agencies, and health risks such as sexually- transmitted diseases. Female migrants often face higher financing costs, and are more vulnerable to such abuses. The costs need to be carefully monitored and, where necessary, reduced.

5.3 Recommendations

5.3.1 Recommendations regarding to promote the formal channel of remittance

1. Nepalese government should adopt the policies regarding the formal channel of remittances where policies are needed to encourage the use of remittances to promote longer-term growth and income security. Nepal needs to further devise policies that enable migrant workers to:
2. Send more remittances through formal channels like commercial banks and private companies.

3. Increase the levels of remittances by encouraging migrants to hold their savings in financial assets in the country rather than holding them abroad.
4. Encourage migrants to become investor in productive assets in the country.
5. A large section of Nepalese workers going abroad are from lower middle class and lower class residing in the rural areas. Most of them have hardly ever used the banking service. As a result, they are not aware about the formal channels. Hence, a publicity campaign and /or a nationwide advertisement scheme needs to be developed and implemented to familiarize the rural people to remote areas with the banking services.
6. Conducting awareness program and share schemes through association to inform migrant workers“ about the facilities provided by various banks and private companies. Through association create awareness regarding the advantage of transferring money through banking channel.
7. The banking system of Nepal has not been developed fully both in terms of coverage and efficiency. It is necessary to expand the banking network in the rural areas. At the same time, as it might be economically viable for the commercial banks to open their branches in remote areas, which can initiate collaboration for conducting the remittance business.
8. Undertake the banking package regardless of providing the special scheme on certain products which attracts migrant workers“ to use the product and helps to encourage formal channel of remittances.
9. Establishing the banking association and set quality standard regarding doing transaction in foreign countries. This could be taken a step further in the future by achieving international accreditation with established organizations that provide global certification for Good Banking Products.
10. Banks should associate with other more international exchange house and money transfer agencies in foreign countries which make ease in transferring money for migrant workers.
11. Banks should hand over the cash in minimum time without creating any problems to migrant workers relatives. Banks should not take more time in clearing the cheque

5.3.2 Recommendations regarding the Inward Remittance

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

-) Improving knowledge about remittances is critical for the assessment of policies, which directly impact the developing role of remittances in the economy. The transparency is

required to understand its impact on poverty. Nepal Rastra Bank has continuously emphasized the importance of accurate estimation of capital inflows in the form of emigrants' remittances. Formalizing the inflow of remittances is very important. More than half of remittances enter the country through informal channels. The survey shows that the bulk of remittances to Nepal are channeled through unofficial sources, i.e., physically brought by the emigrants, friends and relatives. This is partially a reflection of the short geographical distance between the countries. This high flow of remittances through unofficial channels also asks for actions to make official channels more attractive in terms of efficiency, safety, cost and anonymity. However, there are encouraging signs of demand for new technologies, innovative partnerships and entry points to reach disadvantaged groups.

-) The high fees of the money transfer applied by the banks are often brought up as a motive why individuals do not prefer this service. Thus, it is better to explore possibilities to lower the transfer costs through broader bilateral agreements between the countries. Even though, money transfer companies provide transfer services at reasonable rates with a good geographical coverage, it is noticed that lot of cash are still entering the country through informal channels. This is more a regulatory problem rather than the preference of emigrants to go informal. The legislation on exchange rate control or anti-money laundering could increase transfer rates further and push people to go underground. This calls for a revision of regulation that does not penalize the volume of remittances. The formalization of the economy is a major component of improving business environment in Nepal. Therefore, forcing individuals to get into formal channels will have the long-term benefit of signaling the serious intentions of moving on the right directions to emigrants.
-) For recipient families, accessibility to financial institutions plays a more important role due to large percentage of receipts delivered straight to the recipient's door. In fact, the disconnection between the physical receipt of funds and the location of the financial institution may have a great impact on disintermediation among recipients. The receivers could exercise some control over the mode and location of receipt. The geographic proximity of a branch or the ability to pick up a remittance in an office can determine an institution's ability to compete in the remittance market of Nepal. Remittances can be an entry point for many remitters and their families to the formal financial system. Many emigrant families are either not familiarized with banks or have limited access with financial institutions. Nepal Rastra Bank through its monetary policy or public communication strategy should aim to bring the public closer to banking products and services including transfers. No matter the small size of remittance amounts. Even those small shares left by recipient families in bank accounts could assist economic development, as more funds will be available in banks to provide loan to private sector.

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

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

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

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

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

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

5.3.3 Recommendations regarding the Foreign Employment

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

- a) Publicly disseminate up-to-date information on recruitment, assessment of recruitment company performance, costs of migration, available financing methods, and how and where to receive training and orientation. Civil society could play a productive role in this information dissemination.
- b) Provide migrants with pre-departure orientation courses to provide them with basic information, financial literacy, and knowledge of the languages and cultures of destination countries. Basic skills training would also be advantageous.
- c) Simplify and systematize the recruitment approval process in consultation with recruiters and returnee migrant workers.
- d) Re-energize “economic diplomacy” at Nepali embassies in destination countries, giving them a greater role in verifying employment letters and contracts in monitoring implementation and employment conditions of migrant workers. Labor attachés in major destination countries could assist the process. Define necessary qualifications of labor attachés and appoint them as soon as possible. Consider requesting major destination countries to open embassies in Kathmandu.
- e) Intensify communication with governments of destination countries for reviewing recruitment practices and enforcing regulations and bilateral agreements. Negotiate bilateral memoranda of understanding with destination countries and make these public.
- f) Improve dialogue on migration with government of India. Not only is India the largest destination, but it is also a transit territory for Nepalese heading to other countries, including the Gulf, through informal channels. Improved information collection and better enforcement of regulations would benefit migrants and recruiters.
- g) Enhance bilateral communication with Qatar. Nepali workers pay airfare and commissions to Nepali recruitment agencies that, in turn, pay their dues to Qatari recruitment companies. Migrant workers should not be burdened with these costs, according to Qatari Law and the bilateral agreement between Nepal and Qatar.
- h) Develop a communications program to build public awareness about migrant. Such a program could help to reduce misunderstandings and fraud. The program should include information on trafficking of women, girls and boys.
- i) Periodically review the restrictions on migration to specific countries and lift bans, where applicable.
- j) Strengthen enforcement of regulations on recruitment agencies by developing and implementing an effective monitoring and regulatory system that rewards good practice

and penalizes malpractice. Establish an independent industry ombudsman to handle complaints from or against the various stakeholders.

- k) For female migrants, in particular, pursue bilateral country agreements and monitor their implementation to improve conditions for these workers instead of trying to prevent their migration. Disseminate information and provide counseling and shelter services in Nepal and destination countries.

5.3.4 Recommendations for Improving Remittance Services and Lowering Costs

- a) Develop an efficient electronic fund-transfer mechanism, such as the Automated Transfer System, to improve payment infrastructure.
- b) Consider introducing mobile phones and pre-paid cards for remittance services and encourage post offices to handle payments.
- c) Improve the legal and regulatory framework for addressing issues related to transparency, consumer protection, capital adequacy, anti-money laundering, risk management, dispute resolution, and reporting to licensed remittance service provider (RSPs). Establish a system to ensure that only financially sound RSPs are licensed.
- d) Consider banning exclusive transfer and payment agreements in order to nurture a competitive remittance service market.
- e) Increase communication with destination governments, and enter into bilateral agreements with as many of them as possible. Discuss with these governments the possibility of introducing ID cards for migrants, which could be used to open bank accounts, among other things.

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