

# Contribution of Foreign Employment and Remittances to Nepalese Economy

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*This paper assesses the contribution of foreign employment and remittances to Nepalese economy and also identifies the information needs and gaps. An attempt is also made to assess the role of remittances in poverty reduction. At a time when the country's major economic indicators are not favorable, the remittances have played a vital role in maintaining macro economic stability and keeping the economy afloat. Though remittances sent home by migrant workers is a boon to the economy, the facilities are inadequate to back up the increasing trend of migration. Inadequate information on foreign employment, lack of skill training and lack of assurance of safe working environment and rights of the migrant workers have obstructed foreign employment.*

*Formulation and effective implementation of pro poor migration policy is the need of today. The government should play a proactive role to promote foreign employment by inducting and adhering to the policy of economic diplomacy. Replicating the best practice of the region has to be endorsed in our national context for promotion and regularization of foreign employment, to encourage official transfer of remittance and to streamline the asset and skill of the returnees for the economic development of the country.*

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## I. INTRODUCTION

Labor mobility has been an important and essential feature of economic and social development throughout the human history. In 2006, migrant workers in the industrial countries sent home more than \$300 billion, nearly three times the \$104 billion received as foreign aid by the developing countries.<sup>1</sup> This figure exceeds the foreign direct investment to developing countries which stands at \$167 billion. Among the recipients, India ranks at the top with the remittance inflow of \$24.5 billion, followed by Mexico (\$24.2 billion), China (\$21 billion), Philippines (\$14.6 billion) and Russia (\$13.7 billion).

Labor migration for overseas employment has rapidly increased, particularly after globalization. The Nepalese economy is increasingly becoming dependent on remittance sent home by migrant workers. At a time when the country's major economic indicators

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<sup>1</sup> This is taken from <http://www.un-instraw.org/en/grd/>.

do not display a good picture, remittances have played a vital role in keeping the economy afloat. Instability and insecurity are crucial problems for the low economic growth of 2.5 percent (Ministry of Finance, 2007a). The overseas migration and remittances have been instrumental in poverty alleviation as well as for improving the living standards of the people (Seddon et al., 1999 and Shrestha, 2004).

The objectives of the paper are to assess the contribution of foreign employment and remittances to Nepalese economy and also to identify the information needs and gaps. An attempt is also made to assess the role of remittances in poverty reduction. For this purpose, data of Nepal Rastra Bank, Department of Labor and Employment Promotion and National Planning Commission/Central Bureau of Statistics have been utilized. For assessing the macro economic contribution of remittances, the paper has examined the data covering the period 1990/91 to 2005/06.

The next section analyzes some data on the Nepalese working abroad as well as the factors responsible for the large-scale out-migration. Section III examines the remittance economy of Nepal followed by some constraints related to foreign employment and remittances. Section V highlights the policies and programs pertaining to foreign employment and remittances under the Three-Year Interim Plan as well a brief summary of the Foreign Employment Act, 2007. Before concluding, the paper considers some policy options.

## II. NEPALESE WORKING ABROAD

The number of job aspirants in foreign land increased dramatically, especially after the restoration of democracy. The Labor Act, 1985 came as a boon for facilitating foreign employment and opening up avenues for the private sector. With the enactment of Foreign Employment Act, 1985 and arrangement of distributing passport to the potential migrant workers by the District Development Offices, accompanied by higher demand for labor created by the oil boom in the Gulf, the Nepalese started to migrate beyond India, particularly to the Gulf.<sup>2</sup>

The total number of migrant workers (excluding those migrating to India) increased to 940,824 in 2006/2007 from 1,926 in 1992/93 (Table 1). By the end of 2007, the total number crossed one million. The official figures of those working abroad are felt to be grossly underestimated (Graner and Seddon, 2004 and Gurung, 2002). The official figures capture only those passing through formal procedures. In many cases, those who travel abroad for other reasons (for instance, for study) may be involved in paid employment.

The number of workers going abroad for employment has been steadily increasing as per the data provided by the Department of Labor and Employment Promotion. In 2006/07, the number of workers going overseas for employment was 214,094 compared to 2,159 in 1994/95.

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<sup>2</sup> Foreign Employment Act, 1985 identified the number of countries to which Nepalese were encouraged to migrate for employment.

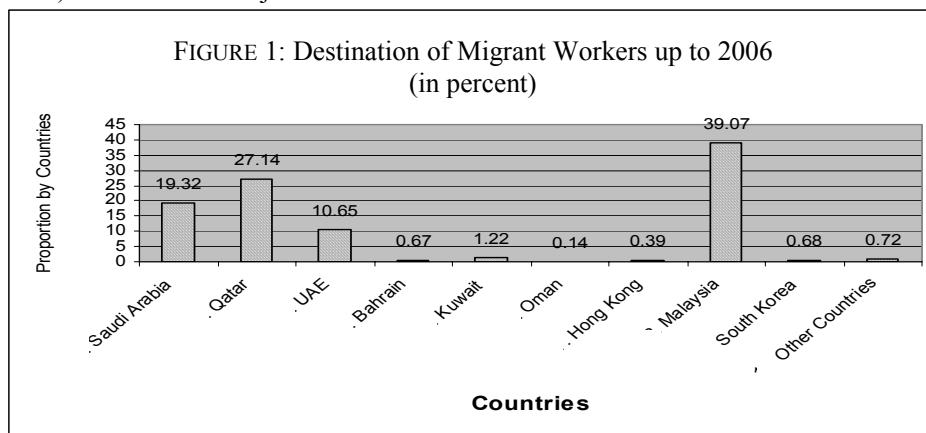
TABLE 1: Number of Nepalese Workers Abroad

Year	Number of Job Seekers
1994/95	2,159
1995/96	2,134
1996/97	3,259
1997/98	7,745
1998/99	27,796
1999/00	35,543
2000/01	55,025
2001/02	104,739
2002/03	105,055
2003/04	121,769
2004/05	139,696
2005/06	182,043
2006/07	214,094

Source: Department of Labor and Employment Promotion

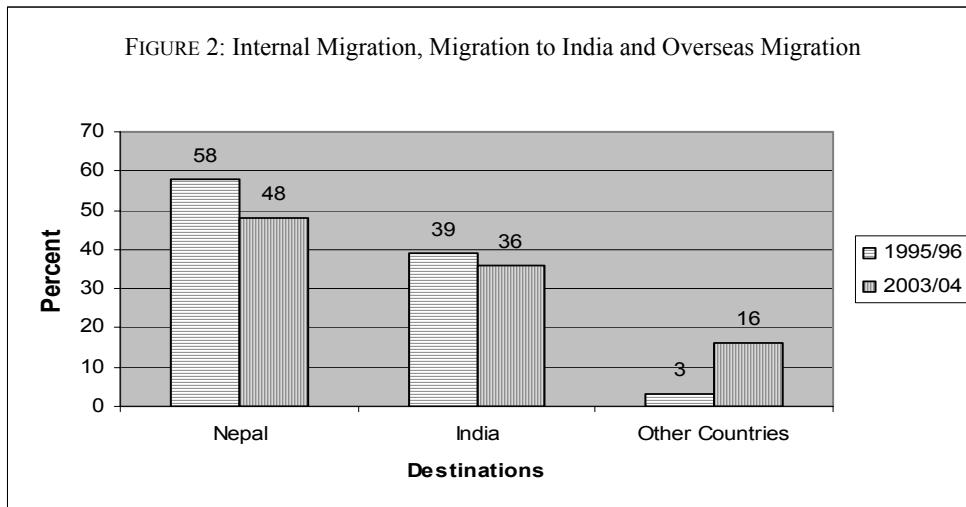
The major factor contributing to large-scale out-migration from Nepal is higher growth of labor force and limited employment opportunities outside the farm sector. The 3 percent annual growth of labor force is not matched by additional job creation; moreover, the low salary structure in the economy, insecurity in the rural areas, and higher demand for the labor in the industrialized Asian and Middle-east countries are the other contributing factors. The Government's liberal policies, accompanied by mushrooming growth of the manpower agencies have also played instrumental roles. Currently, 700 manpower agencies are operating in Nepal. Furthermore, food scarcity, distorted peace and social order are strong push factors for increasing out migration. The poor people from the Mid West and Far West are migrating to India and those who can manage the funds are migrating beyond India.

Figure 1 illustrates the major destinations of the Nepalese workers in 2006. Malaysia (39.07 percent), Qatar (27.14 percent) Saudi Arabia (19.32 percent) and UAE (10.65 percent) constitute the major destinations.



Source: Ministry of Finance (2007).

Figure 2 shows a large shift in the destination of migrants in 2003/04 compared to 1995/96. The share of internal migration and migration to India decreased while the share of overseas migration went up.

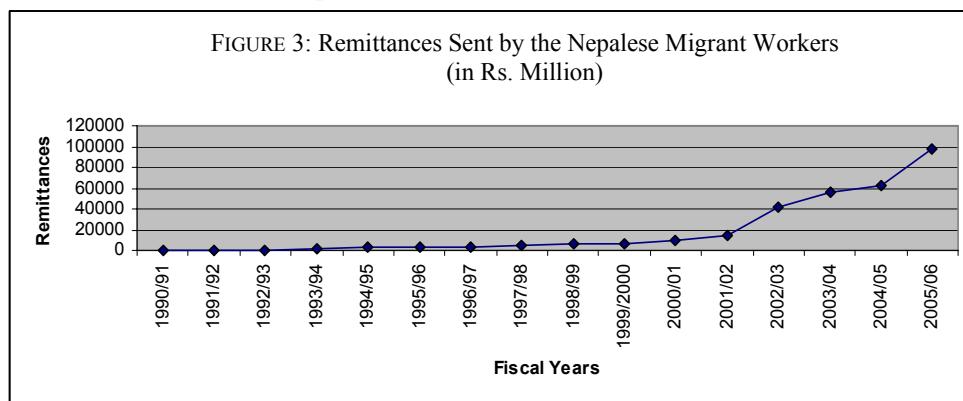


Source: NPC/CBS (2005).

For the poorest 20 percent of the population, the internal migration declined but India remains the most popular destination for this group (CBS, 2005). For the richer households, the proportion of the migrants working in India declined while it increased for other countries.

### III. REMITTANCE ECONOMY OF NEPAL

The official record shows a dramatic increment in the incoming remittance. It increased considerably from Rs. 549.7 million in 1990/91 to about Rs. 97,688.5 million in 2005/06. Remittance soared, particularly after 2001/02 (Figure 3).

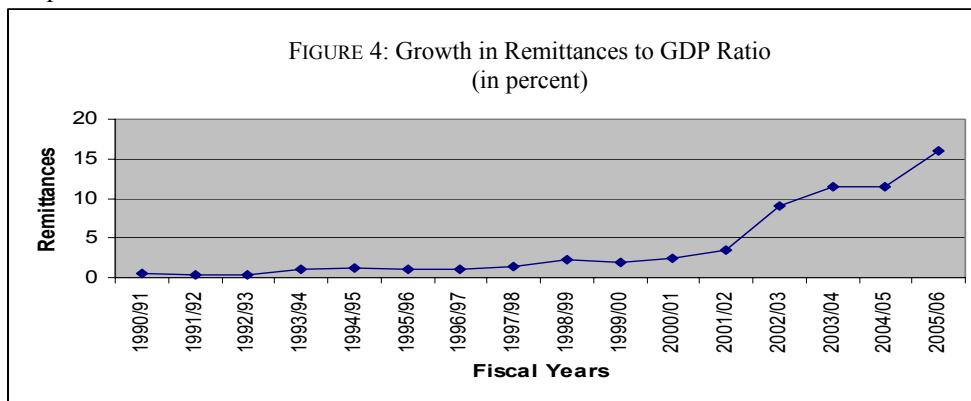


Note: The remittances data prior to 2000/01 include pensions but do not include estimated remittances.

Source: Ministry of Finance, *Various Issues of Economic Survey*.

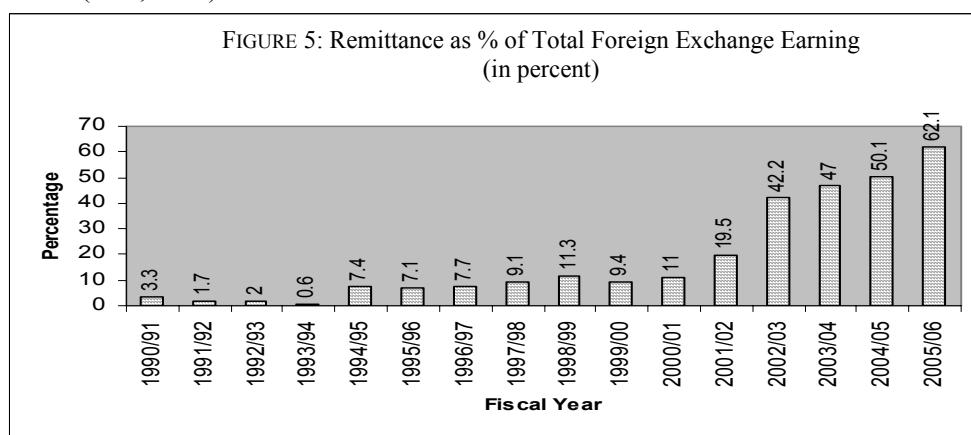
Despite the huge trade deficit, the country is having surplus in the current account because of the growing remittances. The share of remittances in the current account receipts soared from 27.4 percent in 2000/01 to 33.6 percent in 2005/06 (Pant, 2006). Even with the widening export import gap and with mounting burden of debt servicing, it appears that remittance is saving the country from balance of payment crisis.

The increasing volume of remittances and its contribution to the national economy in the recent years is reflected in the increasing remittance to GDP ratio (Figure 4). The remittance to GDP ratio increased from 0.5 percent in 1990/91 to about 11 percent in 2004/05 and further to 16 percent in 2005/06 (Figure 4). This ratio is relatively high compared to India and other South Asian countries.



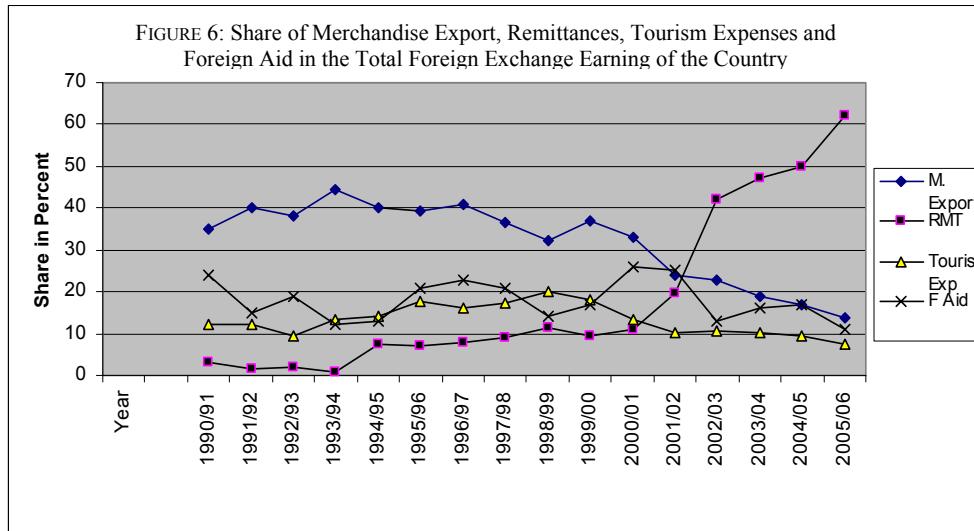
Source: Ministry of Finance.

Remittance has relaxed the foreign exchange constraint of the country. The share of remittance in total foreign exchange increased quite considerably over the years from less than 2 percent in 1991/92 to more than 60 percent in 2005/06 (Figure 5). Higher growth of convertible currency reserves of the banking system in the recent years has allowed NRB to build the official reserve to higher level reducing its vulnerability to external shocks (Pant, 2006).



Source: Ministry of Finance.

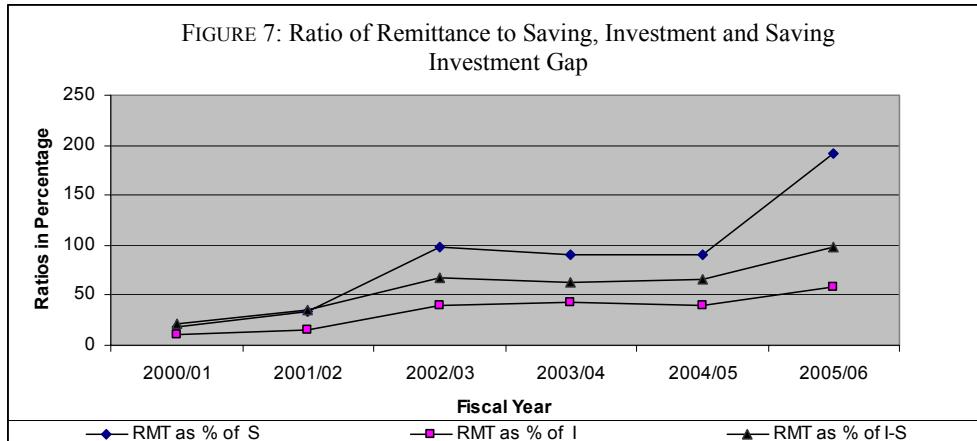
Remittances have surpassed the export as the top contributor in terms of foreign exchange earning, particularly after 2000/01. Similarly, the share of travel receipts in the total foreign exchange earning went down drastically with the rapid rise in the remittances and slow growth of tourism industry.



Source: Ministry of Finance, Economic Survey, Various Issues.

External debt is growing at a rapid tempo resulting in an alarming growth in debt servicing. Nepal's present day challenge is the ever-increasing outstanding debt and increasing burden of debt servicing. In 2005/06 a sum of Rs. 14.3 billion was utilized for meeting the principal repayment. Of this, 49.0 percent was for servicing the external debt which was to be paid in terms of foreign exchange. External debt servicing increased by 17.4 percent compared to the previous year (Ministry of Finance, 2007). However, Nepal has been able to handle debt servicing comfortably due to increased inflow of remittances.

The ratio of remittances to saving, investment and saving investment gap is increasing with higher rate of growth of remittances (Figure 7). This shows that Nepal's dependency on foreign aid for filling the saving investment gap can be lessened to a greater extent through strategic plans and programs for mainstreaming the incoming remittance to financial system and for their productive use. In this respect replicating the successful programs launched by labor exporting Asian countries such as Sri Lanka, Bangladesh, India, Pakistan, Thailand, and Indonesia could be helpful.



Source: Ministry of Finance (2007).

Remittances contribute substantially to maintain macro economic stability. It is one of the six pillars of economy, the others being investment, trade, agriculture, water and tourism. At the household level, it helps to smoothen consumption and investment in human and physical capital. Remittances also generate benefits to the community, if they are spent on locally produced goods and services, and helps poverty reduction since the money is utilized for rural development. In Nepal's case, the penetration of the remittances into the remote villages has helped in poverty alleviation. The IMF country report states that in the absence of remittance, the present level of poverty would be 36 to 37 percent (IMF, 2006).

Poverty reducing and income distribution effects of remittance are significant (Barhan and Bocher, 1998). Generally the recipients of the remittance in the poor countries are often from the low-income households. It permits the households to increase their consumption level, enables better health care, nutrition, housing and education (NRB, 2001, World Bank, 2005). Migration and remittances influence the consumption through different mechanisms such as via higher local wages, higher demand for the services and locally produced goods, higher investment in family health and education.

During the period between 1995/96 and 2003/04, the average annual GDP growth was slightly higher than the population growth. The poverty level decreased by 6 percentage points from 38 percent in 1995/06 to 32 percent in 2003/04.

Regional pattern of remittance helps to explain regional pattern of poverty trends. Even though the proportion of households receiving remittance increased in all regions, the actual amount of remittance has declined in the rural eastern hills of Nepal. And the rural eastern hill is the only region where the poverty level increased between 1995/96 and 2003/04. The rest of the region experienced positive growth in remittance inflows, and this was accompanied by the fall in poverty levels (Table 2).

TABLE 2: Regional Patterns of Poverty and Remittances in Nepal  
(Per person per year)

Region	Poverty Levels		Amount of Remittance Among the Recipients (1995/96 Rs. per Person per Year)		
	1995/96	2003/04	1995/96	2003/04	% Change
Kathmandu	4.3	3.3	6269	13230	111
Other urban areas	31.6	13.0	2701	7754	187
Rural western hills	55.0	37.4	2832	4297	52
Rural eastern hills	36.1	42.9	3943	3818	-3
Rural western terai	46.1	38.1	1773	5540	212
Rural eastern terai	37.2	24.9	2668	5812	118

Source: CBS/NPC (2005).

An estimate based on data for 72 districts indicate that higher the increase in the average amount of remittances in a district, the faster is the rate in the poverty reduction. The regression analysis indicates that the increase in remittances accounts for 6.2 percent decline in poverty (Lokshin et al, 2005). The study shows that the remittances from abroad played a significant role in reducing poverty. The analysis concluded that if the amount of remittances remained unchanged, the aggregate poverty rate would have declined by 3.9 percentage point rather than 6.2 percentage points.

A cross country model relating growth, poverty and remittance predicts that on average 10 percent increase in total remittance should reduce the poverty by 0.9 percent (Maimbo and Adams, 2005). The model has used the data for Nepal and other South Asian countries. The study found that the decline in poverty in response to increase in per capita consumption expenditure is quite low in Nepal as compared to other countries. This calls for a detailed investigation of the relationship between migration and remittance and between remittance and poverty.

There are also other effects of foreign employment and remittance inflows. Besides the positive impact, they create inequality in the distribution of income. During the period between 1995-1996 to 2003-2004 the Gini Coefficient rose from 34.2 to 41.4, because the growth was not equal across the groups and the regions. For example, though the proportion of remittance receiving households increased in the lower quintile households compared to higher quintile households, the per capita remittance increased at a higher rate amongst the higher quintile households. The higher quintile groups have relatively wider access to high paying foreign jobs (NPC/CBS, 2005).

#### *Use of Remittance and Skills of Returned Migrants*

The major portion of the remittance is used for meeting household use and to payback loans borrowed earlier to go abroad (Seddon and et al 1999 and NRB, 2001). A survey of 832 households in eight districts (which includes four districts of the Far Western Development Region) of Nepal found that the majority of the families were dependent on remittance money (Department of Women Development, 2003).

The utilization of remittances for the improvement of the living standard is documented by several studies (Ashwani, 1999, Wahidin, 1989, Seddon and et al, 1999 and Department of Women Development, 2003). Remittance are typically spent on land and housing. These are safe investment for the households, but in macroeconomic terms, they are non-productive assets, with no lasting impact on the country's real income. Thus while the remittances are beneficial at household and community level, they cannot help long term development of the country without its strategic management.

The total saving out of remittance was about 8 percent which is very low compared to other Asian countries (Amjad, 1989). The saving rate amongst the Nepalese workers is lower as the majority of them are employed in low paying jobs and their marginal propensity to consume is relatively higher. Only the small proportion of the migrants uses the remittance directly for productive investment like agriculture, manufacturing and trade. The major forms of investments are on education of the children, reinvestment of the remittance for further migration and for lending money.

The resources and expertise of the returned migrants could also be a good resource for country's economic development. Nepal does not have authentic data on the numerical dimension of the returned migrants. The study by Nepal Rastra Bank reveals that 47 percent of the returned migrants had learned new skill while working abroad, but only 16 percent had used the skill for income generating activities after their return (NRB, 2001).

#### IV. PROBLEMS RELATED TO FOREIGN EMPLOYMENT AND REMITTANCES

Nepal is receiving billions of rupees sent by Nepalese workers from different parts of the world. It could be many times higher even with the existing number of Nepalese workers abroad if Nepal can strategically and systematically manage the foreign employment process and remittance transfer. The Nepalese migrant workers face a host of hurdles at the home country and their destinations (NRB, 2001, 2007, Bhattacharai, 2005, MoLT/UNIFEM, 2003, Ghimire, 1996, Gurung, 2002 and Pant, 2006). The major problems are poor working conditions, lower wage level and rising cost of living in the destination countries, fraud recruitment and lack of social protection. Another principal challenge is migrating through illegal channels, thereby loosing the legal status in the labor importing countries.

The international provisions are there to protect the right of the migrant workers. But both the government and receiving countries do not seem to be sincere to the implementation of the spirit of international provisions. Ratification of UN convention by Nepal will create moral pressure on the labor receiving countries.

Bilateral agreement has not taken place even with some major labor importing countries pertaining to the safety and welfare of the migrant workers. Another problem is lack of working mechanism to address the issues related to international migration like demand verification. Provision of labor attaché in the potential labor receiving countries is still lacking.

## V. CURRENT POLICIES AND STRATEGIES TO ADDRESS THE CHALLENGES

### *The Three-Year Interim Plan*

Based on the above discussion, it can be concluded that there are many challenges ahead to make foreign employment safe, organized and more productive. The government has announced strong commitment to institutionalize the foreign employment regime in order to reap maximum benefit and for the protection of those working abroad. This is reflected by various policies and programs under the Three-Year Interim Plan. For effectively managing the foreign employment sector to ensure secured, decent and productive employment opportunities, the Three-Year Interim Plan has adopted the following policies and strategies (NPC, 2007):

- Reforms in the existing legal and institutional provisions.
- Activate diplomatic mechanism to protect the interest and right of the migrant workers.
- Establishment of Labor Commission and Labor Tribunal.
- Separate institutional arrangement for the management of the issues related to the internal labor administration and foreign employment.
- Provision of legal, technical and practical training including pre-departure training, based on the identification of international labor market.
- Life and accidental insurance covering entire contract period for the workers going abroad.
- Labor agreement to be negotiated with the countries which receives Nepalese workers beyond certain threshold.
- Promotion of foreign employment opportunities for women, dalits, janajatis, and other poor communities providing skill training and other facilities.
- Productive use of remittances through the identification of appropriate development.

Identification of potential destination countries, labor agreements with at least five countries on priority basis and updating of information related to the foreign employment are the major programs. Other programs include conducting studies on the effectiveness of different targeted programs implemented for promotion of inclusive foreign employment, feasibility study on the establishment of the Employment Bank and package programs for productive use of remittances and the skill of the returned migrant workers.

## VII. FOREIGN EMPLOYMENT ACT, 2007

The long waited new Foreign Employment Act was announced in 2007. The Act has addressed the major issues relating to foreign employment. Many provisions are made under the act for the protection of the right of the prospective workers (at home and abroad) and promotion of their security and welfare, regularization and monitoring of manpower agencies.

Provision of quota for female, dalit, janjati and people from the remote areas, compulsory life insurance for any type of deaths of the migrant workers in the labor receiving countries and the provision of foreign employment welfare fund are important aspects of the new Act. The new Act has removed all gender based discriminatory clauses. The Act has also made the provision of Labor Desk in the national airport and labor attaches in the countries where 5,000 or more Nepalese labors are working. As per the Act, only the license holder can undertake foreign employment dealings, and the government can regulate the manpower agencies. The worker must be sent through the national airport only.

But the crucial question is how far will the provisions in Act be implemented in the practical sense of the term and at what level of commitment. The government's sincerity to address the issues of the labor migrants in the implementation level is found to be very weak in terms of coordination capacity, labor diplomacy and allocation of resources (both financial and human resources).

### VIII. POLICY CONSIDERATION AND RESEARCH NEEDS

Based on the above discussion, this overview can be concluded by making a few suggestions that would assist in the formulation of the policies regarding foreign employment of the country.

The skill and the resources of the returned migrants are assets of the country which can be used for development of the economy. The productive use of these skill and asset would automatically result in their rehabilitation (Zachariah et. al., 2002). This requires investigation into their numerical dimensions, skill and accumulated wealth, their investment and saving behavior, and reasons for not utilizing their asset for productive purposes.

Longitudinal macro economic and micro economic case studies of migrant households' consumption could be conducted and analyzed to examine their short and long run consumption behavior in order to explore the precise relationship between their average and marginal propensities to consume. On that basis, one could estimate the volume of potential saving and investment that could be generated from households dependent on remittances to design appropriate financial packages (bonds, equity and mutual funds) for their saving and investment needs. Fiscal and refinance policies further could be tailored to support the effective use of remittances

A recent World Bank report has listed a variety of programs implemented by various countries to promote formal transfer of remittances and to mainstream the remittances for development programs (World Bank 2006). While making policy decisions, one should consider the best practices of other countries, particularly the Asian countries (Akhtar, 2007 and Afsar, 2007). The schemes like business counseling, entrepreneurship development program and concession on the import of the machineries and equipments and supplementary loan to establish manufacturing establishment can be launched. Identification of the development projects in which the returnees have assurance of reasonable return could be a key to the success of the utilization of saving/expertise of the returned migrants.

The government should give all possible incentives to encourage official transfer of remittance. In this regard the lesson learned from other countries could serve as

guidelines. For example in Sri Lanka and in the Philippines, no charge is levied on the renewal of passport, if the application is attached with the voucher of bank transfer of remittance (World Bank, 2006 and Mambo and et al, 2005).

Philippines and Mexico introduced pension plans for returned migrants. Loans are also given to immigrant workers' families whose repayment could be made with the remittance sent by the migrants abroad. Credit is provided to the migrant workers at the time of departure, secured through solidarity groups.

Thailand offers investment schemes and business set up advisory services through a foundation. India has given preferential access to capital goods and raw material imports for recent returnees starting productive activities.

Implementing different support programs ensuring conducive environment for returnees to invest their income and skill in productive purposes is just as important as developing effective migration and effective remittance policies. Higher domestic investment from remittance income can be facilitated through long term saving and facilitating credit plans to finance small business start-ups.

Nepalese carpenters, masons and other artisans are not able to compete with those coming from the Philippines, Thailand, South Korea, and India. There is an urgent need to upgrade their technical competence. The Nepalese trade unions and FNCCI at all district levels can operate training and counseling centers focusing on the rights and needs of the workers and as per the demand in the potential labor importing countries.

Evidences indicate that the ultra poor do not migrate to overseas because of lack of financial resources, information and social networks. It cannot be left to market forces only. In such a scenario the government should undertake pro poor intervention to target ultra poor to empower them through vocational education, financial support, skill training for targeted market as well as language and cross-cultural skill to prepare them for jobs abroad. In this regard the government has provided credit facilities and quota for the poor and disadvantaged. However, the effectiveness of these provisions is yet to be investigated.

Opening up of new missions in countries with substantial Nepalese workers, equipping the missions with additional personnel, budget, and modern tools such as satellite telephones and computerized database of Nepalese working in a particular country and their home addresses, emergency funds for crisis/rescue operation, etc. are urgently needed to meet the future challenges.

Lobbying for the safety and protection of the rights of Nepalese workers and their better pay and working conditions is also crucial. Bilateral Labor Pact between Nepal and Qatar which came into force from January 20, 2008 ensures better pay and lessens the cost of migration to Qatar. It can be expected that this pact, if implemented with commitment from both the governments, will ensure the rights and safety of large number of Nepalese migrant workers in Qatar. The government should sign such types of agreements with other major labor importing countries. The current plan seeks to negotiate labor agreement with at least five labor importing countries on priority basis.

Designing pro poor policies requires identification of the factors associated with migration such as caste ethnicity, economic status, education/ training, age, sex, marital status, occupation, household asset like land holding. It is also necessary to document the information on the destination, types of work available abroad, average salary, and the problems encountered in the process of migration.

Language barriers and lack of awareness on banking channels may hinder the migrant workers from using the banking channels for transfer. Carefully designed financial education program can help migrants to overcome the problem and use formal financial institutions (World Bank, 2006 and NRB, 2007).

## IX. CONCLUSION

In Nepal, remittances have emerged as one of the premier sources of foreign exchange, and in recent years they have been an important avenue of support for family members remaining at home. It has been already demonstrated that remittances sent by the migrant workers is an effective tool for poverty reduction. Though foreign employment is boon to the economy, the facilities are inadequate to back up the increasing trend of migration. Inadequate information on jobs abroad, lack of skill training, pre-departure preparation, lack of assurance of safe working environment and right of the migrant workers are the other constraints for boosting foreign employment and remittances.

The formulation and effective implementation of pro poor migration policy is the need of today. The government should play proactive role to promote foreign employment by inducting and adhering to the policy of economic diplomacy. Replicating the best practice of the region has to be endorsed in the national context for promotion and regularization of foreign employment, to encourage official transfer of remittance and to streamline the asset and skill of the returnees for the economic development of the country.

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