

# **STRUCTURE OF FOREIGN EMPLOYMENT AND REMITTANCES IN NEPAL**

**A Thesis Submitted to  
Central Department of Economics, Faculty of  
Humanities and Social Sciences in Partial  
Fulfillment of the Requirements for the  
Degree of Master of Arts in  
Economics**

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2009**

Date:.....

## RECOMMENDATION LETTER

This is to certify that the dissertation entitled " **Structure of Foreign Employment and Remittances in Nepal**" is an independent work of Mrs. Nirmala Niraula, completed under my supervision for the partial fulfillment of requirements for Master Degree of Arts in Economics. This study carries useful information regarding foreign employment and remittance situation. I forward this to the dissertation committee for evaluation and acceptance.

Dr. Madan Kumar Dahal  
Professor  
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Date : .....

## APPROVAL LETTER

This thesis entitled "**Structure of Foreign Employment and Remittances in Nepal**" submitted by Mrs. Nirmala Niraula has been evaluated and accepted as partial fulfillment of the requirement for the Master Degree of Arts in Economics by evaluation committee comprised of :

### Thesis Committee

### Signature

Head of Department

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Central Department of Economics  
External Examiner

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**Dr. Madan Kumar Dahal**  
Research Supervisor

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Date : .....

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June, 2009  
Niraula

Nirmala

# CHAPTER- ONE

## INTRODUCTION

### 1. General Background

The phenomenon of migration is as old as the history of mankind. With the development of human civilization, there has been rapid growth in transportation and communication sector in the world. People are moving one place to another since ancient period and the continuous movement has been an international phenomenon. Though Nepal has experiences of cross broader migration from the ancient past especially to India, China and Bhutan, it has taken speed up in the recent past as the global economy opened up and gradually and the host economies (Gulf countries, South Korea, Malaysia etc) welcomed our labor force to work. Human resources are the wealth of nation and its importance has tremendously increased in recent years for unskilled, semiskilled and skilled people have shown tremendous inclination towards foreign employment resulting in substantial growth of remittance economy (Dahal 2004). Thus the role of remittance has also appeared important in maintaining the economy intact. Recognizing the importance of remittances in the Nepalese economy, this study has been carried out to assess its position and its role in economy.

Increase in demand for oil has created the new job opportunities in the oil exporting countries and decrease in the population growth rate in the developed countries made a



shortage of human resources in these countries to keep their economic growth. These development make a demand for unskilled and semiskilled labors from the developing countries in these countries. Millions of people are now living and working in another country far away from their countries of birth. There is a flow of people from south to north and flow of billion of dollars from North to South. These people regularly remit a substantial proportion of their earnings to their families. The financial flows generated by these migrants by way of remittances are very substantial development, (The World Bank,2006).

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

According to BBC English Dictionary, Harper Collins publishers,1994, "Remittance is a sum of money that you send as payment for something". However, to express the layman's meaning (for specific purpose) of remittance is a sum of money that is earned by the home country. Nowadays, people are even excited to use the jargon as a substitute world for worker's remittance earning as "Migradolla" (NRB,2007). Likewise, remittance are "the portion of international migrant worker's earnings sent back from the country of employment to the country of origin" (Puri and Ritzama, 1999).

## **1.1 Economic Background**

The past period of civil conflict and political uncertainty has left Nepal's economy behind in the region's recent growth boom. This is especially true in comparison with the country's immediate neighbors, India and China. Nepal's real GDP growth from 2001-06 of 2.7 percent was about a third that of India over the same period (World Development Indicators). GDP per capita barely rose over the last decade and Nepal remains among the poorest in South Asia. Despite the poor growth performance overall macroeconomic stability was largely maintained, with inflation in single-digits. Fiscal pressures from large transfers to state-owned enterprises and accelerated development expenditures led to a widening of the fiscal deficit in 2007/08, despite robust growth in revenues (National Authorities, WDI and IMF).The current account balance

has remained stable as a deteriorating trade deficit is offset by continuously growing remittances from overseas workers.

Notwithstanding the tame growth performance, poverty continued to decrease over the last decade (as discussed above, from 42 percent to 31 percent over 1996-2006). Living standard indicators improved, which is confirmed by data from the most recent Nepal Living Standards Survey (NLSS) II 2003-04. As indicated above, this decline in poverty has been driven by the growth in per capita consumption and largely attributed to the upsurge of international remittances--as the number of those working abroad increased dramatically (NPC, 2007/08-2009/10). A central finding of the 2006 World Bank study *Resilience Amidst Conflict: An Assessment of Poverty in Nepal, 1995-96 and 2003-04* is that remittances income has been a key driver of improved living conditions in Nepal. Labor force participation in Nepal is high and unemployment rates are low by international standards, but underemployment (defined as those working 20 hours or less per week) increased from 1995-96 to 2003-04, especially among the poor--which may have encouraged international migration.

## **1.2 Statement of the Problem**

In this twenty first century, the age of globalization remittance has become a cornerstone of development for any developing country. The magnitude may differ but the role of difference to the development cannot be denied. The developing

countries in this age cannot even take a foot path ahead without external assistance like remittance and the foreign aid. In case of Nepal in this present post war situation the one and only source of economic stabilization and growth rate maintenance is remittance income. According to the Economic survey per capita income is increased to US 320, which is only due to the increasing trend of remittance income.

If we concentrate on the poverty situation of our country, its magnitude is very large especially in the rural areas most of the people are migrated to the other countries for work and earn only for the existence of their family. In rural areas we can find the most of the lower and middle class families are drowned in debt. If any member of that family is migrated to other countries its debt is comparatively less than other families. So remittance income is playing very vital role in the rural economic situation.

The population census of 2001 AD reported that 762181 persons were out of the country to foreign employment. The major factor attributing to large demand labor employment from Nepal are related to higher rate of unemployment situation low salary structure in the economy, insecurity in the rural areas because of insecurity and so on. Other main reason is the willingness and enthusiasm of Nepal youth to invest and work in the foreign country.

According to NLSS part two the proportion of households receiving remittances has increased from 23% in 1995/96 to 32

percent in 2003/04. Average amount of transfer earnings per recipient household has more than doubled in nominal terms in the same period. Other significant change is in the share of this remittance amount by source: with in Nepal and from India accounted for more than 75 % of total transfer income eight years ago. Now the share from other countries including the Gulf accounts for more than half of the share. For those households with positive remittance earnings, their share in total income has increased from 27 to 35 percent. Overall total amounts of remittance received has increased from about 13 billion NRs to more than 46 billion NRs , in nominal terms , while per capita remittance for the entire country has more than tripped in nominal terms.

International migrant remittances are perhaps the largest source of external finance in developing countries. Officially recorded remittance flows to developing countries exceeded US\$ 125 billion in 2004, making them the second largest source of development finance after foreign direct investment. Remittances were certainly larger if flows through informal unrecorded channels are also included. As the development community continuous the search for additional resources to finance the Millennium Development Goals, remittances, pro poor and cyclically stable, compared to other capital flows-appear to be a promising source. Remittances also appear to be the least controversial aspect of the overheated debate on international

migration. Both remitting and recipient countries are considering the long term economic implications of these transfers.

Since many years, foreign employment rate is increasing but most of unskilled labor had gone to foreign land. Nepalese labor forces seeking foreign employment having very low level of technical education and formal training. They are compelled to take risky, difficult and dirty work in foreign country, slowly training institute are being established in Nepal to develop skills on individuals who are seeking foreign employment so that earnings capacity of the employed can be increased and competitiveness in the labor market can be increased.

Other problems are mal practice and fraud activities of the Manpower Agencies and employment agent and employer if the destination countries. The agreement between the migrant workers and Manpower Agencies are often violated. The government has not been able to regulate them. The rights of the migrant workers cannot be insured inside Nepal and also in the labor importing countries. The per capita earnings of the poor are very poor.

### **1.3 Objective of the study**

The main objective of the study is to analyze the role of remittance in economy and its impact on poverty reduction. Besides this, the specific objectives of this study are as follows.

- ) To examine the general economic scenario
- ) To analyze the nature and extent of remittance income

- ) To examine the contribution of remittance on GDP
- ) To find out the use of remittance and its change
- ) To identify the characteristics and nature of foreign job seekers

#### **1.4 Importance of the Study**

Since the inspection of the Eighth five year plan alleviation poverty has been accorded highest prosperity. Likewise several short as well as long term programs have been launched in this related field but results are not so satisfactory. In this regard due to so many reasons like unemployment, insurgency, weak governance and faulty education system, etc, large number of young manpower have migrated to foreign countries for work to the other countries like USA, UK, Australia, other European countries as well as to the Gulf countries like Saudi Arabia, Dubai, and Malaysia, Iraq etc. Due to this emigration of stream somehow the people have been able to fulfill their basic needs. Therefore in this present time the remittance income is playing very important role to reduce the poverty in the rural areas of our country Nepal. Especially in those areas of Nepal where there is no any job opportunities to earn money to fulfill their basic needs the agricultural sector is very low. The people of the rural areas work for all the area but hardly get food even for six months.

In the past, the kind of job of Nepalese workers used to get abroad was only the armed force. After the restoration of

democracy, international job market was opened in the 40 countries. Thus in the new phenomenon of entering into the WTO efficient and skilled labor force is required and diversification in the skill and destination. This study will also concentrate on the role of remittances in rural Nepal and guide to make it more helpful in eradicating rural poverty and increasing the capacity of labor force.

If we try to analyze the present manpower of Nepal, about 70 % of the educated manpower is migrated for work. Some of them are coming back to Nepal and some of them are settling there forever, but all of them are sending money from their family and relatives. So the remittances is coming for all over the world to Nepal where the Nepalese people are migrated. Certainly the amounts of remittance are helping Nepalese economy to reduce the poverty level. When we compare the poverty level as well as the living standard of the migrated family and non migrated family. The migrated people's family is in high condition of living standard or them feeling very comfortable to fulfill their basic needs for their existence.

But most of the remittance income is used in the unproductive fields like house building, land, purchasing of luxurious goods and consumption etc. Therefore the remittance income is not playing its actual role for the development of the country as well as the reduction of the poverty level of the entire country. In other words, in these days the remittance income is



using in the advantage of the migrated people and their family only. If the remittances income is invested in the productive sectors like industries, development activities etc, then only the effect of that remittance income can be felt by the other citizens of the Nepal.

## **1.5 Limitation of the Study**

**The study has following limitations:**

Due to time, money and availability of data constraints this study is based on the trend of labor migration and remittance for last ten years at national level and its impact on economy.

This study concentrates on fact findings and mainly covers major impact of the remittances. This study mainly covers present analysis is concentrated to determine the magnitude of poverty as well as the amount of remittance income in macro level.

This study is based on secondary data and as such reliability of analysis is based on accuracy of secondary data.

This study has not analyzed the overall impact of remittance.

## **1.6 Organization of the study**

The first chapter is the introductory chapter. The study of theory of migration and demography has been reviewed in the second chapter, which is presented under the title "Review of literature". Nepalese study in the labor migration and remittance is another matter of review. The third chapter includes research methodology. The fourth chapter includes remittances in

development context. The fifth chapter includes flow of labor migration; its composition, diversification and its trend. This chapter also include review of government policies about foreign employment and remittance. The sixth chapter, which is the last, is summary, conclusions and recommendations.

## **CHAPTER - TWO**

### **REVIEW OF LITERATURE**

Foreign labor migration and remittance have emerged over the last two decades as a prominent feature of the Nepalese economy. Although unjustifiably neglected previously a number of recent studies have contributed in bringing this topic increasingly into both public and academic debates. The literature review is grouped into theoretical base of labor migration and remittance, historical perspective of foreign employment in Nepal, causes of emigration, impact of emigration in the economy, destination of employment and extant of employment in foreign countries, use and effects of remittance and practices of government. In this chapter for the propose of literature review, various theories/principles/models of foreign employment and remittance are examined.

#### **2.1 Theoretical / International Labor Migration and Remittance**

There is no single, well-developed theory of international migration. In view of this state of the art and the recent growth in trans-border population movements, the International Union of Social Scientists in population (IUSSP) has formed a committee on South-North Migration, which is systematically examining international migration theories, their assumptions, supporting evidence, and policy implications.

The theory holds that demand for low-level workers in more developed economies is the critical factor shaping international migration. To avoid the structural inflation that would result from raising entry wages of native workers, and to maintain labor as a variable factor of production, employers seek low-wage migrant workers. In this model, international migration is demand-based and initiated by recruitment policies of employers or governments in destination areas. Wage differentials between origin and destination areas are neither necessary nor sufficient conditions for migration are limited short of major changes in economic organization in destination areas.

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

Seddon (2003) in his article shows that the real statistic of foreign employment is much more higher than the official data. Official source accounted only Rs.2.9 billion remittance 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.

## **2.2 Labor Migration in Nepalese context**

Pant (2005) in his report titled "Remittances and Development in Developing Countries" has stated 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 remittance 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 macro economic 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.

Foreign labor migration is not a recent phenomenon In Nepal. For about 200 years Nepali men and lesser extent women, have been leaving their homes to seek employment abroad. But both the scale and the nature of migration have changed significantly over that period.

During the oil boom in the 1970s, the labour-surplus economies of South Asia were able to supply cheap labour to meet the growing labour demands in the Middle East Asia (Singh,2006), although Nepal was a later entry in taking advantage of labour demands. The more formal and temporary migration began after people started to work in British army following the Sugauli Treaty that was signed on December 2, 1858. This Treaty permitted British Gurkhas for military service. In recent time the scope for out-migration for military services has declined and more and more people have migrated for other types of jobs. It was only after the 1990s that policy makers and academicians began to fully acknowledge the importance of remittances send by Nepalese employed abroad for enhancing the livelihoods of the households, including those in rural regions (pant,2006). Nepalese had fled from excessive taxation, compulsory and unpaid forced systems,

and fear of land appropriation by state authorities during and after the unification of the country. The large part a migration triggered by 'push factors' associated with the harsh socio-economic conditions and feudal agrarian conditions where the exploitation of tenant-cultivators was a consequence of the expansion of the state (UNIFEM & NIDS,2006).

The pace of the foreign employment increased dramatically after 1996 due to shrinkage of economic opportunities in the country. The massive unemployment inside the country is the main reason behind the rapid growth of the workers migration to the other countries.

Shrestha (2005) in his report titled "Foreign Remittance: "A Panacea for Nepalese Economy" 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.

Shrestha (2004) in her article "Foreign Employment on the Remittance Economy of Nepal" has identified the major factors attributing to large scale out migration from Nepal which are high growth of labor 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.

Kshetry (2004) in his article "Emigrating Workers in National Perspectives" identified the causes of Nepalese emigration as limited employment opportunities in government and private sector. Underdevelopment of industries and rudimentary services sector provides limited number of jobs to ever increasing labor force. In the farm sector which conventionally used to absorb almost all the work force failed to do so because of low motivation for farm sector work. The entrepreneurs in this sector are not enthused to invest more either due to low returns or risk involved in this sector. Such events and lure of making quick money at least from legal means by going overseas for menial work prompted to exit large number of workers from rural Nepal.

Kunwar (1993) concluded that foreign migration was due to low productivity and insufficient land which are the causes to leave the place of origin and hope to be better off in terms of physical facilities and infrastructure at destination.

Kshetry (2004) has studied the impact of foreign employment in national economy and concluded that the single most important aspects of emigrant workers is the remittance they send to the country. He has also identify 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) says that in recent years remittances emerged as one of the primer source of foreign exchange received through foreign employment. Nepal Rastra Bank (2002) indicate that foreign employment can play vital role in improving rural sector.

Given international migration and remittances significantly affect the economy, policymakers and political leaders need to better understand their nature, magnitudes and impact on the economy. The main objectives of this task are, therefore, to strengthen the information base in this area and recommend policy measures that maximize the positive impact of migration and remittances while minimizing their downside risks. Through research, surveys, analysis and consultations, the task will generate a comprehensive body of information on labor and other relevant issues surrounding international migration. To be useful to the government, the task will deliver a comprehensive report synthesizing the main findings, but will also deliver as intermediate outputs a series of policy notes--and workshops to discuss these notes and various background papers. It will also be a first step to engage the new Nepalese government in discussing the country's future growth agenda which will surely include an employment creation strategy. It is sought that this task will help identify future Bank operations.

## **CHAPTER- THREE**

### **RESEARCH METHODOLOGY**

This study comprises analytical as well as descriptive type. The title of the study "Remittance Economy and Foreign Employment" as the current belief and reality of role of remittances in Nepalese Economy assumed in higher position, it is believed time honored to conduct a study on this area to dig out toe ground realities.

#### **3.1 Research Design**

Mostly explanatory and some quantitative information are collected to observe the Foreign Employment and Worker's Remittance in Nepalese context. The descriptive type of research is designed to make the analyzed facts more meaningful and useful for the purpose.

#### **3.2 Nature and Sources of Data**

It is so because of the qualitative nature of the research the main sources of data used in this study are basically, the secondary data which 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 study period.

1. Various issues of Economic Survey, Ministry of Finance.
2. Population Census Reports, Central Bureau of Statistics.
3. Quarterly Economic Bulletin, published quarterly by the Nepal Rastra Bank (NRB) and other relevant publication of NRB.

In addition, information provided by Government, Non-government, Multinational Organizations and their websites, articles written by different scholars on the issues of International labour migration and so on are used as per the requirements.

### **3.3 Data Collection Method**

Primary information on the issues was also taken with the help of an in-depth discussion with the experts and the persons working on foreign employment issues. Some open questions were asked to them to get their inputs in this research. Informal discussions were also held with the experts and concerned individuals to obtain detail information about the topic.

### **3.4 Questionnaire Preparation**

A questionnaire was designed for this study. There was a conversation among the concerned individuals. During the

discussion session with the experts, basically personal experiences were noted down.

### **3.5 Data Analysis Technique**

Available data of this research has been analyzed through the descriptive technique i.e. interpretation of presented table and figures in words and the explanation of qualitative information in an organized way.

## **CHAPTER -FOUR**

### **STRUCTURE OF FOREIGN EMPLOYMENT AND REMITTANCES**

#### **4. Foreign Labor Employment**

Foreign employment in Nepal started after the Nepalese Army headed by Kajeer Amar Singh Thapa was defeated by the British East India Army in 1814. The convention (May/1815) between Kajeer Amar Singh Thapa and Major General Ochterlony of East Indian Company came to a consensus that Nepalese deserved to join the British, East Indian Company (Sanwal, 1965). Because of that provision the Nepalese emigration process was initiated for military purpose to outside the country, but an invisible emigration to India was initiated in mid 1800s. Peasantry in eastern and far eastern hilly parts of India was encouraged by promoting tea plantation and settlement in the forested area (Dixit, 1997). During this period Nepalese migration to India, started which was besides to join military recruitment. Friendship treaty between India and Nepal in 1950 promoted free movements between two countries and the previous agreements were further consolidated.

It was after the establishment of democratic system in 1990 that Nepal integrated herself to the world and then diversities in dimension of emigration occurred. Enactment of foreign labor

employment Act 1985 realized the importance of emigration through unofficial channel and recognize the future of foreign labor employment. Search of employment outside the country was entrusted to manpower agencies.

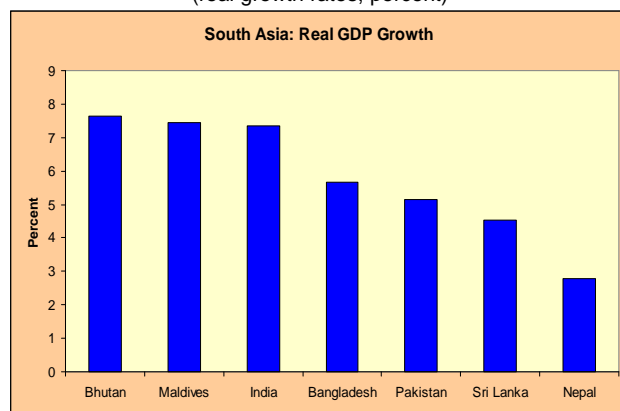
#### 4.1 International Comparison: SAARC Countries

The past period of civil conflict and political uncertainty has left Nepal's economy behind in the region's recent growth boom. This is especially true in comparison with the country's immediate neighbors , India and China. Nepal's real GDP growth from 2001-06 of 2.7 percent was about a third that of India over the same period (Figure-1). GDP per capita barely rose over the last decade and Nepal remains among the poorest in South Asia. Despite the poor growth performance overall macroeconomic stability was largely maintained, with

inflation in single-digits. Fiscal pressures from large transfers to state-owned enterprises and accelerated development expenditures led to a widening of the fiscal

deficit in 2007/08, despite robust growth in revenues (Table 1). The

**Figure 1: Growth in South Asia, 2001-2006**  
(real growth rates, percent)



Source: *World Development Indicators*.

current account balance has remained stable as a deteriorating trade deficit is offset by continuously growing remittances from overseas workers.

Notwithstanding the tame growth performance, poverty continued to decrease over the last decade (as discussed above, from 42 percent to 31 percent over 1996-2006). Living standard indicators improved, which is confirmed by data from the most recent Nepal Living Standards Survey (NLSS) II 2003/04. As indicated above, this decline in poverty has been driven by the growth in per capita consumption and largely attributed to the upsurge of international remittances--as the number of those working abroad increased dramatically. A central finding of the 2006 World Bank study *Resilience Amidst Conflict: An Assessment of Poverty in Nepal, 1995-96 and 2003-04* is that remittances income has been a key driver of improved living conditions in Nepal. Labor force participation in Nepal is high and unemployment rates are low by international standards, but underemployment (defined as those working 20 hours or less per week) increased from 1995-96 to 2003-04, especially among the poor--which may have encouraged international migration.



**Table-4.1**  
**Selected Economic Indicators.**

2003/04-2007/08					
Financial Year begins on July 16					
			Est.	Est.	Projections
	2003/04	2004/05	2005/06	2006/07	2007/08
(Annual percentage change; unless indicated)					
<b>Output and prices</b>					
Real GDP	4.7	3.2	2.8	2.5	3.8
GNI, Atlas method (billions, current US\$)	5.9	6.4	7.2	8.0	8.8
GNI per capita, Atlas method (current US\$)	230	250	270	300	320
Consumer prices (period average)	4.0	4.5	8.0	6.4	6.5
Consumer prices (end of period)	2.0	6.6	8.3	5.1	7.0
(In percent of GDP)					
<b>Public finances</b>					
Total revenue	11.3	11.7	10.9	12.0	13.5
Total expenditure	14.3	14.9	14.7	15.7	19.7
Overall budget deficit (excluding grants)	3.0	3.2	3.8	3.6	6.2
Overall budget deficit (including grants)	0.9	0.8	1.6	1.4	3.6
Public debt	59.8	53.9	51.1	46.7	44.6
(In percent of GDP; unless otherwise indicated)					
<b>External sector</b>					
Current account balance, excluding official transfers	0.8	-0.2	0.6	-1.4	-1.3
Trade balance	-14.5	-14.6	-17.0	-17.2	-17.1
Total external debt	46.1	39.9	39.1	32.6	29.1
Export value growth <sup>1/</sup>	14.7	11.2	2.2	4.9	6.9
Import value growth	15.8	12.2	17.3	11.9	14.1
<b>Memorandum items:</b>					
Nominal GDP (in billions NRS)	536.7	589.4	646.5	719.5	795.2
Population, total (millions)	25.5	26.0	26.6	27.1	27.6
Population growth (annual %)	2.1	2.1	2.0	2.0	2.0
Exchange rate (NRS per USD, end of period)	74.5	70.7	74.4	65.2	...

Sources: Nepalese authorities, WDI and IMF

<sup>1/</sup> Excluding re-exports

## 4.2 Foreign Labor Employment: Trend and Composition

Restoration of democracy in 1990s opened the door of international labor market. Near about 8 million nonresidential Nepalese are spread over forty countries (Department of Labor, 2003). The supply of Nepalese youth in foreign countries in search of work is increasing day by day at a high rate. The distribution of

Nepalese about as shown by the population census of 2001 is given in the following table.

**Table-4.2**  
**Number of Migrant Nepalese Working in Different Countries in 2001**

S.N.	Countries	Number of People	In Percent
1	India	589050	77.28
2	Saudi Arabia	67460	8.85
3	UAE	12544	1.65
4	Malaysia	6813	0.90
5	Qatar	24397	3.19
6	Hong Kong	12001	1.97
7	Korea	2679	0.35
8	Singapore	3363	0.44
9	Kuwait	3688	0.48
10	Bahrain	2737	0.35
11	Japan	3720	0.49
12	China	1354	0.17
13	Russia and Other	747	0.09
14	Other Asian countries	3849	0.51
15	Australia	2497	0.32
16	United Kingdom	7271	0.95
17	Germany	1638	0.21
18	France	250	0.03
19	Other European Countries	1998	0.26
20	USA, Canada and Mexico	9557	1.25
21	Other countries	1877	0.24

	<b>Total</b>	<b>762181</b>	<b>100</b>
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Source: Population Census, 2001, National Report CBS

Above table shows that total absentees of the country, reported by the population census Report 2001, is 762,181. Out of this number 589,050 people i.e. 77.3% of total absentees have gone to India, which implies that migration in Nepal is still associated with India. Major destination of Nepalese emigrants except India are Hong Kong, Malaysia, Saudi Arab, Qatar, UAE, UK and USA. More especially, only three Gulf countries Saudi Arab, Qatar and UAE have contained 60 percent of Nepalese absentees except India. This brings the fact that Nepalese emigrants are mainly in this three Gulf countries.

#### **4.3 Growth of Foreign Employment**

Labor and employment promotion department has recognized 57 countries where Nepalese can go for employment purpose. Out of them 41 countries have been recognized only after 1997/98. Records show that Nepalese people have spread all over the world from South Asia to America, Europe, Africa and Atlantic ocean. How the number of foreign employment seekers can be shown through the report prepared by labor and employment promotion department of the government is given below:

**Table- 4.3**  
**Number of Nepalese Migrant Workers Employed in Different**  
**Part of the World in Different Fiscal Year**

<b>FY</b>	<b>Arabian countries</b>	<b>East Asia</b>	<b>South East Asia</b>	<b>Other Asian countries</b>	<b>Africa</b>	<b>Europe America Australia</b>	<b>Other</b>	<b>Total</b>
1996/97	2638	522	51	-	-	-	48	<b>3259</b>
1997/98	7166	347	89	-	-	-	143	<b>7745</b>
1998/99	26883	696	171	46	-	-	-	<b>27796</b>
1999/00	34098	1119	180	71	14	32	28	<b>35543</b>
2000/01	42862	681	11313	47	12	61	89	<b>55025</b>
2001/02	50719	689	53078	58	16	84	89	<b>104739</b>
2002/03	59269	1345	44062	70	6	85	161	<b>104998</b>
2003/04	53805	2119	45892	462	16	115	337	<b>102786</b>
2004/05	71141	1085	66322	842	-	229	84	<b>139703</b>
2005/06	93205	414	82798	931	0	82	6	<b>177436</b>
<b>Total</b>	<b>441786</b>	<b>9017</b>	<b>303973</b>	<b>2464</b>	<b>64</b>	<b>691</b>	<b>985</b>	<b>759030</b>

*Source:* Ministry of Finance, Economic Survey 2005/06, MOF/GON

Above table shows that Nepalese people employed abroad accounted to 75903 from 1996/97 to 2005/06. Out of the total, more than half of the laborers went to Arabian countries. The next region of choice is South East Asia where 303973 have gone for employment. The third highest number of workers has been

employed in East Asian countries followed by other Asian countries, Africa, America, Europe, Australia, and all other countries. These numbers show that the major destinations of Nepalese migrant workers are the Gulf region and South East Asia. This data does not show migrant workers in India and migrant workers officially unregistered even in this regions.

If we look into the growth of emigrated labor force it seems fluctuating but the trend is increasing. In a period of 10 years, the number has increased from 3259 to 759030 which is 232.91 times more. Annual growth rate is tremendous in every fiscal year except 2001/03 and in which year it was show growth. The year 2003/04 has a negative growth. It shows that more and more number of people are seeking foreign employment which further results in the growth of remittance in the economy.

#### **4.4 Most Favored Destinations 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. It might be related to the level of skill required or the level of wages earned by unskilled Nepalese workers. The countries which have maximum number of Nepalese workers in different fiscal years is given in the following table:

**Table- 4.4**

**Number of Nepalese Migrant Workers in Different Countries in Selected Fiscal Years**

<b>FY</b>	<b>S. Arabia</b>	<b>Qatar</b>	<b>UAE</b>	<b>Malaysia</b>	<b>Total</b>
1999/00	17867	8791	6360	171	<b>33184</b>
2000/01	17966	14086	8950	11306	<b>52308</b>
2001/02	21094	19895	8411	52926	<b>102526</b>
2002/03	17990	26850	12650	43812	<b>101302</b>
2003/04	16875	24128	12760	45760	<b>99523</b>
2004/05	13366	42394	12626	66291	<b>134677</b>
2005/06	18261	58266	15441	82798	<b>174766</b>

*Source:* Ministry of Finance, Economic Survey 2005/06, MOF/GON

Above table indicates that upto FY 2000/01 Saudi Arabia received the maximum number of Nepalese workers in one country and Qatar followed by. In 2001/02 Malaysia received the highest number followed by Saudi Arab. From 2002/03 on wards Malaysia remained first and Qatar remained second most important country. The importance of Saudi Arab has some what diminished in those years as a principle employing country for Nepalese foreign workers. It is also the evident from the table that there is rapid growth in the demand for Nepalese workers in Malaysia and Qatar. There is stable demand in United Arab Emirates. There is declining trend for the demand of Nepalese workers in Saudi Arab has again increased since 2005/06.

#### 4.5 Current Status of Foreign Employment.

The number of Nepalese going for foreign employment is increasing year by year. The decade long internal conflict in the country created negative effects to the industries especially among other sectors of the economy. Due to which, some industries were completely closed down, some were partially closed down, and those which were in operation also could not operate in the full swing. As a result, many of the labors working in those industries were forced to be deprived of being employed. On the other hand, because of government's effort for making small and smooth government, new employment opportunities could not be opened and hence the number people for foreign employment increased further.

**Table-4.5**

#### **Country-Wise Foreign Employment**

<b>S.N</b>	<b>Country</b>	<b>Total Number up toFY 2005/06</b>	<b>Total Number in FY 2006/07</b>	<b>Total Number until 2007/08</b>	<b>Total Number</b>
1	Malaysia	304667	74029	33458	<b>412181</b>
2	Qatar	206385	59709	56850	<b>322944</b>
3	Saudi Arabia	151190	39279	26329	<b>216798</b>

4	UAE	80769	25172	29307	<b>135248</b>
5	Kuwait	9498	2441	1435	<b>13374</b>
6	Bahrain	5383	1200	2428	<b>9011</b>
7	South Korea	5676	765	0149	<b>6441</b>
8	Hong Kong	3343	361	1548	<b>3853</b>
9	Oman	853	509	1151	<b>2892</b>
10	Others Country	5846	1068	152682	<b>8065</b>
	<b>Total</b>	<b>773592</b>	<b>204533</b>	<b>152682</b>	<b>1130807</b>

Source: Ministry of Finance, Economic Survey 2007/08,MOF/GON

Because of the lack of employment opportunities in the country, the number of foreign employment seeking Nepalese has been rising. Besides Malaysia and Korea, most of the workers are going to the Arabian countries to avail jobs. By the end of FY 2005/06, the number of job seekers going for foreign employment with holding official permission had reached to 773592. As shown in table including the additional foreign employment seekers 204533 of 2006/07 and until March (Falgun) 2007/08, the total number of officially permitted foreign employment seekers up to the date has reached to 1130807.

The tendency of the Nepalese seeking foreign employment shows that the highest number of Nepalese i.e. 412181 (36.5 percent of the total) have gone to Malaysia. Likewise, Qatar with 322944 (28.6 percent), and Saudi Arabia with 216798 (19.2 Percent) are the



second and third largest destinations of the Nepali foreign employment seekers, respectively. Similarly, the other major destinations of Nepali workers have been, United Arab Emirates 135248 (12 Percent), Kuwait 13374 (1.2 percent) Bahrain 9011 (0.8 percent), and other countries 8065 (0.7 percent).

Among the total 152682 that are gone for foreign employment until the Falgun of current FY 2007/08, 33485 have gone to Malaysia, 56850 to Qatar, 26329 to Saudi Arabia, and 29307 to UAE. Similarly, 2428 workers have gone to Bahrain, 1548 to Oman, 149 to Hong Kong, and 1151 to other countries, during the same period.

#### **4.6 Worker's Remittance**

During the past few years Nepalese have sought overseas employment as both the agricultural and non-agricultural sectors struggle to create new employment opportunities and also because of the Maoist Insurgency (Seddon, 2005). Many Nepalese workers have seen migration as their only viable option and seek foreign employment to support family members who remain in the country. These workers find relatively low-paying jobs in India, the Middle East and Malaysia.

**Table-4.6**  
**Growth of Worker's Remittances**  
**(In Rs million)**

<b>Year</b>	<b>Worker's Remittance</b>	<b>% Change in Remittance</b>
2001/02	47536.1	-
2002/03	54203.3	14.0
2003/04	58587.6	8.1
2004/05	65541.2	11.9
2005/06	97688.5	49.0
2006/07	100144.8	0.2
2007/08	142682.7	42.5

Source: Nepal Rastra Bank, Research Department, April 2009

According to the data provided by the Department of Labour and Employment promotion, the number of workers going abroad for employment has increased by almost 42 percent in 2007/08 as compared to 2006/07. With the increase in the number of workers, the inflow of remittances has also taken an upswing. Remittances rose from Rs, 47.5 billion in 2001/02 to 142.6 billion in 2007/08. There are many reason to increase in remittance, i.e, increase the number of labour, high salary of the old labour, getting bonus as well, increasing the rate of dolor etc. Because of the above reasons remittance are increasing.

#### **4.7 Impact of Foreign Employment and Remittances**

Remittances can generate positive effects on the economy through various channels such as savings, investment, growth, consumption, and poverty and income distribution. At the national level, remittances make a crucial contribution to GDP (NRB,2007). Since remittances bear no interest, do not have to be repaid, and their utilization is not tied to specific investment projects with high import content, they have a more positive effect on BOP than other monetary flows as direct investment or loans. The significant impact of remittance is analyzed as following.

#### **4.7.1 Foreign Exchange Earnings**

Worker migration has been a major source of foreign exchange earnings in the country. Before 2000, Gorkha Remittance, Merchandise export and tourism expenditure were the major source of foreign exchange earning in country, but since then, worker's remittance have become the main foreign exchange earner. The impact of remittances on national economy can also be illustrated by the fact that it has surpassed export, tourism earning and Gorkha remittances as the top contributor in the foreign exchanges of the country (Table4.7). As shown in the Figure 3.2 worker's remittances accounted for about 52 to 62 percent of foreign exchange earnings during the periods 2002-2006, where as the receipts from other sources as accounted in table (Table-4.7) during the same period shows less percent share of foreign exchange earnings. The share of remittances in total foreign

exchange earnings was 62.4 percent, 54.9 percent, 58.6 percent, 53.2 percent and 62.1 percent respectively in 2001/02, 2002/03, 2003/04, 2004/05, and 2005/06 (Table-4.7).

**Table-4.7**

**Major Sources of Foreign Exchange Earnings and Significance of Remittances  
(Rs In Million)**

Year	FEE	ME	GR	TE	WR	ME as % of FEE	GR as % of FEE	TE as %of FEE	WR as % of FEE
1999/00	64250	23724.4	1288.2	11691	36818.1	36.9	2.0	18.2	57.3
2000/01	89823.2	29789.7	3557.5	11969.2	47216.1	32.2	4.0	13.3	52.3
2001/02	76153.4	18311	4334.2	7798.4	47536.3	24.0	5.7	10.2	62.4
2002/03	98682.5	22578.9	4221.4	10369.4	54203.3	22.9	4.3	10.5	54.9
2003/04	120643	22489.6	40467.4	12337.4	58587.6	18.6	33.5	10.2	48.6
2004/05	123268	20851.9	5012.8	11814.8	65541.2	16.9	4.1	9.6	53.2

Source: Ministry of Finance, Economic Survey 2006 MOF/GON

Note: %= Percentage

FEE= Foreign Exchange Earnings

ME= Merchandise Export

GR= Gorkha Remittances

TE =Tourist's Expenditure

WR= Worker's Remittances

#### **4.7.2 Poverty Impact of Remittances**

Studies on the poverty impact of remittances have demonstrated that remittances make a pivotal contribution to reducing poverty and vulnerability in most households and

communities. In Nepal's case, the impact of remittances on poverty has been positive as revealed by the Nepal Living Standard Survey (2003-2004) which showed the poverty level, defined in terms of absolute head counts, declined from 42 percent in 1995/96 to 31 percent in 2003/04. Other studies have also supported the government's findings on the significance of remittances.

#### **4.7.3 Balance of Payment**

The growing remittances have led to a surplus in the current account, thereby strengthening the overall balance of payments position. The impact of remittances on national economy can be illustrated by the fact that it has surpassed exports as the top contributor in the foreign exchange earnings of the country after 2001/02.

Likewise' while observing the Remittance to GDP ratio was accounted 10.34, 11.01, 10.91, 11.11, and 15.11 respectively in the years 2002, 2003, 2004, 2005, and 2006. The share of remittances in recent year 2005/06 is accounted at highest position of 15.11.

**Table-4.8**

**Remittances/GDP Ratio between FY 2001/02-FY 2005/06 (at current market prices)**

**(Rs In Million)**

<b>Year</b>	<b>GDP</b>	<b>Worker's Remittance</b>	<b>Remittance/GDP</b>
2001/02	459443	47536.3	10.34
2002/03	492230	54203.3	11.01
2003/04	536749	58587.6	10.91
2004/05	589412	65541.2	10.11
2005/06	646469	97688.5	15.11

Source: Ministry of Finance, Economic Survey, 2006/07 MOF/GON

## CHAPTER -FIVE

### FOREIGN EMPLOYMENT AND REMITTANCES

This section provides objectives of the labor migration and remittances, presenting stylized facts on the role of labor migration, issues, challenge and risks of Nepal's large-scale labor migration, government's poverty reduction strategy and developing policy recommendations for growth and employment.

#### **5.1 Specific objectives of the Migration and Remittances**

##### **5.1.1 Present facts on international migration and remittances:**

It has filled the information gap on international migration and remittances. Based on the Nepal Labor Force Survey (NLFS II) and another survey jointly prepared and conducted with the Central Bureau of Statistics (CBS), the status of migration and remittance flows at household levels would be appraised. The task would also assess the incentive structure prospective migrants face in making international migration decisions--including costs and benefits of seeking alternative employment within Nepal.

##### **5.1.2 Examine the impact of migration and remittances at household level and on the general economy:**

The impact on households of sending members abroad and receiving remittances would be assessed. The impact should include changes in income, consumption and savings, investment, and labor supply, among others. Also, the impact on the overall economy

would be assessed, in particular, on growth, wage levels, trade competitiveness, and macroeconomic balances.

### **5.1.3 Discuss challenges associated with recruitment phase of migration (with ILO):**

Migrant workers face manifold difficulties—including during the process of their departing from Nepal. Recruiting companies facilitate this initial process, but little is known on how these companies operate and how prospective migrants interact with them. In this task, jointly with the ILO, the team has been collected and analyze data on Nepal’s migrant recruitment industry. We have gathered information on the number of workers by destination the industry covers, fees they charge, their contract terms, and responsiveness of the industry to problems of workers abroad(NAFEA). The task will attempt to identify measures to improve the industry performance so the migrant population could be better served.

### **5.1.4 Identify risks associated with large scale migration and remittances:**

An economy that has been sent workers abroad and receive remittances on a large scale enjoys benefits from increased available resources, but also tended to suffer from numerous risks. These risks have been included brain drain, erosion of international competitiveness, and the adverse impact on labor supply. Also, implementation of structural reforms needed for



supporting future growth may be delayed because urgency of reforms could be perceived to be reduced with higher consumption and standards of living made possible through remittances. Such delays would render the country increasingly vulnerable to, e. g , abrupt shifts in labor demand in destination economies. Sudden stop/reduction in migration and remittances would force costly macroeconomic and structural adjustments in Nepal.

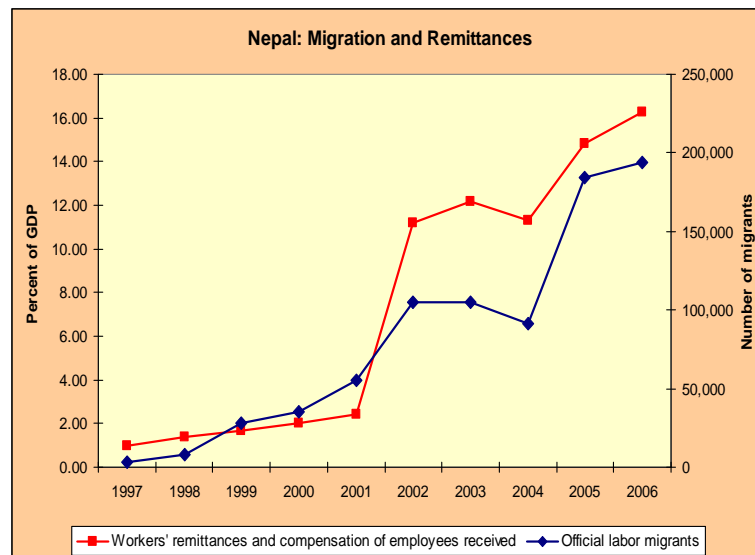
**5.1.5 Develop policy recommendations to maximize positive development impact of international migration and remittances and minimize risks:**

This includes improving the implementation of the national regulatory and institutional framework associated with foreign employment as well as better data collection. The linkage of migration and remittances to labor market and economic development should be addressed, for example, through efforts to diversify migrants skill levels and enhancement of the recruitment processes. It would also discuss measures to mitigate economy-wide risks associated with large-scale migration and remittances. Key among them is improvement in investment climate within Nepal so that economic growth can be spurred and more job opportunities created. This way, prospective international migrants should be encouraged to consider domestic employment as a viable alternative.

## **5.2 Context of Foreign Employment and Remittances**

International migration has become of vital importance for Nepal as both the number of Nepalese working abroad and the size of their remittances have increased dramatically during the recent past (Figure 2). Nearly 200,000 workers left the country in 2006 alone to destinations other than India and other South Asian countries (there are no official statistics on Nepalese working in these countries). From 1995-96 to 2003-04 the number of those working abroad grew from 16 percent to one quarter of the entire male population (National Living Standard Survey I and II) (The World Bank 2006). India constitutes the main destination for Nepalese workers and estimates of Nepalese working in India range from 500,000 to 4 million; with 1 to 2 million quoted as reasonable (Seddon, D. 2003). There are also Indian workers working in Nepal remitting income back to India, although little is known about these workers.

**Figure 2: Nepal - Migration and Remittances, 1997-2006**



Sources : *World Development Indicators and Department of Labor and Employment Promotion.*

In 2006, Nepal received remittances amounting to US\$1.5 billion from these migrant workers (again excluding remittances from workers in India and other South Asian countries). This was more than 16 percent of Gross Domestic Product (GDP), the largest share in South Asia and if we include remittances from India and South Asia, it could exceed 20 percent of GDP. These remittances, received by about a fifth of households, have contributed to the country's recent 11 percentage point poverty reduction from 42 percent to 31 percent between 1996 and 2004. Half of this decline is attributed to remittances ( The World Bank 2006).

### **5.3 Presenting stylized facts on the role of labor migration and remittances in Nepal**

#### **5.3.1 What are patterns of migration and remittances and their impact at the household level:**

This analysis will draw on data from the Nepal Labor Force Survey (NLFS). Another survey focused on migration and remittances is also planned, and its content has been developed jointly between the CBS and the World Bank. The migration survey should be aimed at households that currently have migrating members or returnees.

##### **5.3.1.1 Patterns of migration:**

Previous findings suggest that the poorer communities have a higher share of population migrate abroad and that more of them head for India(The World Bank 2006). Migrants from richer households, on the other hand, tend to head for countries other than India implying that migration decisions are influenced by, among others, income, educational background, and employment status of prospective migrants. Under the task, we should built on these previous findings, and assess, among others, developments over time of the number of migrants and the amount of remittances (i) by destination, (ii) by the characteristics of sending communities, and (iii) by individual migrants' attributes. Furthermore, there are Indian workers in Nepal who remit their

earnings back to India. But, neither the number of Indian workers in Nepal nor the size of their remittances is known and efforts will be made under the task to collect data on them to make it possible for the GoN to evaluate their impact on the Nepal economy.

#### **5.3.1.2 Incentives for migration:**

A probe would also be made as to what triggers international migration. Prospective migrants have options of (i) not moving; (ii) moving to another job within Nepal; and (iii) going abroad. Potential earnings and costs are compared for each option, and discussions are made as to why international migration is so large in Nepal. Slow economic growth and limited job opportunities within the country are likely seen to be significant reasons for this phenomenon.

#### **5.3.1.3 Impact on the household:**

Furthermore, attempts will be made to identify the impact on households that send their members abroad as migrant workers. One obvious impact is an increase in disposable income due to remittances, and their consumption and education spending should be likely go up. It is also expected that their labor supply and productivity would be adjusted as a result. In addition, households' access to new knowledge and technology improves, and preferences regarding education and/or business investments may also change (Thieme, S. and Wyss, S. 2005). Increased

exposure to migration-related knowledge, in turn, should help lower risks involved in future migration and therefore potentially facilitate subsequent migration. An attempt has been made to ascertain these expectations.

#### **5.4 Issues to be Addressed**

Based on this economic backdrop, we hypothesize that (1) while international migration is, in large part, a reflection of inadequate job opportunities within the country, increased migration and resulting high remittances have so far significantly benefited Nepalese households and the general economy; but that (2) continued large scale out migration and remittance inflows entail risks at both micro- and macroeconomic levels--and policy measures are needed to manage and contain these risks.

It is thus proposed that the task focus on the following areas: (i) collect and evaluate data on labor migration and remittances in Nepal; (ii) determine and highlight risks and challenges associated with international labor migration and remittances for migrants, migrants' households, as well as the overall economy; and (iii) propose policy recommendations that would maximize benefits of migration and remittances and minimize downside risks. The aim is to synthesize findings of our own analysis with other analytic

work carried out in recent years both within as well as outside Nepal. The final report has been extensively drawn upon existing and ongoing work on the topic and make use, whenever available, of relevant international case studies and best practice examples.

## **5.5 Identifying challenges and risks of Nepal's large-scale labor migration**

### **5.5.1 What are challenges faced by households with migrants:**

Prospective migrants cannot make well-informed migration decisions as information available to them is inadequate. For example, information is limited on prevailing working conditions in various destination countries and the cost and financing of the recruitment process. Migration is associated with significant financial and social costs/risks. First, in order to reach their employment destination many migrants have to go through an overly complex recruitment process and need to take out loans or sell property to pay processing and service fees charged by recruitment agents. Second, migrants are vulnerable in their host countries: most Nepalese working abroad are unskilled and are subject to risky working conditions, changing labor demand, and possible loss of work. They are thus often forced to limit the amount of their remittances. For many migrants, high costs associated with sending remittances home are also a serious issue. Finally, migrants often leave behind fragmented and indebted households

and migrant workers themselves face re-integration problems when returning. This analysis should be collected information on the challenges migrants and their families face before, during, and after migration.

Together with ILO, the team would be, in particular, illuminate the issue of migrant recruitment and associated problems. This has been done through new primary data collection based on interviews with formal recruitment agencies. It would be assessed the extent to which prospective migrants are informed of destination country situations, the level of recruitment fees, the terms of recruitment contracts, and the extent to which recruitment companies respond to needs and problems of workers abroad. This survey is also planned to contain interviews with informal recruiters as well as suspended recruiters, as far as they can be identified. The survey results are analyzed and measures to improve the recruitment process has been sought.

### **5.5.2 What are risks of large-scale migration and remittances for the Nepal economy?**

While remittances have helped keep consumption high it has also made the economy increasingly vulnerable to domestic as well as external shocks. Nepal is seen to be suffering from at least four major economy-wide risks of having high migration and remittances.



### **5.5.2.1 Suppression of tradable production and investment**

With increasing remittances and wages, the real exchange rate tends to appreciate and jeopardize exports. Production of and investment in tradable sectors would likely suffer widening trade gaps and reducing future growth prospects.

### **5.5.2.2 Slower pace of reform implementation**

Significant and continuous influx of remittances has allowed higher consumption and contributed to poverty alleviation, but it has also masked deeper structural problems. It could very well reduce government incentives to design and implement reforms needed for raising private investment, the basis for future growth and job creation. These necessary reforms include prudent fiscal management (with MTEF), financial sector reforms, and labor regulation reforms—and more generally improving private investment climate. The difficult conditions of physical infrastructure and unreliable power supply also reduce investors' incentive to invest in Nepal.

### **5.5.2.3 Increased vulnerability to external shocks:**

As a result, Nepal could be left increasingly vulnerable to external shocks. Especially if labor demand were to suddenly decline in destination economies, it would be difficult to expeditiously expand exports and domestic production to offset plummeting remittances and re-absorb a large number of returning

migrants. Un- and under-employment would rise, consumption would plummet, and balance of payments would deteriorate. Poverty situation would also likely deteriorate fast.

#### **5.5.2.4 Brain drain**

Although most Nepalese migrants are unskilled there is also significant out migration of qualified labor from Nepal. While this can help increase income of these Nepalese workers abroad (and thus the amount of remittances), there are concerns that it could also lead to a more pronounced 'brain drain' in the future. It could have a potentially large impact in a small country where skilled workers are relatively scarce.

### **5.6 Link to the Government's poverty reduction strategy (PRS) and the World Bank's assistance strategy**

The World Bank's assistance to Nepal, guided by the Bank's Interim Strategy Note (ISN) for Nepal (January 2007), supports Nepal's PRS from May 2003 and the subsequent Three Year Interim Plan (TYIP, December 2007). The TYIP has the goal of laying the foundation for economic and social transformation and building a prosperous, modern and just Nepal. The TYIP strategies are the following: (i) to give emphasis on relief, reconstruction and reintegration; (ii) to achieve employment-oriented, pro-poor and broad-based economic growth; (iii) to promote good-governance and effective service delivery; (iv) to increase investment in

physical infrastructure; (v) to give emphasis on social development; and (vi) to adopt inclusive development process and carry out targeted programs. Emphasis is laid on the government as a facilitator for creating employment opportunities for the new entrants to the labor market. Decent employment growth - achieved by making the Nepalese labor competitive within and outside the country -- should reduce income disparities and alleviate poverty. But progress so far in implementing reforms to help raise employment has been limited--in part due to continued political uncertainty.

The ISN lays out the Bank's strategy in the face of anticipated continuing uncertainty. One of the key areas of support is the preparation of a post-conflict economic program which builds, among other things, on growth and employment creation. An update on the implementation of the ISN on Nepal contained a rapid assessment and recommendations to the GoN, donors and stakeholders, and identified as one main cross-cutting theme the critical importance of job creation. The International Labor Migration, Remittances, and Skills task is a key part of the economic and sector work proposed under the ISN.

## **5.7 Developing policy recommendations for growth and employment with sustained large-scale migration**

Policy recommendations has been developed that maximize private and public welfare gains from international migration and

minimize risks of migration and remittances discussed above. These measures would be important in supporting sustainable broad based growth and poverty reduction in Nepal. The recommendations could be grouped into the following four areas:

**5.7.1 Improve institutional and regulatory arrangements relevant for migration and remittances:**

There are needs to improve official foreign employment statistics and the implementation of existing laws and regulations on foreign employment. First, data on international migration and remittances and on Nepalese diaspora abroad should be improved. At least, data on employment of Nepalese workers in India should be included in the official data compiled by the Department of Labor and Employment Promotion. Second, the policy framework for managing foreign employment and its implementation are both weak and need to be addressed. The Foreign Employment Act 2042 (1985, amended in 1992 and 1998) is designed more to control and restrict foreign employment rather than promote safe and sound practice. The implementation of positive aspects of the Act, such as the regulation of foreign employment agents, was delayed and is poor. The Act was further revised in October 2007, but the implementation plan for many of its added features is still unclear.

**5.7.2 Diversify destination countries and enhance skills of migrants:**

The GoN has been also needed to explore new markets and comparative advantages in order to maintain the current levels of migration and remittances (even in the event some destinations' labor demand were suddenly to decline). This has been implied efforts to diversify destinations and diversify away from the present heavy reliance on unskilled labor. A program of skill training, such as in financial literacy, would also help in this regard.

### **5.7.3 Improve domestic investment climate:**

The GoN needs take measures to encourage investment and create more job opportunities within the economy. These measures should reduce risks associated with appreciated real exchange rates (that tends to suppress growth) and also increase resilience of the economy against sudden stops/reduction in remittance flows. First, aggregate demand should be managed carefully—including maintaining a prudent fiscal framework—to offset the pressure towards real appreciation. Monetary policy also needs to be coordinated. In addition, liberalized business climate and better infrastructure should boost investment significantly as well as flexible labor regulations. Laws need to be enforced in a transparent manner to make employers accountable. Financial sector reforms need to be deepened and, in particular, the issue of willful defaulters should be dealt with expeditiously. Complementing these structural reforms, there are a number of

policies aimed at improving the access of the unemployed to the labor market, job-related skills and the functioning of the labor market that could feed into a more general employment creation strategy. Lists some such programs often implemented by other countries. Applicability of these policies in Nepal has also been assessed.

#### **5.7.4 Facilitate remittance:**

A number of measures need immediate attention for improvement of the flow of remittances to Nepal. These are: improving access to and lowering costs of remittance transfer services; addressing the informality and regulatory issues in the India-Nepal remittances corridor; and developing adequate financial products linked to remittances by financial institutions. Encouraging Nepalese banks to operate in destinations economies also facilitates remittances. Furthermore, it is desirable to draw more remittances towards productive investments in Nepal, but past attempts in other countries to direct remittances to specific areas have not succeeded without dependence on market forces. Remittances are channeled towards investment when investment climate is right and expected returns high. Furthermore, studies indicate that a large number of small enterprises run by migrant family members fail or have little impact on productivity (Migration and Remittances 2003). If such savings and investments are managed professionally and employed in

industries or infrastructure that are urgently needed, they can improve productivity, address production and market inefficiencies and help producers to improve and place their products in the domestic and foreign market(Three year Interim Plan, 2007/08-2009/10).

#### **5.7.5 Help returnees:**

Measures to make it easier to invest remittances might also help to induce migrants with their increased human capital and familiarity with new technologies to return more readily. A number of countries in the region provide relevant incentives to migrant laborers and services to assist them in making their remittances easy to invest so that their reintegration would be smooth when returning.

## CHAPTER - SIX

### SUMMARY, CONCLUSION, AND RECOMMENDATION

#### 6.1 Summary of the Major Findings of the Study.

The main objective of this study is to observe the scenario of foreign employment and remittance economy in Nepalese perspective. Moreover the study tried to identify the historical track records of foreign employment in Nepal and inflow of remittances in national as well as global prospects, and then evaluated the government act and policies about foreign labor migration and government's role to maximized benefit from remittances. Secondary data were used to compare the composition of foreign employment and remittance in this study. Data are analyzed by using simple statistical tools like percentage and ratio.

The main destinations of Nepalese workers are Gulf countries and Malaysia. Sixty percent of total workers are employed in Gulf countries. By country-wise Saudi Arab, Qatar, UAE and Malaysia are main destinations of the Nepalese workers. In 2007/08 the workers have gone 26329 in Saudi Arab, 56850 in Qatar, 29307 in UAE and 33458 in Malaysia.

The number of workers going abroad for employment has increased by almost 42 percent in 2007/08 as compared to 2006/07. Remittance received by Nepal in 2007/08 were 142.6 billion. The contribution of remittance to GDP were 15.11 percent in 2005/06.



### **6.1.1 Significance of Remittance in Nepalese Context**

It was only after the 1990s that policy makers and the academicians began to fully acknowledge the importance of remittances send by Nepalese employed abroad for enhancing the livelihoods of the households, including those in rural regions. During the past few years. Nepalese have sought overseas employment as both the agricultural and non-agricultural sectors struggle to create new employment opportunities and also because of Maoist insurgency. Many Nepalese workers have seen migration as their only viable option and seek foreign employment to support family members who remain in the country.

### **6.1.2 Issues to be Addressed**

Based on this economic backdrop, we hypothesize that (1) while international migration is, in large part, a reflection of inadequate job opportunities within the country, increased migration and resulting high remittances have so far significantly benefited Nepalese households and the general economy; but that (2) continued large scale outmigration and remittance inflows entail risks at both micro- and macroeconomic levels--and policy measures are needed to manage and contain these risks.

It is thus proposed that the task focus on the following areas: (i) collect and evaluate data on labor migration and remittances in Nepal; (ii) determine and highlight risks and challenges associated with international labor migration and remittances for migrants,

migrants' households, as well as the overall economy; and (iii) propose policy recommendations that would maximize benefits of migration and remittances and minimize downside risks. The aim is to synthesize findings of our own analysis with other analytic work carried out in recent years both within as well as outside Nepal.

### **6.1.3 Poverty Impact of Remittances.**

Studies on the poverty impact of remittances have demonstrated that apart from possibly increasing inequality and dependency, remittances make a pivotal contribution to reducing poverty and vulnerability in most households and communities. In Nepal's case, the impact of remittances on poverty has been positive as revealed by the Nepal Living Standard Survey (2003/04) that showed that the poverty level, defined in terms of absolute head counts, declined from 42 percent in 1995/96 to 31 percent in 2003/04.

## **6.2 Conclusion**

In the 1990s increased globalization has effectively opened up new labor employment opportunities in newly industrialized countries, like Malaysia, Taiwan, and South Korea in Southeast Asia, and in the Gulf states in the Middle East, for men and women from South Asia, including Nepal. Even in developed countries, like Japan, the UK, Europe, and the USA, new opportunities for

labor migrants have emerged, even though immigration controls and other restrictions ensure that many of them work there unofficially or illegally. The demand for cheap and unorganized labor encouraged labor migration from the poorer developing countries where unemployment and underemployment are widespread. In this prospect, International labor migration mostly in Gulf States, Malaysia and other South East Asian countries in a new phenomenon of migration in the Nepalese context and that only have about 30 years long history. Unexpectedly the foreign labor migration has developed in such a way, which has shifted the agricultural based economy towards remittance based economy.

Numbers of people going abroad for work have been increased for the last few years, especially the origination of armed conflict in Nepal. Major concentration of Nepali migrant workers was in Gulf States for the very beginning but the dynamics has been changed and people are migrating towards Malaysia since the past three years even though the number of people going the Gulf States is still significant. A class division among the labor migrants is also found to select the country of destination i.e. poor people are to India, Gulf States and Malaysia and better people towards Japan, South Korea, North America and Europe.

There are various problems faced by the migrant workers both in home country and the country of destination. Unless addressing the problems of migrant worker from the policy level,

solution is far behind. Nepalese Government on the one hand is not capable enough to proper implement existed policy and the other is, there are several things to do the regulation and management of foreign labor migration. Basic things that are found to improve are amending the existed laws, promotion of labor market through the labor diplomacy, management of manpower agencies and welfare activities to the best benefit of labor migrants. The situation of women migrant workers is found more vulnerable as compared to male migrant workers. The existing law in itself found discriminatory towards women and issues of women migrant workers are not considered sincerely. Even though , migration of women in foreign employment occupation has assisted to the economic empowerment of female to some extent.

Foreign employment helps to divert large amount of remittance into national economy. Remittances have positive impact on national economy as well as household economic condition but this is not satisfactory. Maximum parts of the remittances have been used in household expenses like loan repayment, house maintenance and social spending. Likewise, the study also reveals that bringing more remittance money through formal channels is critical. So the current need is for more effective migration management to reduce the vulnerabilities of migrant workers and safeguard the rights of migrant workers.

Furthermore, we can conclude that foreign employment and remittances is one important component of national economy . Remittances have opened a new area of research to the economists and politicians. As its share and volume keep on growing, economic and financial model builders have got strong ground of empirical testing of hypothesis as "remittance Led Growth". So, remittance has a greater scope of expansion for a "role play" in the socio-economic development of developing country like Nepal. Nepal has an encouraging picture toward this direction. However, because of the lot of traditional or emerging new reasons, the remittance sector also would go in jeopardy if timely and proper policy measures and strategic actions are not adopted. Temporary inflow of such remittance cannot serve the long-term objectives of a country . For this, all the responsible bodies' initiations and drives need to be directed to a safe, reliable, diversified and sustainable remittance system.

#### **4.3 Recommendation**

The following recommendations are adopted for the effective management of foreign employment occupation and true utilization of remittance earnings.

1. Nepalese government has adopted liberal economy and open democratic environment as its guiding economic and political strategy. In this regard, the policy formulated by the government should be guided on that. Policies are needed to encourage the use

of remittances to promote longer-term growth and income security. Nepal needs to further devise policies that.

- a. Send more remittances through official rather than unofficial mechanisms.
  - b. Increase the levels of remittances by encouraging migrants to hold their savings in financial assets in the country rather than holding them abroad.
  - c. Encourage migrants to become investor in productive assets in the country.
2. The opportunities to promote self-employment and small business formation amongst returning migrants and their relations back home needs to be recognized by the government and schemes must be targeted to assist investment in business activities.
  3. 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 remittances business. 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. Hence, a publicity camping and /or a nationwide advertisement scheme needs to be developed and

implemented to familiarize the rural people to remote areas with the banking services.

4. The workers will be inclined to use the banking channel only if the services provided are quick, reliable and efficient. Hence, new technologies that are constantly changing in the international banking system should be introduced in order to make the payment process quick, simple and hassle-free.
5. To invest the remittance income in productive sector, the government should initiate for the issue of development bonds like Remittance Bond, having higher rate of interest, or a kind of Mutual Fund.
6. Nepalese government should pay an especial consideration for the welfare of women migrant workers and all discriminatory laws/acts regarding the women involvement in foreign employment should be amended as per the guiding principle of the state. It is also important to realize that women face greater and different risks when they go for foreign employment. What are these risks and what can be done to reduce and cope with these risks also needs to be analyzed. Due to the lack of information and unorganized nature of their association in destination counties, they seem to face great deal of problems. Moreover, the prevailing attitude, policies and institutional framework that see women as weak beings and have given rise to obstacles for their empowerment. So, government should pay strong initiation to

enhance and empower the capacity of women to compete and make their movement easy and hassle free.

7. Nepalese government's policy on foreign employment has not been adopted in an organized way. The term "Foreign Employment" in the Foreign Employment Act- 2042 is defined as the employment to be obtained by a worker to abroad where as the nature of work and the people involved on it are not specified. The existence of Non Residence Nepalese (NRN), sex trafficking, refugees and undocumented workers in abroad are not include by our act . In this regard the policy should defined the term in itself either in broad or specific way. This will facilitate to identify the legal status of different forms of migrant people.
8. Effective political diplomacy in the government level on migrant worker's issued is found very fundamental to respect the rights of migrant workers.
9. Government should have a proper policy that should guide them to identify new market for workers and the continuation of old marker with increasing facilities to the labour migrants.



### **Questionnaires Asked to the Respondents**

The following are the questions asked to the people on the basis of their occupational background and working expertise . Some of the questions are not relevant to all respondents. so, various questions were asked during the informal discussions with the researchers.

1. How do you observe the current trend of foreign employment in Nepalese context ?
2. How do you analyze the current government policies regarding foreign employment ?
3. What are the direct impacts of remittance inflow in the Nepalese economy ?
4. Is government effort conducive to harness maximum benefit from remittance inflow in the country ?
5. Can present inflow of remittance serve the long-term objectives of a country ?

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