

**Barriers for Channelizing Remittance  
Capital into Productive Sector**

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**Summer Fellow, 2016**

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## **Introduction**

### **Remittance:**

The term “remittances” basically refer to the transfers, in cash or in kind, from a migrant to household residents in the country of origin.

The IMF considers a wider definition and incorporates three categories, which are:

- a) Workers' remittances or transfers in cash or in kind from migrants to resident households in the country of origin,
- b) Compensation to employees or the wages, salaries and other remuneration, in cash or in kind, paid to individuals who work in a country other than where they legally reside and
- c) Migrant transfers which denote capital transfers of financial assets made by migrants as they move from one country to another and stay for more than one year.

### **Migrant:**

A migrant is defined in the census as ‘a person who moves either from his/her place of birth to another area or keeps on moving stepwise or circular by changing his/her residence more or less frequently by being either seasonal, temporary, semi-permanent or permanent migrant depending upon the duration of migration and reasons for migration within a defined geographic area’.

Migration is a common phenomenon in both its domestic and international dimensions in Nepal. One of the Nepal's major exports is labor, and most rural households now rely on at least one member's earnings from employment away from home. Nepalese workers have wanted foreign employment as both the agricultural and non-agricultural sectors struggle to generate new employment opportunities. With limited arable land, landlessness is pervasive and the number of landless households has steadily increased in the agricultural sector. In the non-agricultural sector, the slowdown in growth, especially since 2000/01, due to the Maoist insurgency and exogenous shocks has further retarded the pace of employment creation. The conflict had also, until recently, created difficult living and security conditions, especially in the rural areas. It had also prompted people to look for overseas employment.

Traditionally, most of the migration took place within the country's borders, with some people going to India and Tibet. Nepal's entry into the global economy has since re-defined these historical trends, and, now, Nepalese can be found spread across the globe. India has been a

traditional destination for Nepalese migrants. The primary reasons for this are geographical proximity, historical and cultural links, and a large and open porous border. The 1950 Treaty of Peace and Friendship between India and Nepal formalized free border movement of people. The bulk of these migrants are employed in the private, informal sector. These migrants hold semi-skilled and unskilled jobs in restaurants and factories or are employed as domestic workers, security guards, and maids. However, a significant proportion of the remittances from India are not recorded in the BoP as they are brought in by the migrants themselves or sent through relatives and friends.

An increasingly larger share of remittances now comes from countries other than India, reflecting changing migration patterns and higher earnings in these locations. Moreover, the composition of skills of the labor flows is different among destinations. Because of the potential positive effect of remittances generally, Nepal has been giving due priority in promoting overseas employment and mobilizing remittances so as to maximize the benefits from these transfers. In this respect, effective March 29, 2002, the Nepal Rastra Bank (NRB) had begun granting licenses to private sector organizations interested in remittance-transfer business. While remittances shielded the economy during difficult situations in the past, the current global economic crisis has brought a new challenge to the role of remittances. Weak global demand for goods and services and slower economic growth, along with consequent rise in unemployment in host countries, has put the demand for Nepali workers and their remittance transfers at risk.

In terms of uses, however, it has been revealed that remittances in Nepal have been used very little for productive purposes. A small study undertaken by the NRB (2002), covering 10 districts and 160 sample households, showed that the remittance earnings were primarily invested for household purposes, purchase of real estate and house, paying off the loan, purchase of jewellery and as bank deposits. The following are some of the reasons as to why migrant workers do not invest in productive uses:

- a) Lack of promotion support in terms of information, advisory, training and other services pertaining to investment in new and potentially successful sectors;
- b) Less risk involved in the purchase of land and construction of houses;
- c) Hardly any knowledge on investment opportunities;
- d) Top priority accorded to household expenditure;

- e) Lack of expertise in the remittance receiving household for undertaking a business; and
- f) Lack of investment-friendly climate.

### Remittance and economic growth in Nepal: An analytical framework

There is not much literature on the issue of remittance and its impact on economic growth of Nepal. Based on the existing literature on migration, development, remittance, and socio-economic structure of Nepalese societies, the following diagram, illustrates the analytical framework for the role of remittance in the Nepalese economy.

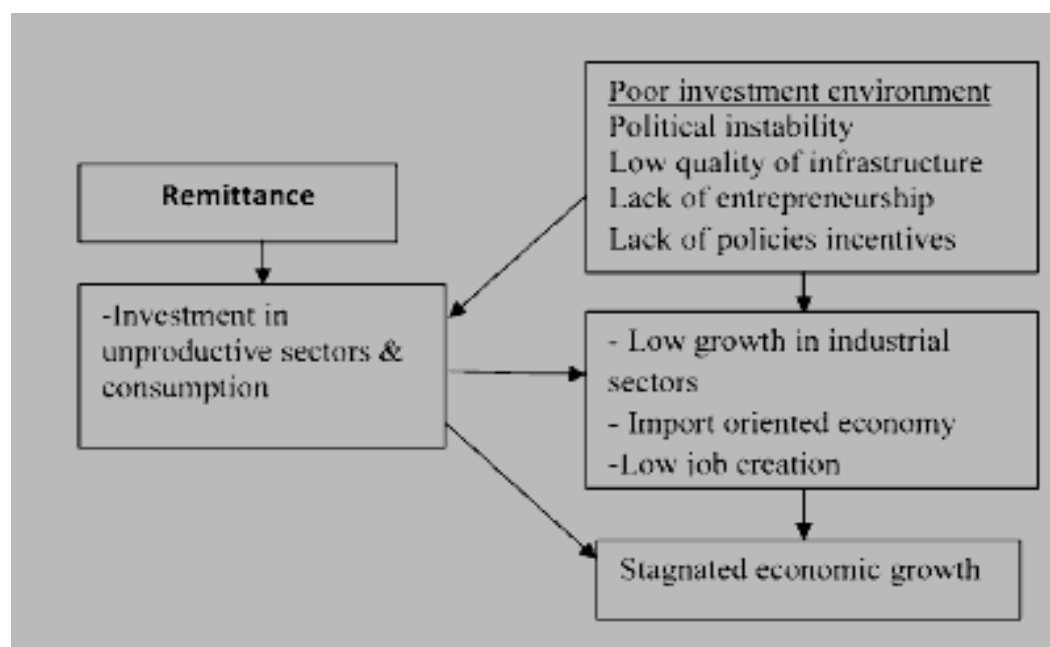


Figure: An analytical framework

According to the convergence theory, whatever may be the use of remittances either in daily consumption, saving, loan repay or investment; it has positive multiplier effects on the socio-economic development. If remittances are invested, then it contributes to output growth and generates positive multiplier effects if consumed. Migrants’ remittance has large positive multiplier effects on remittance receiving economy. On the other hand, divergence theory does not support this argument that consumption pattern of remittance increases economic dependency and there is no multiplier effect and positive impact on economic growth; instead it appreciates the local currency and there is negative impact on the industrial and export growth. Whatever may be, investment and capital formation are the major determinants of growth. Thus, remittance helps to accumulate the scarce capital resources, but its positive impact may not be

expected without its investment in capital formation.

In case of Nepal private investment to GDP decreased from 18 to 14.2 percent from 2005/06 to 2010/11. Furthermore, share of private investment in agricultural is less than 13 percent and low in the infrastructure development, industries and relatively higher investment in real estate business activities, which may not have a multiplier effects as infrastructure, agriculture and industries.

The existing political instability caused by a decade of civil conflict/war, prolonged transition to peace deteriorated the investment environment. Furthermore, the political instability caused by frequent strikes, blockade, lockout and inadequate infrastructure particularly electricity supply; per day up to 16 hours of electricity cut off during dry seasons are the major obstacles for productive investment. Uncertainties related to an unstable political environment reduce private investment and growth. Entrepreneurships, skills, and information about market are essential instruments to invest in business as well as to operate income generating activities, which are severely lacking in Nepal. Moreover, there are not adequate policies to encourage remittance recipients to invest in productive sectors. Poor economic incentives and weak institutions discourage households, businesses, and investors from saving, investing, and undertaking risks. According to Bhubanesh Pant (2011), due to less risk in purchasing land and construction of houses, remittance is hardly used in productive sectors. He also states that lack of knowledge on investment opportunities also responsible for low investment in productive sectors.

Although remittance has played an important role in foreign exchange and balance of payment, due to stagnated growth in major contributors to national GDP (agricultural and industrial sectors), overall economic growth is not satisfactory.

## Literature Review

### External remittance over the years:

In 2012, Nepal ranked third globally for the remittances it received from abroad as a percentage of its gross domestic product (GDP). Accounting for 24.7 percent equivalent of Nepal's GDP, remittance earnings were estimated at more than USD 5.2 billion, and this figure is expected to rise as labour migration to the Gulf countries and elsewhere continues to increase.

External remittance earnings not only constitute the country's biggest source of foreign exchange but also account for a substantial share of Nepal's per capita income, play an important role in boosting Nepal's economic growth, and in aiding poverty alleviation efforts as well. It is estimated that 'a 10 percent increase in official per-capita remittance leads to a 3.5 percent decline in the proportion of people living in poverty'. The first evidence of that came with NLSS 2003/04, which showed that the increase in remittances between 1995/96 and 2003/04 contributed anywhere between a third to a half in reducing overall poverty headcount rate in that period. Further, NLSS 2010/11 also attributes the reduction in poverty from 42 per cent to 25 percent between 1995/96 and 2010/11 largely to the remittance-led economic growth. Figure below shows the volume of remittances received from workers outside Nepal from 1990/91 to 2011/12, an increase by more than 150 times in that period. However, because the figures are based on Nepal Rastra Bank's data, they represent remittances received formally through financial institutions only.

Most remittances, especially from India, come via informal means like *hundi* or are brought back by individuals and as such fall below the radar of Nepal Rastra Bank. Although the government is trying to discourage the informal means of remittance transfer and is promoting the use of formal institutions like banks and money transfer agencies, it is believed that a substantial proportion of remittances continue to enter the country outside of formal channels. According to NLSS 2010/11, of the total remittances received, only 18.9 percent came via financial institutions and 2.5 per cent in the form of *hundi*, while 78.6 per cent was carried in person.

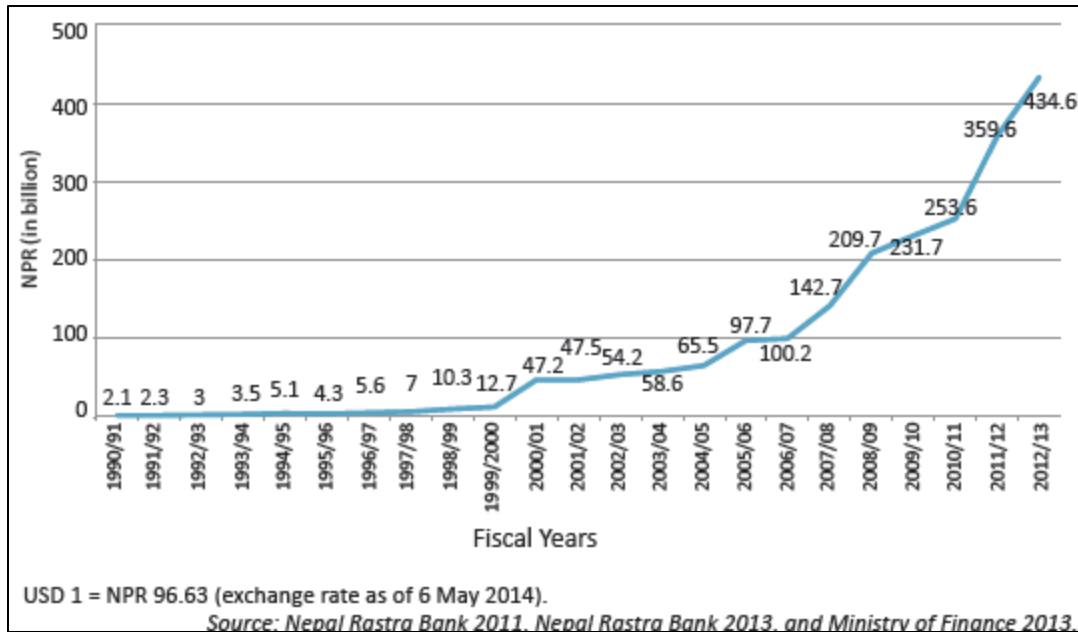


Figure: Worker's Remittance (in billion NRP)

### International migration:

Migration to international destinations, primarily for employment, has been a defining feature of Nepali migration since the late 1990s. It is estimated that more than four million migrants are abroad and that nearly half of all households in Nepal either have at least one migrant in a foreign country or someone who has returned from a stint abroad. India, the Gulf region (primarily Qatar, Saudi Arabia and the UAE) and Malaysia are the main international destinations for Nepali migrants.

### Migration trend:

Over the past 60 years, the number of international migrants has increased significantly from about 200,000 in the 1950s to approximately two million by 2011 (Figure 31). The most visible change occurred between 2001 and 2011 when the number of Nepalese abroad more than doubled.

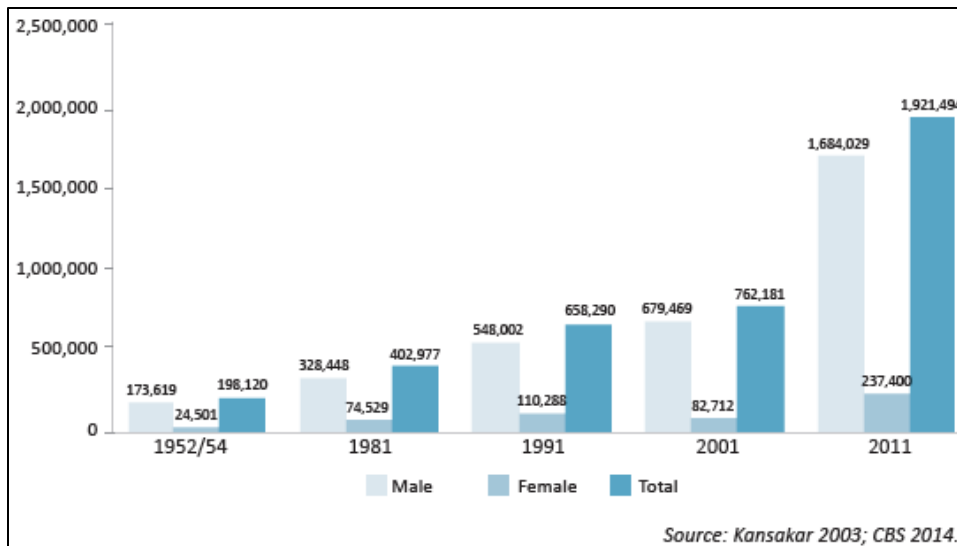


Figure: International migration from Nepal

### Destination of international migrants:

Given its proximity and socio-cultural affinities, and further assisted by the open border between the two countries, India has been a favorite destination for Nepalese. But, now, the countries of the Middle East have overtaken India as the primary destination for Nepali males.

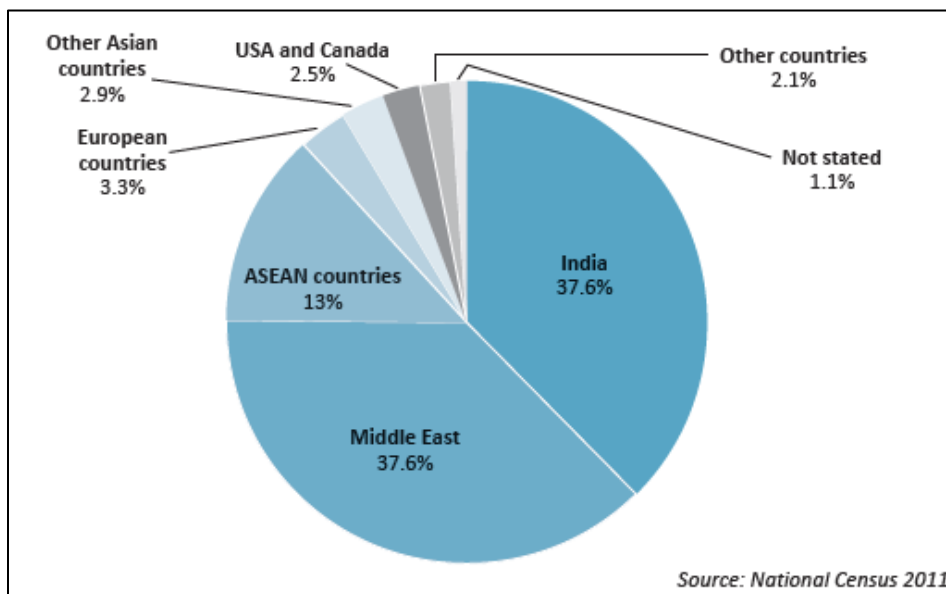


Figure: Destination of International migrants

### Education Level of labor migrants:

As Figure below shows, most labor migrants have obtained some level of education, with those without any formal schooling consisting just 13 per cent of the total.

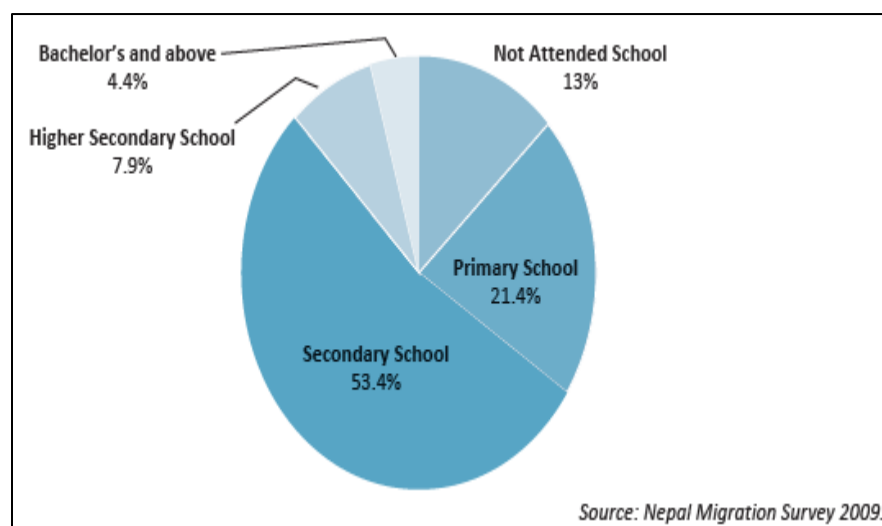


Figure: Education level of labor migrant

### **Occupation of labor migrant:**

Although NLSS has information about the kind of work Nepalese are engaged in abroad, given that it identifies 98 such sectors and also includes categories such as students (8 per cent) and a large proportion (21 per cent) reporting 'Don't Know', analysis of the data is not altogether helpful in understanding what work Nepali labor migrants do in destination countries. The Nepal Migration Survey 2009, on the other hand, clearly spells out the major occupations of Nepali in foreign countries. The data shows that most Nepalese seek employment in one of three main sectors: manufacturing (32 per cent), construction (16 per cent), and hotel/catering (16 per cent).

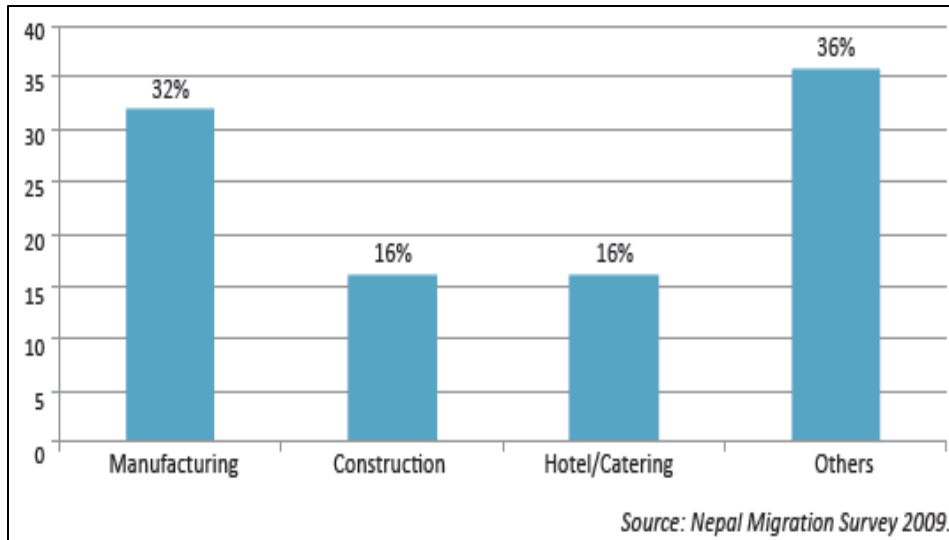


Figure: Occupation of labor migrant

### **Policy Implications:**

Remittance flows are a crucial since they are very large in size, are relatively stable and provide a cushion for economic shocks, and are unique in providing direct benefits for households. However, remittances do not automatically contribute to national development. Increasing inflows of remittances is used on non-productive sectors, which have negative impact on the national economy and sustainable development. There is need of utilizing remittances into the productive sectors providing incentives through policies. However, it is one of the difficult tasks to force individuals to invest private capital in the productive sectors.

For the infrastructural development, it is essential to attract Nepalese Diasporas from the developed countries, particularly investing in hydropower as well as motivating them to invest in new technologies. The Government of Nepal has to provide compensation, if Diaspora's investment were affected by strikes, riots and other insurgencies to create more attraction for them for further investment. To make the contribution of remittance to the national economy more sustainable, remittances have to divert into the field of commercialization of agricultural and other small medium enterprises reducing the additional consumption. Thus, remittance can be an agent of positive economic change. For this, there is need of appropriate skills to operate own business. The government has to provide entrepreneurial skills development training to the remittance recipients as well as to the returnee migrants with the coordination of NGOs and private sectors. For this, following activities have to be done:

- i) Provision of mobile training center for the easy access to people in the remote areas;
- ii) Foreign employment welfare fund should be used to provide appropriate training to develop entrepreneurship of the returnee migrants and remittance recipients;
- iii) Pre-departure skill development training should be provided to the foreign employee that they can earn more and send more remittance that can be used for income generating activities not only for the daily consumptions and repaying loan;
- iv) Foreign employment should be made accessible for the poor people providing loan without collateral from the banking channel with least interest rate.

The following figure below summarizes the policy implications that how remittances can be used effectively for economic growth through developing entrepreneurship and small scale enterprises. For this, all stakeholders: the government as well as NGOs and private sectors have to work together. Major role of government is to provide favorable investment environment. Then NGOs and private sectors should coordinate for the entrepreneurship development of remittance recipients through providing access to appropriate trainings, technologies and market information.

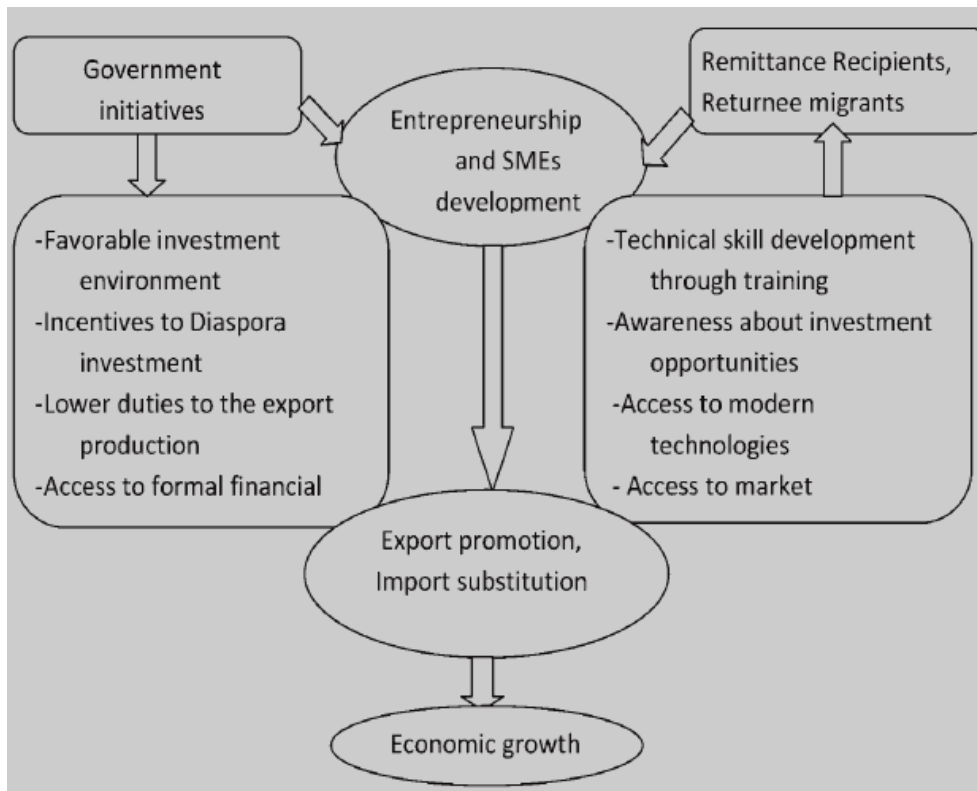


Figure: A Policy framework

## **International policies and practices for remittance**

It is growingly acknowledged in South Asia that foreign labor migration helps promote national economic growth, eases the pressure of unemployment, brings in much-needed foreign exchange through remittances and increases consumption, savings and investment at both the household and macro levels.

The Governments of Bangladesh, India, Pakistan and Sri Lanka have devised a legal framework encouraging their citizens to send foreign remittances into their countries of origin. Generally, the non-resident citizens of these countries are granted the following facilities, among others:

- a) Maintenance of bank accounts in both foreign and local currencies without tax implications;
- b) Investments in securities/shares, and deposits with local firms/companies; and
- c) Investments in immovable properties in the respective countries.

Because of these and other facilities provided to their respective non-resident citizens, these countries have been able to attract enormous remittances from their respective non-resident citizens. Again, most of the South Asian Governments have established special institutions such as migrant workers welfare funds and have appointed community welfare officers/attaché in embassies in the receiving countries to promote and protect the interest of migrant workers.

### **India:**

India has witnessed an upsurge in returns and investments of its Diaspora population especially after 2006 when it introduced registration certificates called Overseas Citizens of India for persons of Indian origin. They are analogous to green cards, and allow nonresident Indians (NRIs) most of the benefits of citizenship while maintaining their foreign passports. They cannot, however, obtain an Indian passport, vote in Indian elections, own agricultural and plantation properties in India or work for the Indian government. Incentives for returnees include attractive job opportunities, particularly in the areas of software and other information-technology-related jobs, finance, telecommunications, pharmaceuticals and research and development. Many programs have also been launched to attract NRI intellectuals and professors to Indian universities.

India has a wide-ranging package of activities and incentives that accords top priority on building stronger links with its Diaspora communities. These are all orchestrated by the Ministry

of Overseas Indian Affairs (MOIA) that was set up in 2004. The MOIA seeks to persuade its Diaspora to invest in long-term ventures, rather than just sending wire transfers and short-term remittances. For meeting this goal, in 2008 the Government launched an Overseas Indian Facilitation Centre, a one-stop shop to help overseas Indians invest in India. Some other initiatives being undertaken by the MOIA include the following:

- Setting up an ICT-driven Diaspora Knowledge Network to draw on India's Diaspora knowledge resources as well as to provide impetus to projects in the Public-Private Partnership mode;
- Establishing a single window for overseas Indian investments to function as a single point contact;
- Operationalizing the electronic remittance facility for overseas Indians that combine the qualities of economy, speed and convenience;
- Launching the scholarship programme for children of overseas Indians to study in India;
- Expanding the Know India programme so that the Diaspora youth would bond with and gain knowledge about India;
- Fully operationalizing a new Overseas Citizenship of India scheme (UNCTAD, 2009).

Other factors have also been responsible for the surge in remittances to India. The Government of India eased regulations and controls, and eliminated the black-market premium on the rupee and created convenient remittances services. The Indian and international banks have systematically shifted some remittances from the informal "hawala" channels to formal channels. Indians abroad have also responded to several attractive deposit schemes and bonds offered at home. Again, the Indian Investment centre has devised mechanisms that assist Indian companies to collaborate with NRIs.

To facilitate the development of enterprises in India, the Indian Investment Centre has developed mechanisms that enable Indian companies to collaborate with NRIs to identify sources of capital and technology. The agency maintains an industrial information service that provides the status of industries and profiles for potential industrial projects. Furthermore, the agency's website provides nonresident Indians with answers to an expansive list of investment questions on bank accounts, repatriation of profits, and investments in securities, shares, company deposits, and property. The site also offers special facilities to NRI investors repatriating funds.

## **Bangladesh:**

With regard to Bangladesh, the Bangladeshis working abroad sent home a record US\$ 10.72 billion in 2009, as remittances continued to scale new heights despite the global meltdown. This figure was 19.4 percent higher than what the country's more than six million workers had remitted in 2008. To ensure productive use of remittances, the government, Bangladesh Bank and Schedule Banks designed a number of savings and investment schemes for wage earners abroad. These included the following:

- A migrant can open a non-resident foreign currency deposit (NFCD) account in any branch of Bangladeshi and foreign banks that possess an authorized dealership license. The account can be opened for different periods and are renewable and can be maintained for an indefinite period even after the return of the wage earner.
- The remittances of Bangladeshi migrants abroad can be invested in Bangladeshi currency in five-year wage-earner's development bond which is also renewable. The profits are investable in Bangladesh and principal is freely transferable abroad in foreign currency.
- US Dollar Premium Bond and US Dollar Investment Bond are also available at attractive interest rates.
- The non-resident Bangladeshis are granted permission to invest in 'Industrial Development Bond' scheme of the Agrani Bank, one of the nationalized banks of Bangladesh.
- A non-resident Bangladeshi can purchase shares in both primary and secondary markets including the debentures of Bangladeshi companies. A 10 percent reserve quota has been fixed for a non-resident Bangladeshi in initial public offering (IPO) of the local companies.
- Foreign investors including the non-resident Bangladeshi do not require any approval to set up a new industrial unit, but only have to be registered with the Board of Investment. They receive priority in obtaining industrial facilities like procurement of land, electricity, gas and sewerage connections, import of capital machinery and raw material and tax rebate, among others.

Another aspect that calls for discussion in the case of Bangladesh is the Migrant Welfare Fund (MWF) that was set up from the subscription charges levied on migrants before they leave the country. Passport renewal fees and attestation fees also accumulate in the MWF. Some of the aims of the Fund include the following:

- a) Provision of hostel-cum briefing centre for the prospective migrants;
- b) Provision of orientation briefing;

- c) Welfare desk at Dhaka Airport;
- d) Burial of dead bodies and providing help to the family of the deceased;
- e) Providing assistance and treatment to the handicapped laborers; and
- f) Establishment of clubs in destination countries.

In Bangladesh, the institutional mechanisms for dealing with remittances are quite exhaustive and have performed their tasks efficiently. In order to inform the migrants in host countries effectively and timely with information pertaining to the available remittance service and savings and investment options, the following information and communication channels have been employed:

- Pre-departure briefings for migrant workers by the government's Bureau of Manpower Employment and Training (BMET).
- Migrant worker briefings in social events and meetings in host countries, supported by the labor wings of embassies of Bangladesh.
- Press releases/advertisements in print and electronic media channels popular with the migrant worker in host countries and also in Bangladesh for information of families/beneficiaries of migrant workers.
- Information booklets/brochures/pamphlets in hard copy made available through banks in Bangladesh and their clearing arrangement counterparts abroad.
- Websites of the government, central banks, commercial banks and embassies abroad.

There are five government ministries dealing with international labor migration in Bangladesh, the Ministry of Expatriates' Welfare and Overseas Employment being the principal one. The others include the Ministries of Home Affairs, Foreign Affairs, Finance and Civil Aviation, and Tourism. The Bureau of Manpower, Employment and Training (BMET) is the executing agency of the Ministry of Expatriates' Welfare and Overseas Employment in charge of processing labor migration. In particular, the BMET is responsible for a wide range of functions, including control and regulation of recruiting agents, collection and analysis of labor market information, registration of job seekers for local and foreign employment, development and implementation of training programs in response to specific labor needs for national and international labor markets, and resolving legal disputes among key stakeholders.

The government enacted an Overseas Employment Policy in 2006 with the main

objectives to:

- (i) Ensure opportunities at reasonable cost for both short-term and long-term migration;
- (ii) Enhance migration opportunities for the skilled and professionals;
- (iii) Manage the recruitment process efficiently;
- (iv) Encourage remittances through formal channels;
- (v) Encourage long-term and short-term migrants to invest in Bangladesh;
- (vi) Assist returning migrants in social and economic reintegration within the country; and
- (vii) Arrange coordination work among related institutions.

As Bangladesh is one of the pioneers in issues involving micro-finance and micro-credit schemes on the one hand, and the successful implementation of linking microfinance institution (MFIs) to remittances in other countries on the other, MFIs involvement in remittances in Bangladesh could be one of the most promising approaches for maximizing the development impact of remittances. MFIs in Bangladesh have operated as distribution agents in remote areas, and administered schemes which support the utilization of remittances for savings and investments for development. This experience of Bangladesh could be emulated by LDCs such as Nepal.

**Pakistan:**

Pakistan registered a high level of remittance inflows equivalent to US\$ 7.81 billion in 2009, a rise by 21.1 percent compared to their inflows of US\$ 6.45 billion a year earlier. A number of factors were responsible for this state of affairs including the return of some of the expatriates, diversion of remittances partially from informal to formal channels and increased outreach of the banking sector.

In Pakistan, a number of incentives were announced in 2001 reflecting the significance that the government placed on remittances as an instrument for economic development. Linked to a minimum remitted amount (US\$ 2,500 to 10,000), overseas Pakistanis were provided privileged access to higher education, public housing and share offerings as well as free renewal of passports and import duty exemption for US\$ 700 per year.

Pakistan introduced a "non-repatriable investment scheme" under which overseas Pakistanis are permitted to import machinery and equipment at concessionary rates of duty to establish manufacturing enterprises. The rate of duty rebate varies, that is, projects in relatively

underdeveloped areas are granted a higher rate of rebate. The Investment Advisory Service of Pakistan conducts pre-feasibility studies to facilitate the choice of investment projects. Pakistani migrant workers are also permitted to invest in export processing zones which enjoy complete duty exemptions on machinery and raw material imports.

In order to provide for an ownership structure in Pakistan for remittance facilitation, State Bank of Pakistan, Ministry of Overseas Pakistanis and Ministry of Finance jointly launched the Pakistan Remittance Initiative (PRI) in August 22, 2009. The objective of PRI is facilitating and supporting faster, cheaper, convenient and efficient flow of remittances. The PRI has focused on providing information about the remittance channels and other facilitation to overseas Pakistanis.

### **Sri Lanka:**

Remittances to Sri Lanka, on the other hand, increased by 14 percent to US\$ 3.3 billion in 2009 compared to 2008. This increase in remittances can be ascribed to the information and financial education provided to them by the Sri Lanka Bureau of Foreign Employment.

Sri Lanka was the first labor-exporting country in Asia to introduce an entrepreneurship development program for return migrants. The main objective of the program, launched in 1982 by the Sri Lankan Ministry of Labor in collaboration with the Merchant Bank of Sri Lanka, was guiding returning migrants in business creation. Many lessons were learnt from this initiative. First of all, return migrants belonging to higher occupational categories were suitable for an orientation program of this type. Secondly, the possibilities for guiding candidates into business were limited unless accompanied by steps to facilitate the access to capital. Three, the ability to identify and develop a project, together with managerial skills needed to run a business, cannot be imparted just through a program of class instruction.

The government also made it mandatory for those going abroad for employment to open non-residential foreign currency accounts. Again, Sri Lankan domestic aides working in West Asian countries were sent for employment only after signing a legal employment agreement. Moreover, the efforts of the government authorities to hold talks with the labor authorities abroad had made it possible to get salary increments for domestic aides in the respective countries.

In Sri Lanka, the Government has attempted to encourage investment and long-term

financial planning by return migrant workers by offering different types of credit schemes. The credit schemes do not focus solely on investment but also cater to other identified needs of migrant workers, making them more realistic in application.

## Data Presentation and Analysis:

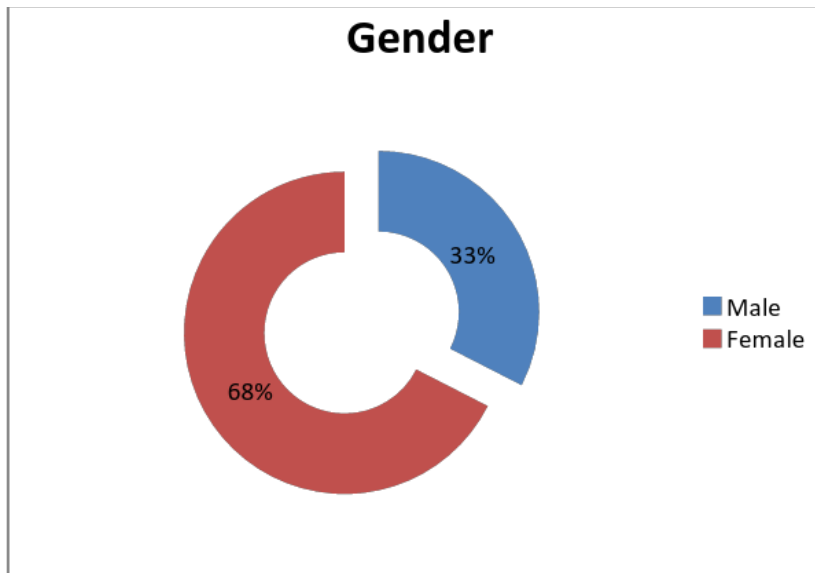
The data presented below are based on the field survey conducted on two districts of terai and hilly districts. Chitwan was chosen to represent one of the terai districts while Palpa was chosen to represent hilly district. Altogether, 40 people were interviewed among which 18 were from Chitwan and 22 were from Palpa. The respondents were the remittance receiver from abroad through IME and Western Union Money Transfer.

### General Information:

In this section the general information of the respondent are presented. The general information includes gender, ethnicity, destination of migrant, educational background, work of migrant in the destination, remittance income, etc.

### Gender:

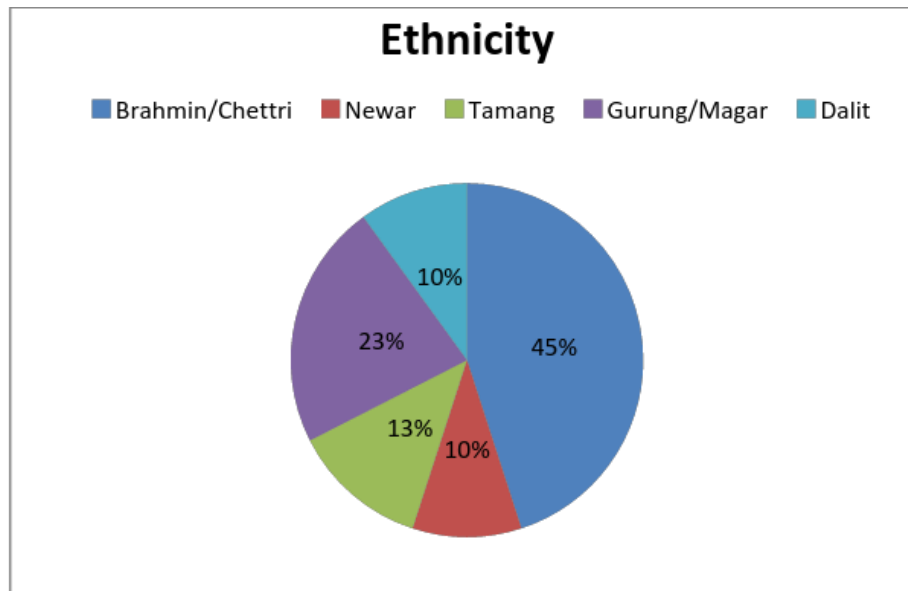
The number of female respondent was much higher as compared to male. From this data we can observe that, there is more female receiving remittance than the male. Most likely we can assume that more male member migrated abroad then female, hence more female were encountered collecting the remittance.



### Ethnicity:

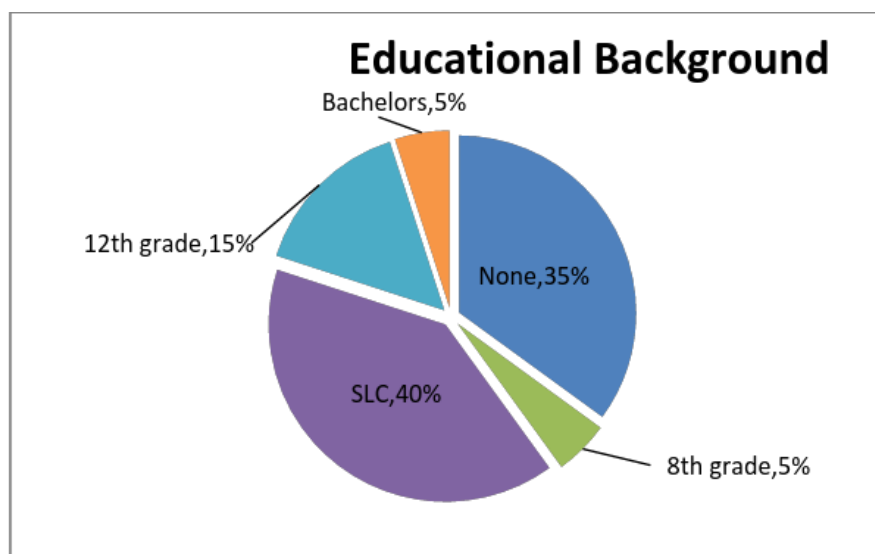
We can observe from chart below that, majority of the migrants are Brahmin and Chettri covering 45% of the total population followed by Gurung and Magar covering 23% of the total

population. Newar and Dalit migrants are the least in the group which covers only 10% respectively.



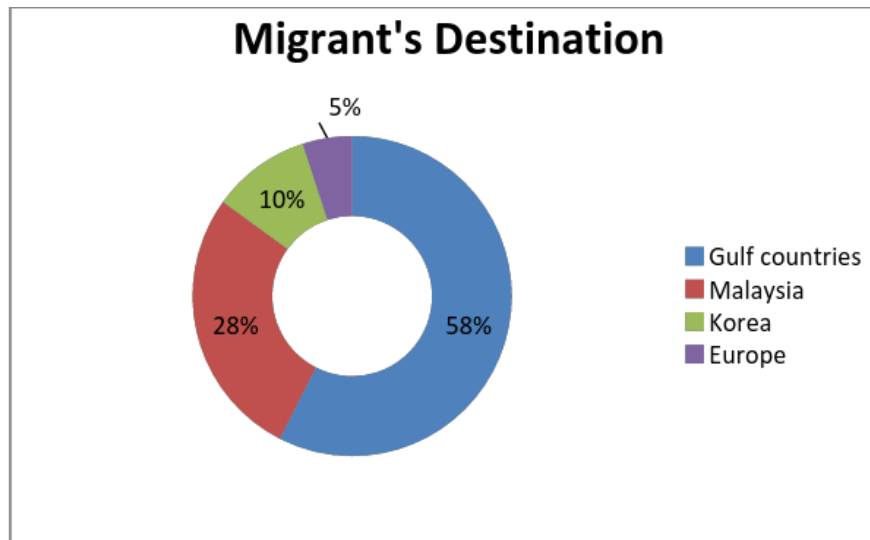
#### Educational Background:

Majority of the respondents i.e. 65% are found to be literate and completed their primary education level. Only 35% of the respondents were illiterate, having no formal education. Most of the respondents have completed their SLC and only few have completed their 12<sup>th</sup> grade and Bachelors level. None of the respondents are found to have completed their Masters level or just 5<sup>th</sup> grade.



### **Migrant's Destination:**

Despite of the fact that India is the most popular destination for Nepalese workers, Gulf country can be seen as the most popular destination for migrant worker in the surveyed districts. Gulf country in the survey includes UAE, Qatar, Dubai and Oman. The next popular destination is Malaysia covering 28% of the total population followed by South Korea and Europe being the least popular among the migrant workers.

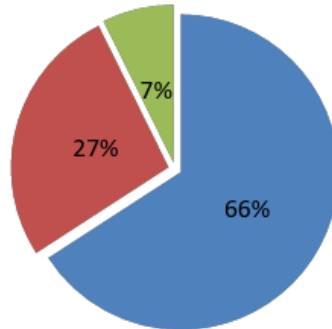


### **Relationship with migrant:**

The remittance receivers were asked about their relationship with the migrant who is sending the money. Majority of the recipient were found to be the wife of the migrant worker i.e. 66%. Besides the wife of migrant worker, the parents of migrant worker were the second highest receiver of the remittance i.e. 27% followed by the brother of the same household i.e. 7%.

## Relationship with Migrant

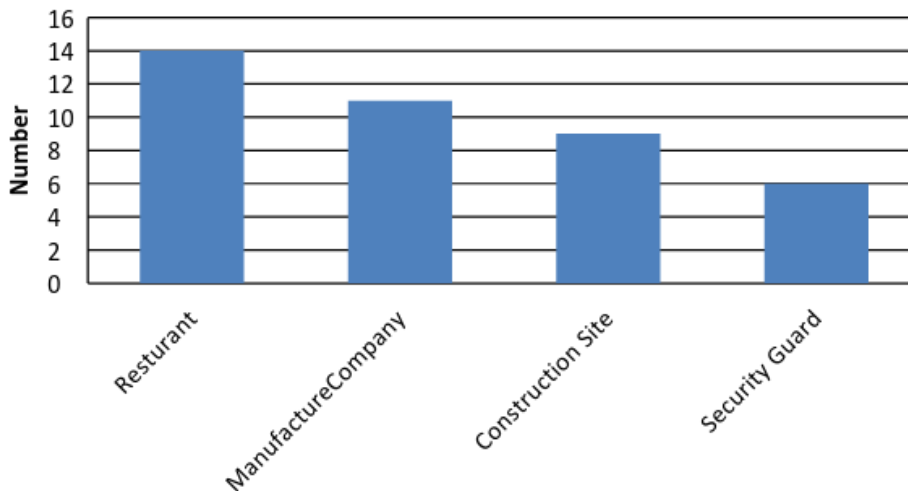
■ Husband ■ Son ■ Brother



### Migrant's Occupation:

Most of the workers (35%) are working in restaurants followed by manufacturing company (27%), construction site (23%) and security guard (15%) respectively. None of the worker seems to have a highly qualified high pay job. Almost all of them are working low level manual job which is very common among Nepalese worker.

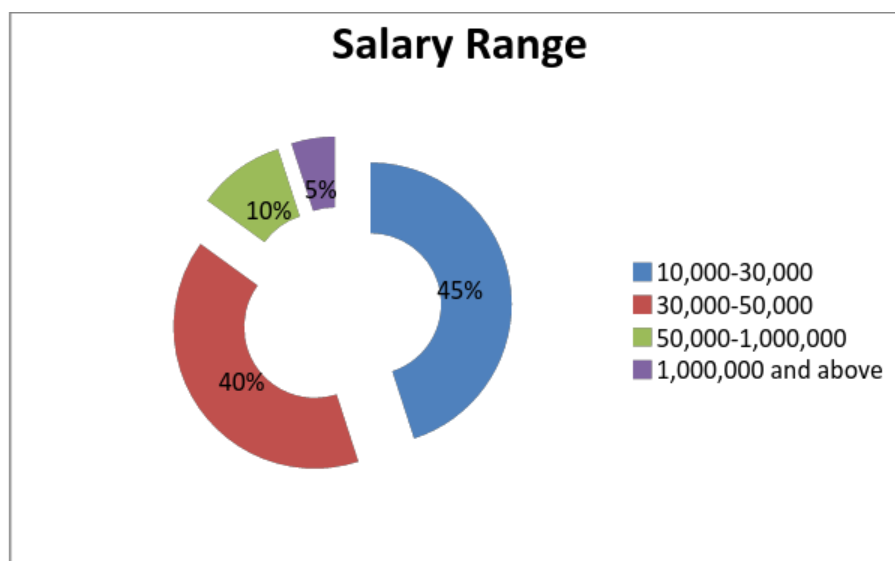
## Migrant's Occupation



### Salary range:

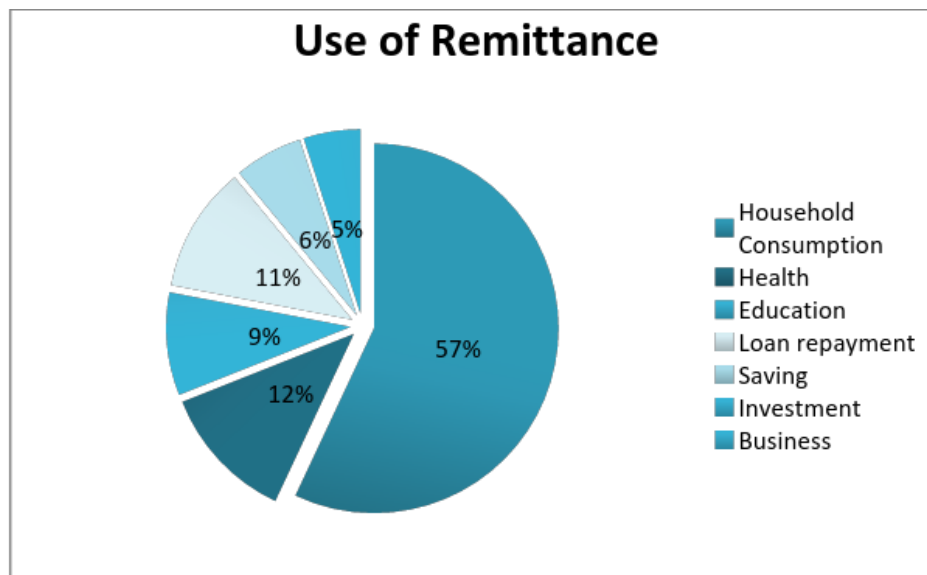
Here the money range of the migrant worker is divided into four different groups. Even after working abroad the majority of the migrant are not earning much as expected. 45% of the

migrants earns about Rs10000 to Rs 30000 per month which is followed by 40% of the population earning about Rs 30000 to Rs 50000 per month and 10% of the population earns about Rs 50000 to Rs 100000 per month. Only 5% of the population earns more than Rs 1 lakh per month. Even after working in such a difficult condition, the migrant workers don't earn a big amount of money. Majority of the population are earning very less than they require and deserve.



### Use of remittance:

As shown in the figure below and the literatures about the use of remittance. Major share of remittance is occupied by the household consumption. Since the remittance is received by individuals, the first priority of the people is to satisfy their household needs. About 57% of the remittance is used for household consumption, which is more than all the other expenses combined. After that, health and education has also a significant share in the use of remittance i.e. 12% and 9% respectively. With remittance the families have higher income and can afford private hospitals and schools for better facilities. Most of the migrant worker has to withdraw huge amount of loans to work abroad, which they gradually pay in installments after earning abroad through remittance. 11% of the remittance is used for paying loans. There is almost insignificant number of people who save and invest the remittance capital. Only 6% and 5% of the population save and invest the remittance capital. There are 0% of the people who invest their remittance into business. Here, we can observe that the remittance capital is not utilized into productive sectors rather is invested in consumption.



#### **Investment insecurities:**

The remittance receivers were asked about the reasons why they do not invest in enterprise. Varied answers were given by the respondents. The reasons are prioritized according to the answer given by the respondents. The most repeated reasons for not investing in enterprise are: having no prior idea about investment, lack of business support and contacts, incapable of bearing the unexpected loss, low self confidence. These are the major reasons why people won't invest in enterprise. Most people don't have any idea about enterprise which lowers their self confidence for carrying out any enterprise activities. Since these people don't have any business support and contact they are afraid of bearing unexpected loss in enterprise.

The second most prioritized reasons is that, there is a lack of startup capital for new entrepreneurs and even the legal and financial process which needs to be done is very complex. So, people are not attracted to start up enterprise. Now a days there is lack of workforce even in the rural areas and there is insecure investment environment for potential investors. These are the second most prioritized issues.

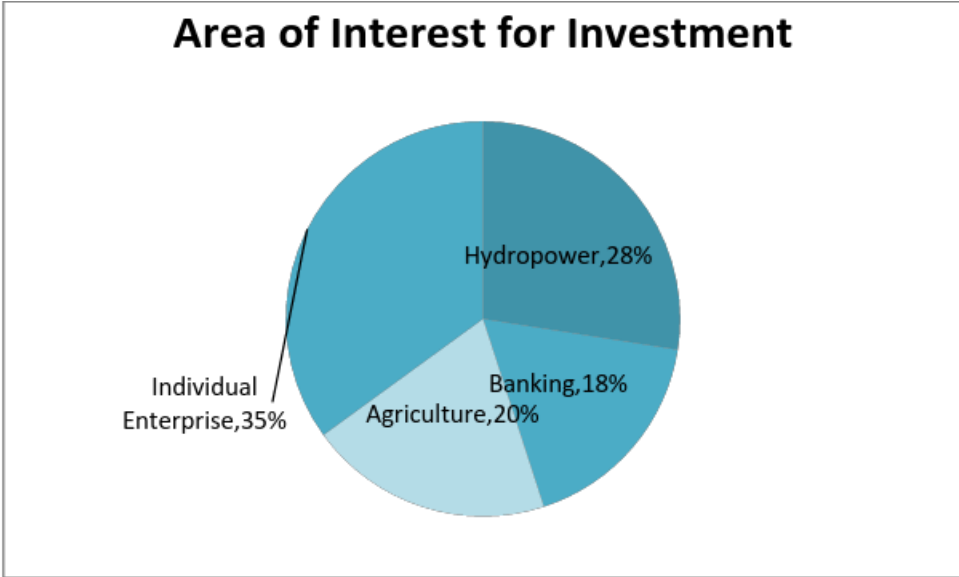
The political instability and the unwillingness for enterprise is listed as the least prioritized reasons for not investing in enterprise sector. Whereas, we have a general assumption that political instability is very much affecting the overall situation of the enterprise and investment sector of the country.

<b>Prioritization</b> according to repetition and concern of the remittance recipients	<b>Reasons</b> for <b>not</b> investing in enterprise and investment sector
<b><u>Most repeated</u></b>	No prior idea about investment
	Lack of business support and contact
	Incapable of bearing the unexpected loss
	Low self confidence
<b><u>Second most repeated</u></b>	Lack of startup capital
	Complex legal and financial process
	Lack of workforce
	Insecure investment environment
<b><u>Least repeated</u></b>	No will for investment
	Political instability

Figure: Reasons for not investing in enterprise and investment sector

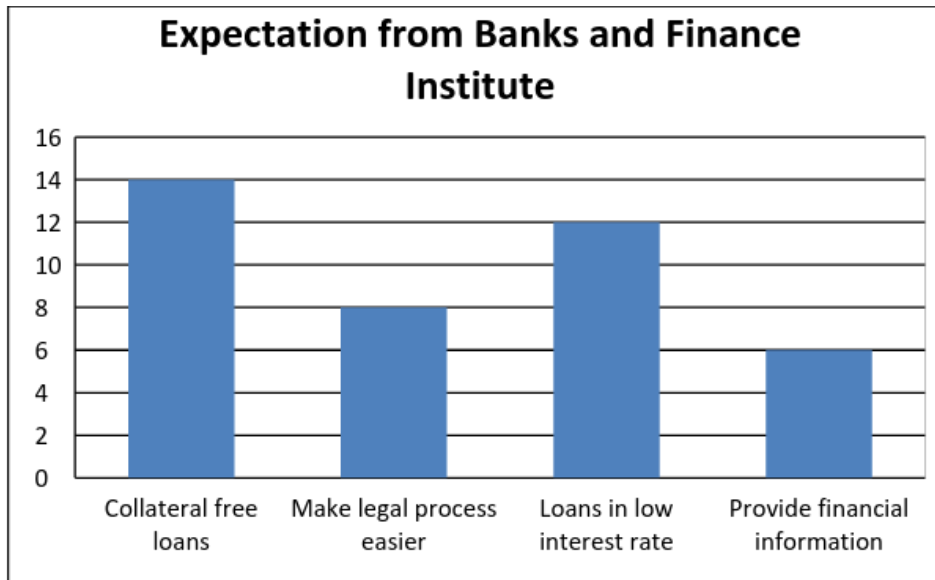
**Area of interest for investment:**

From the figure below, we can observe that people are interested to invest in every sector. But more people i.e. 35% seem to be interested in starting their own individual enterprise. Whereas, 27% and 20% of the people are interested to invest in hydropower and agriculture sector respectively. Banking sector receives the least attention for investment.



**Expectation from banks and financial institution:**

People were asked about their expectation from banks and other financial institutions. Most people expect collateral free loans followed by loans in low interest rates. Either way, people want easy loans if they are to invest in any enterprise sectors. The other expectation from the financial institutions is to make legal process more easier and user friendly and provide people with financial information in regular basis.



**Training and Support:**

People basically want skill development training with management and entrepreneurship skills as their first priority. Whereas, the other legal, financial and book keeping training are prioritized as secondary by the people when asked what types of training and support would you like to have.

Ranked according to priority	Training and support program needed
Most prioritized	Skill development training
	Management and Entrepreneurship skills
Second most prioritized	Financial literacy
	Legal literacy
	Record and book keeping training

## **Recommendation:**

Remittance flows are a crucial since they are very large in size, are relatively stable and provide a cushion for economic shocks, and are unique in providing direct benefits for households. Here are few recommendations that I have drawn through the study conducted:

- Nepal needs to develop a website to make available information to migrants on remittances transfer mechanisms, provide information on investment opportunities back home, information on potential entrepreneurship opportunities and various other schemes provided by government and private sectors.
- To attract remittance capital into productive sector, government should provide favorable policies insuring the investment returns such as; shares in hydropower or development activities carried by government, providing 100% assurance.
- The transaction fee of the bank should be minimized as much as possible, if government aims (budget speech) to bring remittance through formal channel.
- The government and NGOs could provide services such as training, business advice and marketing assistance for micro and small entrepreneurs.
- Pre-departure orientation program, coupled with awareness-raising initiatives financial training for both migrants and their families can also help them to use formal channel to send money back home.

## **Conclusion:**

There has been a rapid increase in remittance inflows in Nepal since the last decade. Contribution of remittance to foreign exchange earning exceeds export, foreign direct investment and foreign aid but economic growth is not improving simultaneously. This study shows that a major portion of remittance is being used on consumption and other non-productive sectors including real estate and investments in gold; resulting from the poor investment environment caused by inadequate idea for investment and lack of self confidence, insufficient startup capital, insecure investment environment and fear of potential loss added up with political instability and lack of business support and contact. Lack of incentives to invest remittance in the productive sectors and lack of entrepreneurial skills to operate small scale business have also posed obstacles to transform remittances into productive sector.

To carry out effective and efficient public policies to channel remittances into productive projects, the government has to look at what motivate Nepalis to send money home particularly beyond individual family remittances, and craft its policies to take advantage of it. While the policies and initiatives undertaken so far to augment the impact of remittances are primarily aimed at encouraging the sending of remittances through official channels, the utilization aspect of remittances has been largely ignored by the government authorities.

Hence, directing remittances to productive investments is a challenge for the government. Families of migrant workers should be encouraged and trained so that they are able to undertake small businesses. This will generate jobs and help improve the domestic economy. In the long run, migrant workers can come back and be reintegrated in the country, bringing in better skills and technology.

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