
CHANNELING REMITTANCE TO INVESTMENT AND ENTREPRENEURSHIP

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Abstract

This paper studies the use of remittance for investment and entrepreneurship in Nepal and highlights policy recommendations for economic growth and development. Nepal has been receiving remittance for almost two decades. It accounted for 31.75% of GDP in 2015 and has contributed significantly to maintain macroeconomic stability in the country. Although Nepal faces a large trade deficit, remittance has kept the balance of payments in check and has allowed the central bank to build official reserves, reducing vulnerability to external shocks. Remittance has also helped in poverty alleviation by smoothing consumption and investment in human and physical capital. Despite these benefits, dependence on remittance does not provide solutions to long term sustainable growth challenges. Remittance has mostly been used for consumption, or to finance trade deficit, or held as foreign reserve, none of which is directly linked to productive sector. This paper highlights these inefficiencies and the way forward to using remittance capital in the productive sector.

The paper explores two main avenues to channel remittance productively to ensure long-term sustainable economic growth – investment and entrepreneurship. In light of this, the research methodology is designed as follows with the aim to provide feasible policy recommendations. The first section will discuss existing literature regarding impact of remittance on micro and macroeconomic factors. The second section will show historic and current trends of remittance in Nepal. The third section will include a field study of organizations in Nepal currently working to promote investment and entrepreneurship. The study will include policies and strategies taken by these organizations to channel remittances to productive use and the barriers they face. The fourth section will show lessons learned from international experience focusing on the Philippines, India (Kerala), Bangladesh, and Sri Lanka. In this section, I will look into the remittance policies of these countries and incentives they used for effective and efficient use of remittance. There have also been some success stories in Nepal where remittance has been used for investment and entrepreneurship which has helped in creating jobs and achieving inclusive growth. The last section will use the above information to synthesize policy recommendations in the context of using remittance for sustainable investment and entrepreneurship.

List of Abbreviation

CTEVT	Council for Technical Education and Vocational Training
EMI	Equated Monthly Installment
FCDU	Foreign Currency Deposit Unit
FITTA	Foreign Investment and Technology Transfer Act
HIDCL	Hydroelectricity Investment and Development Company Limited
IEA	Industrial Enterprises Act
IFAD	International Fund for Agricultural Development
INGO	International Non-Government Organization
LIBOR	London Inter-bank Offer Rate
MoE	Ministry of Education
NGO	Non-Government Organization
NFCD	Non-Resident Foreign Currency Deposit
NITA	Non-resident Investor's Taka Account
NRFCs	Non-Resident Foreign Currency Accounts
OIFC	Overseas Indian Facilitation Center
PBD	Pravasi Bharatiya Divas
PKB	Probashi Kallyan Bank
RFCA	Resident Foreign Currency Account
RHL	Remit Hydro Limited
SLDBs	Sri Lanka Development Bonds
SFIDA	Special Foreign Currency Investment Deposit Account

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I. Introduction

International Organization of Migration defines remittances as personal monetary transfers that migrant workers make to their relatives back in their country of origin. International Labor Organization defines remittances as migrant workers' earnings sent back from country of employment to country of origin. However, these definitions do not capture the full magnitude of remittances, since they exclude remittances that are received through informal channels and only include those received through formal channels such as banks and money transfers.

In the year 2013 (World Bank, 2013), Nepal's national unemployment rate stood at 46% with an extreme shortage of attractive job opportunities. According to a report prepared by Shodhashala for the Ministry of Finance, Nepal (Adhikari, Katuwal, & Maharjan, 2016), about 1500 youths leave the country daily for employment opportunities, and an estimated 6 million people are working outside the country. This is driving away youths to find high, medium or low-skilled jobs in foreign lands. With the growth of migrant workers, remittances reached NRs. 617 billion in the fiscal year 2014/15 which is close to the country's budget. This amount is significantly higher than the government's capital expenditure and foreign grants which indicates that remittances have the potential to contribute towards capital formation and enhance domestic productivity.

Several literatures show that remittance has contributed significantly to maintain macroeconomic stability in Nepal. As a result, even with huge trade deficit, the country has been saved by remittance from a balance of payment crisis. Share of remittance in total foreign exchange has also increased considerably, relaxing foreign exchange constraint. This has allowed the central

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bank to build official reserves to a higher level reducing vulnerability to external shocks. At the household level, it has smoothed consumption and investment in human and physical capital and has helped reduce poverty.

Despite the benefits, depending on remittances is not sustainable for the long-term development of the country. Nepal is not only losing its young human capital due to lack of job opportunities, it is also not utilizing remittances in a productive manner. Around 79% of remittances is used for consumption, an unproductive sector, and only 2% is used for investment (Devkota, 2016). The share of final consumption to GDP has consistently been above 90% for the last few years (Adhikari, Katuwal, & Maharjan, 2016).

Therefore, it is high time to channel remittance in the productive sectors such as infrastructure, hydropower and agriculture. There have been some innovative proposals to put remittances into productive use, such as, remit hydro, remit housing, remit infrastructure, village development (building hospitals, schools) through local investment projects, and savings plan by issuing remittance backed bonds with attractive interest rates. However, their implementation procedure has faced challenges. The government and policy makers should work collaboratively to put remittance into productive use, create incentives for migrants and returnee migrants to invest and create a more conducive environment for entrepreneurial activities.

II. Motivation, Objectives and Limitations of the paper

Motivation

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This is a policy paper aimed to address the importance of remittances for the Nepalese economy. Specifically, it highlights the reasons to channel remittance towards investment and entrepreneurship and the negative impacts of not doing so for the economy and the people. For this purpose, the paper calls on the government of Nepal for policy action that would enable productive use of remittance for inclusive and sustainable economic growth of the nation.

Objectives

The paper is divided into four main parts. Section III provides historic and current situation and trends of remittance in Nepal. Section IV discusses my contribution through primary research – the methodology and an analysis of key findings from my field research which includes interviews with people from various work sectors. Section V discusses the experiences of four countries – Bangladesh, India, Philippines, and Sri Lanka, in using remittance productively for economic growth and the lessons that we can learn from them. Section VI provides policy recommendations in the context of Nepal based on the above three sections, intensive literature reviews, field study, and lessons learned from international experiences.

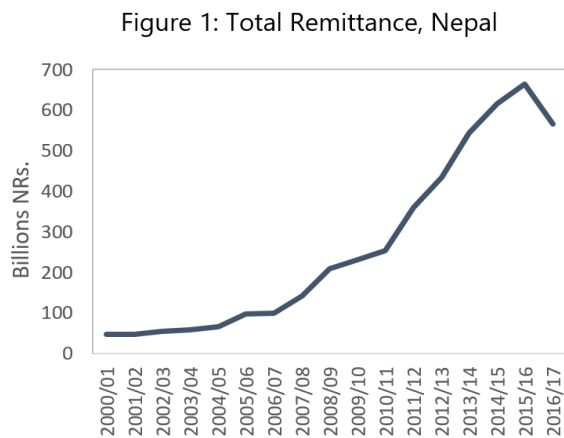
Limitations

There were some limitations faced while conducting research. Remittance data is only available in aggregated level, getting disaggregated data by district, or by destination country would be valuable for research. The sample size of my research is small, i.e., the number of individuals I interviewed is few, however, there is a clear pattern found in the analysis which is a valuable element and contribution of the paper. Finally, time was limited to conduct primary research,

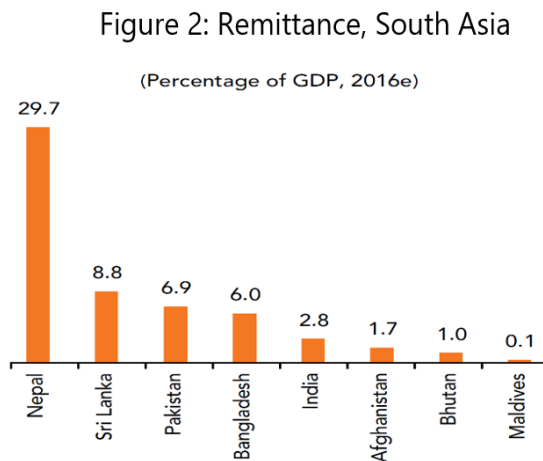
hence the small sample size, but my research indicates the wealth of information that needs to be tapped into and this can be developed further for future research.

III. Remittance in the Nepalese Context

Remittance Trends: Figure 1 below, shows Nepal has experienced a sharp growth of remittance, from NRs. 47.2 billion in FY 2000/01 to NRs. 665.1 billion in FY 2015/16 (Nepal Rastra Bank Database). Figure 2 shows that among countries in the South Asia region, Nepal’s remittance is the highest in terms of percentage of GDP (World Bank, 2017).



Source: Nepal Rastra Bank. Note: Fiscal year is mid-August to mid-July. 2017 is until mid-May.

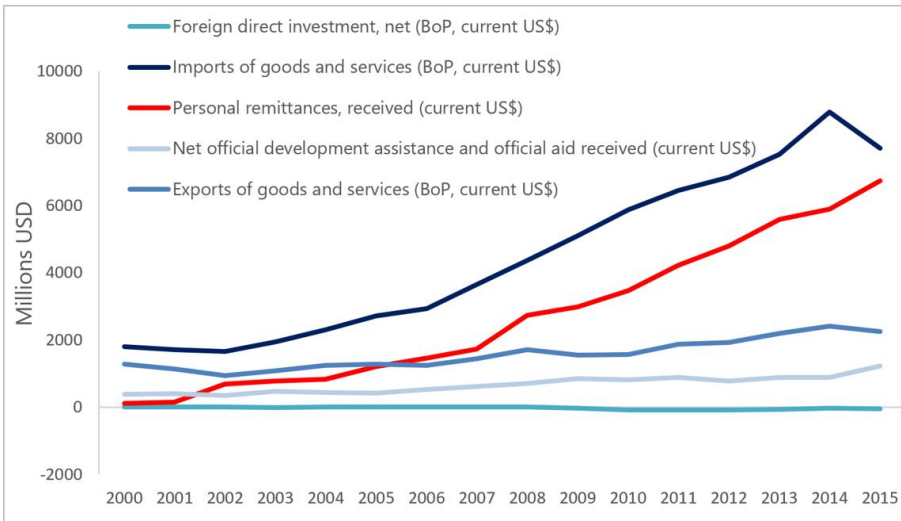


Source: World Bank and IMF (2016 estimate)

The figure below shows the status of remittance compared to other macroeconomic indicators.

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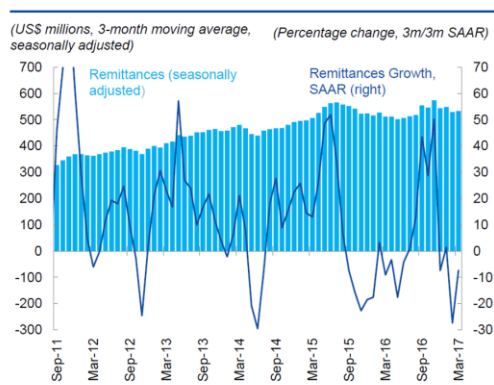
Figure 3: Remittance vs other Macroeconomic Indicators



Sources: World Bank and IMF.

Although the amount of remittance has been growing as shown in the above figure, the growth rate of remittances has been negative. The figure below from World Bank on remittances is adjusted by removing effect of seasonal variation and shows a contraction in remittances which started in August 2015, remained positive between August and December 2016 before contracting again.

Figure 4: Growth of remittances continues to be negative



Sources: Nepal Rastra Bank and WB staff calculations.

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Microeconomic and macroeconomic impacts: Both the microeconomic as well as the macroeconomic sector has benefitted tremendously with the high influx of capital in the country. On the microeconomic front, remittance has helped many households by meeting their basic needs and lifting them out of poverty.

The Nepal Living Standards Survey 2010/11 Volume 2 states that 56% of all households in Nepal receive remittances. About two in three households in the Terai receive remittances and the proportion for both the hills and the mountains are roughly one in two households. Similarly, the per capita remittance received in the Terai is about two and a half times to what the households in the mountains receive. Rural households also receive much more in remittances compared to urban households, although per capita remittance is higher for urban households. There is an astronomical difference in per capita terms – the poorest consumption quintile receives one-twelfth of what the richest quintile receives.

The two most reported uses of remittances are daily consumption, which accounts for 79% and repaying loans, which accounts for 7% of the total remittances received (Central Bureau of Statistics, 2011).

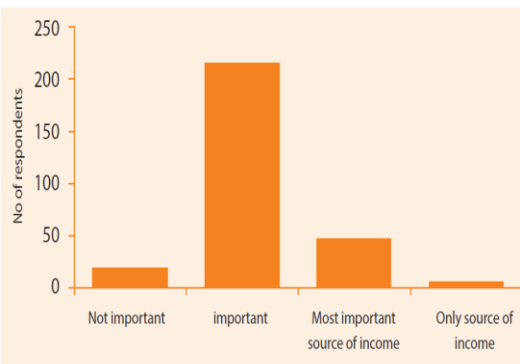
The table below is from a study conducted by the World Bank (World Bank, 2013) where respondents were asked to identify top three areas where they spent remittances from a list of 13 major expenditures.

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Figure 5: Uses of Remittances

Categories	Ranked Total
Daily expenses	543
Repay loan taken to migrate	260
Education	218
Repay other loan	192
Medicine/Treatment	131
House Repair/Construction	128
Savings	103
Invest in land	76
Invest (in existing business, loan out)	25
Miscellaneous	21
TV/Fridge	20
Start new business	16
Re-migrate for work	7

Figure 6: Importance of Remittance to Respondents' Household



Source: World Bank, 2013

The survey shows that remittance is mostly spent on daily expenses followed by repaying loan taken to migrate, and education. Thus, the highest priority is given to consumption items and the least priority is given to investment and entrepreneurship, if there is any saving left. Figure 6 shows the importance of remittance to households. 93% of recipients said that remittance was important for household livelihood, and 19% said that it was the most important or the only source of income they had.

The Nepalese economy as a whole is also dependent on remittance inflows. Nepal's balance of payment has been in surplus in recent years because of rising remittances which has more than offset the declining exports of goods and services and expanding imports.

Imports had suffered during the economic blockade with India that started in September 2015 and lasted for around 6 months. However, imports picked up and reached a new consistently higher level of more than USD 650 million per month after the trade disruption which is much higher than five-year average of USD 550 million (World Bank, 2017).

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Exports had also started recovering post trade disruption but started to falter again since late 2016 and is showing signs of permanent decline. Exports have been hovering around USD 60 million per month which is lower than the five-year average of USD 84 million (World Bank, 2017).

Figure 7: Imports

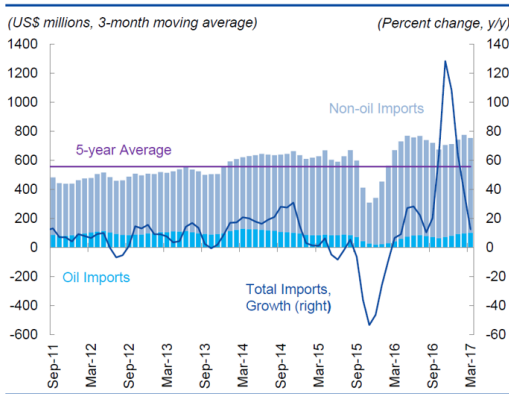
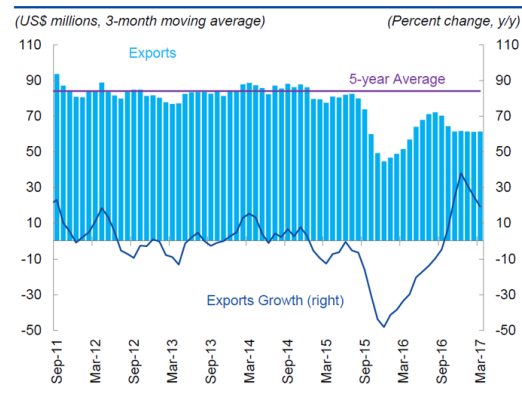


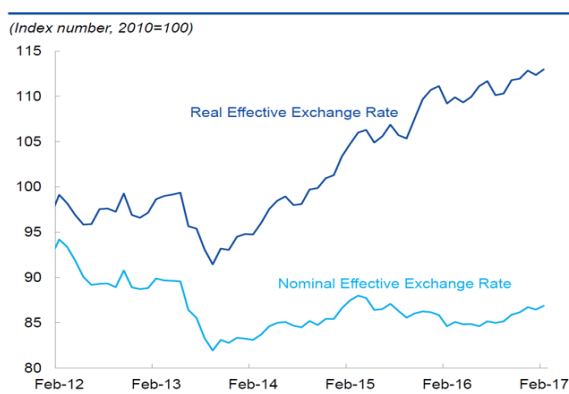
Figure 8: Exports



Sources: Nepal Rastra Bank and WB staff calculations. Sources: Nepal Rastra Bank and WB staff calculations.

Exports are also adversely affected by continued appreciation of the real effective exchange rate of the Nepali rupee caused by large remittance inflows.

Figure 9: Continued appreciation of the real effective exchange rate

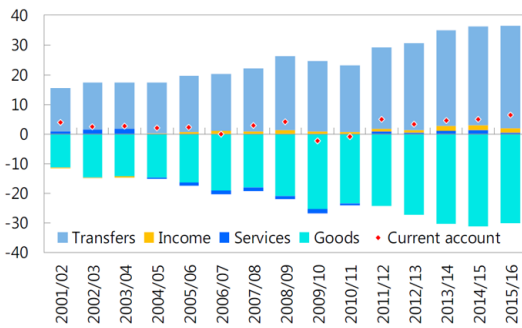


Source: WB staff calculations

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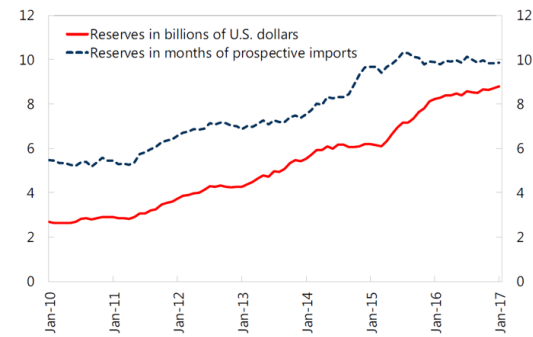
Nevertheless, even with the increasing negative net exports, strong remittances have kept the current account in surplus and foreign reserves have increased to USD 8.8 billion as shown below (International Monetary Fund, 2017).

Figure 10: Current Account (in percent of GDP)



Sources: Nepali authorities; and IMF staff estimates.

Figure 11: Central Bank Gross Official Reserves



Sources: Nepali authorities; and IMF staff estimates.

IV. Field Work

Methodology and data

The aim of my field work was to collect data that could provide evidence to policy makers regarding the need to channel remittance in the productive sector. In order to do this, it was important to know the current situation, i.e., people and organizations that have been working in this field, their experiences and challenges in meeting the objectives to use remittance

productively. Hence, I chose different agencies and organizations that have been working on this issue to generate useful information.

Generating data: The method I used to generate data was through interviews that were semi-structured (asking questions on specific issues) as well as in-depth (unstructured, letting participants discuss their experiences). Due to time constraint, only ten people were used in the study. Despite the small sample size, the issues raised by the participants were recurring, which highlights their importance. They will also play an important role in formulating new policies or strengthening existing ones. Based on the answers I received, I have identified major themes that will be discussed in detail below.

Overall, there are three main takeaways from my research – migrants abroad and returnees are willing to invest for the economic growth and development of the country, the government has to set the right incentives for this to happen and finally remove or at least ease the barriers to invest and start enterprise in Nepal.

Thematic Analysis of Data

1. **Use of informal channels for money transfer, referred to as “hundi” in Nepal, is a great impediment on the economy:** The use of informal channels for money transfer, also known as the “hundi” system has been one of the biggest concerns among the study participants (individuals and organizations working for productive use of remittance). Their main argument was that it does not allow the monitoring of the total amount of capital entering the country and how it is spent as it lands in the hands of migrants’

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families and relatives. Thus, to solve this problem, they stress the need to lower transfer costs through formal channels such as banks, and money transfers. A recent study (Sijapati, Bhattarai, & Pathak, 2015) mentions that 70% of remittance is received through non-banking financial institutions and money transfer operators, while 30% is received through banks. Migrants from India are known to carry remittance in hand, whereas workers in Gulf use formal channels as do majority of migrants in Malaysia, although about 10% use the hundi system. About 30% of workers in developed countries prefer to carry remittance with them or send them through friends and family. Nevertheless, people using formal channels are increasing which shows that cost of transfer through formal channels is fairly low. For example, the fee for sending remittances from Qatar to Nepal has decreased by around 50% since 2001. However, Nepal is still confronted with the challenge of continued use of *hundi* and needs to strengthen the compliance capacity of the formal channels.

- 2. Lack of financial literacy programs:** This was one of the most important topics of discussion during the interviews. As seen in figure 12 (World Bank, 2017) below, majority of migrants that seek jobs outside the country are unskilled and most of them- including their families- do not understand the concept of saving, let alone investing. Another issue which will be discussed later is that families with unskilled family member as migrants do not receive enough money in the first place to save or invest. Whatever money they receive is usually spent on basic living expenses. It was mentioned by the interviewee from Access Advisory that it is mostly unskilled workers that are sent to foreign countries and yet they are not provided with proper training before they leave.

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Pre-departure orientation training centers are tasked with providing prospective migrants with a two-day course on their rights and responsibilities before, during and after departure for foreign employment. The course involves procedures to be taken while preparing for foreign employment, steps to ensure safe journey and prevention of diseases, work safety, labor rights, and methods to remit money back home (Sijapati, Bhattarai, & Pathak, 2015) but there is no financial education given to migrants. The interviewee mentioned that the government of Philippines has a very structured program which starts with pre-migration financial education program, and this practice is their mechanism for success.

Figure 12: Category of Work Migrants Overseas (top five destinations, in percent)

Category	Destination					
	All Countries	Qatar	Dubai (UAE)	Malaysia	Saudi Arabia	India
Unskilled	31	43	16	35	54	8
Semi-skilled	29	17	40	21	14	24
Skilled	34	38	33	41	30	57
White collar	7	3	12	4	2	11

Currently, Access Advisory is implementing International Fund for Agricultural Development (IFAD) funded regional project in Nepal and the Philippines called Regional Program for Remittances and Diaspora Investment for Rural Development. In Nepal, the project will be conducted in 6 districts with 10,000 migrants to Malaysia and Korea. One of the important aspects of the program is to provide financial education to these migrants and their families. Prabhu Bank and Sunrise Bank are sending their agents to train the target population as a sign of support to the program. The two banks will also offer their products that will enable migrants and their families to save or invest.

In another interview at the Nepal Investment Board, the interviewees mentioned an initiative of the Ministry of Education (MoE), called the Council for Technical Education and Vocational Training (CTEVT), which is a technical stream started to develop basic and mid-level human resources necessary to carry out tasks related to national development. However, CTEVT or MoE lacks a comprehensive strategy in providing training to prospective migrants based on the demand of the Nepali workforce in destination countries.

3. Need for proper mechanisms and incentives to channel remittance towards

investment and entrepreneurship: This is not only the main issue of this paper but also the highlight of the discussion with the interviewees. In the case of banks, when remittance money comes into the banks, it is counted in the same deposit pool as other deposits. There are no policies that separate remittance deposits from other deposits or policies to channel remittance towards investment or entrepreneurship. Thus, the interviewees mentioned that the central bank should formulate policies that encourage banks to channel remittances in productive sectors. In addition, they point out that banks are highly risk-averse because the central bank does not pledge for guarantee for any losses due to which banks refrain from investing.

In terms of incentives, some initiatives were taken by the government for migrants to invest. For example, in 2010, the government issued Foreign Employment Bonds but could not attract enough migrants to invest in it, which led to the failure of the scheme (The Kathmandu Post, 2011). This was because the majority of remittances received by

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households was used to meet their basic needs, which is why investing was not an option. Thus, creating incentives that work for Nepalese migrant workers is crucial.

Nepal Rastra Bank recently announced (The Himalayan Times, 2017) the issue of Foreign Employment Bonds worth Rs.1 billion aimed at Nepali migrants and non-resident Nepalis. The bonds will be sold to the target buyers at a coupon rate of 10.5% for a five-year tenure, which is an attractive return to investors compared to 8% for fixed deposits. This high rate along with other amended provisions are what makes the bonds different from the ones in previous years and the central bank is hoping that this will increase the number of migrant issuers. The bond can also be purchased by family members of migrants. These bonds can be a great investment instrument for migrant workers as it provides risk-free return. However, there has been a bleak track record of the foreign employment bonds issued in the past— in FY 2009/10, the first issue of foreign employment bonds in Nepal, of the total bonds worth Rs.1 billion, only bonds worth Rs.8.6 million were sold, in FY 2010/11 only bonds worth Rs.4 million of Rs.5 billion were sold, and in FY 2011/12 bonds worth Rs.8.6 million of Rs.1 billion were sold. In order to encourage migrant workers to invest, the central bank in 2016 also planned to organize awareness programs including interaction with families of migrant workers and also other events in destination countries.

- 4. Investment climate is improving in Nepal, what is needed is policy consistency:** The general consensus among those interviewed was that the investment climate has started to improve in Nepal. Reform initiatives have been taken after the promulgation of the new constitution, and with the upcoming election, people are expecting stable policies. Nepal

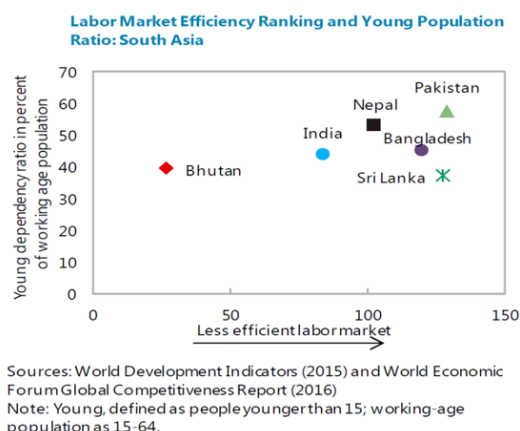
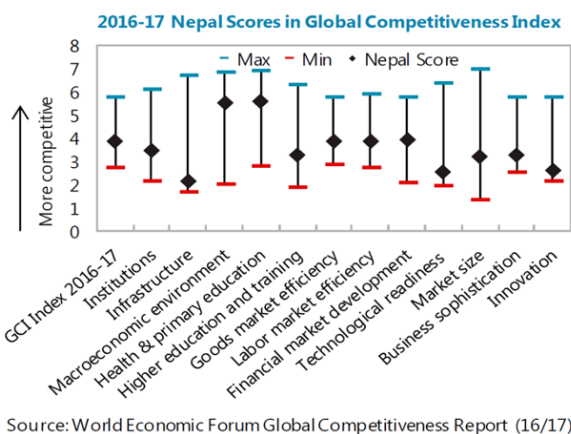
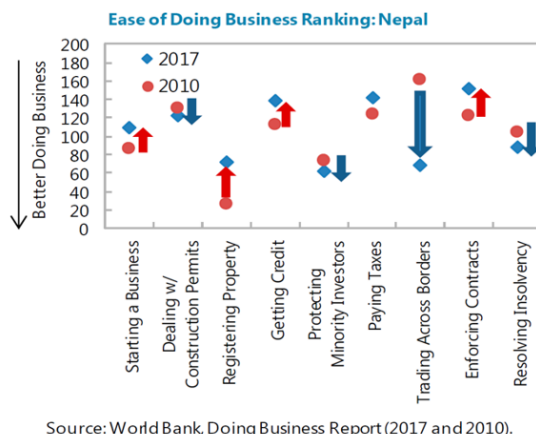
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Investment Board interviewees mentioned that with the new constitution various acts are being changed including investment related acts such as Foreign Investment and Technology Transfer Act (FITTA) and Industrial Enterprises Act (IEA). These acts have passed at the cabinet level and are waiting to be endorsed by the parliament. The participants mentioned that there are other new acts in place and new reforms and more stable policies have created a better environment for investing.

The figures below show overall positive changes in the business environment and governance. Nepal's overall ranking in 2017 in the Ease of Doing Business index of World Bank has somewhat improved compared to 2010 but it has slipped compared to 2016. Some important factors for doing business, such as construction permits, protection of minority investors, trading across borders and resolving insolvency have improved; while starting a business, registering property, getting credit, and enforcing contracts have deteriorated in 2017, as compared to 2010. The score for competitiveness has also gone down for Nepal as it is hampered by inadequate infrastructure. Similarly, labor markets in Nepal are less efficient than its regional peers, despite the advantage of a young population.

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Figure 13: Business Environment and Governance in Nepal



On March 2017, the Nepal Investment Summit brought together investors from around the world garnering a letter of intent worth US \$13.47 billion in foreign investment commitment, which is more than half of the country's GDP structure of US \$ 22.49 billion (The Himalayan Times, 2017). According to the Investment Summit website (www.investmentsummitnepal.com, 2017), 8 countries and 26 companies have signed to invest in 10 sectors including infrastructure, agriculture and tourism. This shows the enthusiasm of investors to invest in Nepal and the potential in a range of sectors. What investors were keen to see during the summit was whether the political parties would

come together. Many political leaders ensured that ruling and opposition parties are on the same page and would come together to welcome new investors.

Thus, policy consistency brings a lot of confidence in investors. If policies formulated by the authorities are made such that they are not affected for a long time (say 10 years) even with a change in the political climate, it would give investors and lenders the confidence to start new projects, implement them and also gain some profits, i.e., it would give them stability and financial security.

- 5. Barriers to start businesses/ entrepreneurial activities:** The barriers to start businesses that currently exist in Nepal can be solved if remittances could be channeled in the right way. One of the major barriers to starting a business is access to finance. The banking system of Nepal has still not developed in terms of coverage and efficiency (Pant, 2008). They are mostly centralized in major cities, leaving rural areas devoid of financial institutions. In those regions, large proportion of people are also illiterate and ignorant about banking operations. In some cases where transportation is not available, they may not be able to travel to the cities or may have to travel very far, which comes as a hindrance to accessing capital and remittances sent by their families. Thus, it is crucial to expand the banking network in rural areas. This can be done by using local resources such as cooperatives who can provide efficient services for conducting remittance business. The second barrier to starting businesses is the collateral based lending system of banks. Loans involve a high degree of risk and have profound impact on the bank's profitability, liquidity and solvency (Timsina, 2017). So, a collateral based lending system does provide banks security in case of loan defaults. However, if banks are not

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efficient in their lending behavior, it may not contribute to economic growth (Timsina, 2017). One of the biggest hurdles to private sector growth in Nepal is the lack of credit for seed capital and working capital for enterprises, especially small and medium-size enterprises. Many Nepalese migrants are looking for opportunities to start businesses of their own for when they return from abroad or to create an income source for their family members. In such circumstances, pooled remittances can provide such credit and support for growth of enterprises. The third hurdle is concerned with aspiring entrepreneurs themselves - lack of business literacy and risk-aversion. Similar to financial literacy, it is crucial for them to understand how business works in Nepal, the challenges faced by start-ups, the bureaucratic and legal hurdles faced while incorporating and registering their firms, understanding their market and the risks involved in starting their firm. In such cases, organizations like CTEVT can play an important role in training aspiring entrepreneurs to educate them about starting businesses in Nepal. This would be especially helpful for migrants who have not lived in the country for years and may not be familiar with current business conditions.

Success Stories in Nepal

Channeling Remittance to Investment: Remit Hydro Limited

Remit Hydro Limited (RHL) is a success story of utilizing remittance for investment in the hydro sector of Nepal. RHL is a subsidiary company of Hydroelectricity Investment and Development Company Limited (HIDCL) which was established as a Special Purpose Vehicle to implement the concept of Remittance Hydro (<http://hidcl.org.np/>, n.d.). The company was set up to develop mid-sized hydropower project that is mainly financed by remittance money as a way to utilize

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the enormous amount of capital flowing into the country from migrant workers and to give them an opportunity to partake in the nation's development. The incentive behind this special purpose vehicle is to make the people working abroad aware on the need of saving, especially after they return to Nepal and may become jobless again. This investment vehicle asked them to contribute a part of their savings in the infrastructure development. To ensure adequate funds from the migrant workers, HIDCL has created a scheme under which migrant workers can buy project shares by paying in Equated Monthly Installment (EMI) with an assurance of certain returns on investment (<http://kathmandupost.ekantipur.com>, 2015).

An important lesson to be learned from this success story is that migrants are interested in investing but more often do not find the right projects that can guarantee them a good return. Thus, creating schemes and providing the right incentives is necessary to involve them in the development process and to channel remittance towards any productive sector.

Channeling Remittance to Entrepreneurship: Shalom Agriculture, Drip Irrigation

Shalom Agriculture, a firm started by a returnee migrant is an example of utilizing money earned abroad to start business at home. Migrant returnee, Mr. Shree Krishna Adhikari used the skills he learned while working in different farms in Israel installing drip-irrigation technology, to start his own farm using the same technology. With drip-irrigation system, every plant receives an optimal amount of water and nutrients which is highly beneficial to farmers and saves tremendous amount of water. At present, he mentioned they are working with farmers in 45 districts and wish to expand their coverage. Although this is a success story, there are few important points that need to be highlighted. The first is that Adhikari used his own savings to start his business, which he says would have probably not been possible if he had to get a loan.

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This brings back the point of barriers to get a loan without collateral. Second, he mentioned that importing the materials for drip irrigation was extremely difficult as importing policies are very ambiguous. This can demotivate potential investors and entrepreneurs. To help other farmers and ease the process of bringing in raw materials, he mentioned that he is now devoting much of his time into trading materials and working as an intermediary between suppliers and farmers.

Finally, he mentioned that government and policy makers should increase their support in the agriculture sector through subsidies, easing the process of bringing in raw materials from abroad, leaving farmers tax exempt and so on. He says “If Israelis could grow such vegetables in large quantities in deserts by using practical techniques and useful technologies, what is stopping us in Nepal, where we have plenty of water and arable land to grow vegetables?”

(www.Nepalitimes.com, 2014)

V. International Experiences

This section will discuss how remittances have been successfully channeled into investment and entrepreneurship in four countries – Bangladesh, India, the Philippines, and Sri Lanka. These countries were chosen because they are also large recipients of remittances. In addition, the mechanisms they have used to channel remittance to investment and entrepreneurship have boosted their economic growth and it could be beneficial to learn from their experience.

The case of Bangladesh

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The banking institutions of Bangladesh offer different savings and investment schemes that are directed towards migrants.

- **Non-Resident Foreign Currency Deposit (NFCD)** (Tasneem & Chowdhury, 2003) is a facility provided to migrants where they can open a NFCD account in any branch of Bangladeshi and foreign banks that holds an authorized dealership license. The account is renewable and can be used after migrant's return as well. The interest is determined in terms of interest accounted on the value of Euro and the interest accrued is tax free. The central bank also allows investment of NFCD funds in remunerative business projects to allow payment of competitive interest rates to account holders.
- **Wage Earners' Development Bond** is an instrument that allows migrants to invest their remittances in Bangladeshi Taka in five-year wage earners' development bond. The profits could be invested in Bangladesh and the bonds accrue an annual interest of 12%. The bondholder is also entitled to get a reduced rate of interest on loans. The capital money of the investment is freely transferable abroad in foreign currency and the interest is tax free.
- **Non-resident investor's Taka account (NITA)** can be opened by migrants for using their remittances to invest in shares and securities of capital market of Bangladesh. The capital and money is tax exempt and the bank directing the account can work as nominee. Bangladesh Bank has also simplified the formalities with regard to NFCD to make the scheme easier for migrant workers. As far as the campaign to market the instruments, Bangladesh Bank is engaged in regular contacts with the missions abroad.

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- **Remittance Partnership Project** (Chikanda, Crush, & Walton-Roberts, 2015) is aimed at producing a measurable impact on price, speed and growth of remittances in Bangladesh. A large number of micro-finance institutions (MFIs) and development NGOs are working to turn remittances into investment, and influence the expenditure of remittances in investment goods such as education and healthcare. They are exploiting their extensive community networks for enterprise development, business development services and income generating activities through their training and development intervention and group-based community approaches to investment. The microcredit regulatory authority of Bangladesh reports that 576 MFIs mobilize savings through their 18,066 branches, mostly in rural areas.
- **Probashi Kallyan Bank (PKB)** is a specialized welfare public bank which caters for the needs and welfare of migrant workers and engages the migrant diaspora community in development. PKB facilitates the migration process by financing migration expenses through low-cost loans and rehabilitation of migrant workers in the event of repatriation. Other financial products and schemes, such as loans designed to finance “productive projects” by migrant returnees aim to create employment and spur community development.
- **The central bank has recently liberalized its policy** to attract Non-Resident Bangladeshis (NRBs) to invest in the banking sector. It has permitted six NRB banks to bring together successful and entrepreneurial diaspora from around the world. The central bank set a minimum requirement of at least a 50% share from NRBs for such initiatives.

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This approach has been successful in channeling capital, skills and business experiences from the diaspora community to their home country.

- **Remittance-linked financial instruments** designed by Bangladesh Bank such as foreign-currency denominated bonds, saving schemes such as non-resident foreign currency accounts, wage earners' development bonds, non-resident investor's taka accounts and US dollar premium bonds to attract remittances through formal channels. Incentives such as interest above market rates, tax exemption on the interest and repatriation facilities are offered with these schemes.

The case of India

There have been many initiatives taken in India to engage the migrant diaspora at the central and the state government levels. Their mission is to establish a strong and robust institutional framework that facilitates and supports migrants to engage themselves in the development process through investments at home.

- **Pravasi Bharatiya Divas (PBD)** is a diaspora engagement policy started by the Indian Government. They have been organizing PBD conventions annually since 2003 with the aim to provide a platform to the Indian migrant community to engage with the government and people in the home country for mutually beneficial activities.
- **Overseas Indian Facilitation Center (OIFC)** provides investment expertise and business facilitation services to non-resident Indians. OIFC is supported by its “knowledge partners” which are firms specializing in foreign investment consulting,

regulatory approvals, market research, joint venture partner identification, project financing, and portfolio investments.

- **India Development Foundation of Overseas Indians** is a not-for-profit trust registered by the Ministry of Indian Affairs to provide a credible window for overseas Indian philanthropic activities by overseas Indians including through innovative projects and instruments such as microcredit for rural entrepreneurs, self-help groups for economic empowerment of women, best practice interventions in primary education and technology interventions in rural health care delivery.
- **Incentives with a view to augment foreign exchange reserves** (Thanh-Dam & Des, 2011): During the 1991 BoP crisis when exchange reserve dropped to record lows, India began a massive liberalization exercise and led to several initiatives to channel remittance from the diaspora; the initiative started under the Congress regime. After liberalization migrants received a number of incentives, among them were higher interest rates (vis-à-vis international market rates) and exchange rate guarantees for foreign currency denominated accounts, higher interest rates to rupee-denominated accounts compared to ordinary citizens, arrangements for repatriation of deposits and exemption from wealth and income tax both on deposits and the interest earned on it.

The case of the Philippines

The central bank of Philippines has taken several actions to reduce the cost of remittances and to mobilize it towards productive activities which will be discussed below (Nicolas, 2012):

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- **Banks and non-banks were required to post remittance charges** on their websites and other premises to provide overseas Filipinos and their beneficiaries with competitive data and help them make informed decisions to channel their remittances. They also launched overseas Filipino worker web portal linking to banks' relevant pages on remittance services, products, branches and remittance centers.
- **Remittance channels were improved in several ways.** Mobile phones and cash cards were approved as operations of alternative mechanisms of sending money to achieve lower transaction cost and fast delivery. Qualified banks were given the authority to operate a foreign currency deposit unit (FCDU) to give migrants the option to maintain foreign deposits instead of immediately converting their remittances into pesos. The interconnection of major ATM networks was facilitated to provide safe, convenient banking and low service charges. The central bank has also signed a Memorandum of Agreement with participating banks to set up a local clearing house called PhilPass for credit-to-other-banks mode of remittances to eliminate the use of couriers in delivering remittances to beneficiaries. This has reduced cost by 90-96%. The central bank is committed to use new technology to provide low transfer cost options.
- **Encouraging migrants and their families to increase savings and investment.** The central bank has urged commercial banks to offer migrants specialized investment products and services such as insurance, pensions and real estate with direct payment schemes to aid beneficiaries. In 2011, the central bank released multicurrency retail treasury bonds or Overseas Filipino bonds which would allow migrant Filipinos to invest in bond instruments for as low as USD100. In 2008 as well, the central bank authorized two specialized

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government banks to promote hedging instruments and long-term negotiable certificates of deposits. The central bank has also supported microfinance as a flagship program for poverty alleviation to help channel remittances sent to rural households to investment in small scale businesses.

- **Promoting financial learning among migrants and their beneficiaries.** The central bank in coordination with other government agencies, financial institutions, and NGOs has been undertaking its advocacy through financial learning campaigns to promote savings culture among migrants and their families and to invest their savings in financial instruments and business ventures to make productive use of remittances.

The case of Sri Lanka

The Sri Lankan government has recognized the importance of remittances and introduced incentives to facilitate foreign employment including pre-migration facilities and services, identification of employment opportunities, training, and pre-departure loan schemes. They have also started investment vehicles with attractive incentives for migrants to channel remittance to the productive sectors.

- **Sri Lanka Development Bonds (SLDBs)** (www.combank.net, n.d.) are USD denominated bonds issued by the Government of Sri Lanka. These bonds can be traded through designated agents and can be used by Sri Lankan citizens who live outside Sri Lanka or are working migrants in foreign countries. Investing in SLDB is an opportunity to use remittance money for the development of Sri Lanka. The SLDB has a number of benefits and incentives for its investors. People who invest in SLDB get tax free returns

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in Sri Lanka and they will receive semi-annual interest payments. The coupon interest rate is pegged to the 6-month USD London Inter-bank Offer Rate (LIBOR) thereby giving investors an opportunity to earn interest at the market rates. The returns are also much higher than that of a standard deposit. Investors will not face any exchange rate risk.

- **Special Foreign Currency Investment Deposit Account (SFIDA)** (www.combank.net, n.d.) is a special tax-free investment opportunity for nonresident Sri Lankans, foreign nationals and even corporate bodies and institutional investors. SFIDA allows investors to get greater returns than from saving and term deposits. The rate applicable on the deposit will vary based on the prevailing market rate.
- **Commercial banks products and services offered to migrants** (Lasagabaster, Maimbo, & Hulugalle, 2005):
- **Foreign currency accounts:** The central bank of Sri Lanka has permitted non-resident workers to open and maintain foreign currency accounts with authorized dealers to induce inward remittances. These accounts are called Non-Resident Foreign Currency Accounts (NRFCs) and can be maintained by a beneficiary (Sri Lankan resident) who will receive proceeds which are permitted to be retained in a Resident Foreign Currency Account (RFCA). Funds in both NRFCs and RFCA can be freely used for any purpose in foreign exchange and are free from income tax. These accounts offer competitive interest rates ranging from 1-2 percent over LIBOR.

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- **Insurance:** Commercial banks arrange life insurance covers for migrant workers depositing money brought into the country the credit of a foreign currency account above certain threshold.
- **Minors' accounts:** Migrant workers are permitted to open accounts for minors in foreign currency in the name of their children in Sri Lanka to enable them to enjoy the benefits of retaining money in foreign currency for future use.
- **Loan facilities:** Migrant workers who remit money either to a foreign currency account or a rupee account is in a position to raise loans from authorized dealers for housing and other purposes at a low interest rate.
- **Education Program:** Sri Lanka Foreign Employment Bureau jointly with the Ministry of Education conducts seminars and educational programs to educate migrant workers on banking facilities and how to use them to maximize their earnings.

VI. Evidence Based Policy Recommendation for Nepal

1. Remittance at present is slowing down. Had this not been the case, remittance still cannot be the driving factor of the economy. Remittances do not automatically contribute to national development and cannot be a panacea to Nepal's structural economic problems. Thus, the government has to formulate effective policies to channel remittances into productive sectors by giving migrants attractive incentives.

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2. The government has to strengthen its formal channels of money transfer. Although the cost of transfer using formal channels has significantly decreased, further reduction is needed to increase capital inflows through formal channels. This will allow authorities to monitor the right amount coming into the country.
3. NRB should start a separate “Remittance Deposit” system for all banks. Remittances currently get counted into the pool of other deposits. This does not allow monitoring of how they are being used or how they can be used efficiently. If there are special mechanisms and incentives in place, families of migrants can be encouraged to invest as we saw in the cases of the four countries.
4. The current migrant training system, which is only two days long, needs to be upgraded and decentralized. Trainings take place mostly in the capital right before potential migrants leave the country. Trainings should be offered in various parts of the country, especially those parts where citizen outflow is the highest. This will increase the chance of potential migrants attending the trainings and understanding various aspects of being a migrant worker. Proper education before migrants leave the country is crucial. Trainings should be elaborate and should include topics of financial literacy such as saving, investing, and sending money through formal channels.
5. Although there are a few organizations that help migrant workers such as Pourakhi, Women’s Rehabilitation Centre, and others, the government has to set up a centralized migrant organization body that oversees the entire migration process. This should act as a safe haven for migrants where they can receive consultation on any questions they may have – starting a business after they return, investing in the right projects, etc.

6. Pension plans for returnee migrants. A lot of migrants have to start from scratch after they return. Most of them do not save and even if they do, their savings will not sustain their livelihoods for long. Creating a mandatory pension fund before they leave can help them when they return to start a business or invest in projects.
7. Pre-designed investment schemes and business set up advisory services targeted towards migrants and their families. Introducing these mechanisms to migrants and their families will encourage them to invest and start business as they will not have to go to the bureaucratic hassles of both, however, giving the right incentives is crucial.
8. Currently there are many pending projects in Nepal where investors are uncertain of investing. Budget preparation and implementation capacity should be strengthened (International Monetary Fund, 2017). This recommendation was given by the IMF in its Article IV, consultation 2017, and is very relevant for this paper. Budgets should be more realistic and capital spending should be spread out evenly over the year. Only well-prepared and prioritized projects should be included in the budget. Projects should only be started after completion of a feasibility study, necessary environmental assessments, and land acquisition requirements. This will ensure the validity of the project.

VII. Conclusion

This paper is a call to the Government of Nepal for urgent policy action regarding directing remittances towards the productive sectors and to create a conducive environment for entrepreneurial activities. Even though remittances have helped maintain macroeconomic

stability, the Nepalese economy cannot sustain itself in the long-run on remittances. Similarly, remittances have also helped millions of poor households by uplifting their living standards and reducing poverty, but without the right mechanisms that help migrants, this is only a temporary fix. The government has to do its homework to understand what policies are suitable for migrants and their families so that the right incentives can be created. The paper discusses experiences of four countries from which ideas of incentives can be drawn. Similarly, on the business front, the government and the central bank needs to provide guarantee to increase the risk appetite of banks and lending institutions to make private sector credit more accessible to new entrepreneurs.

VIII. Appendix

List of Interviewees:

1. Ram Krishna Pokhrel – Citizen Investment Trust, Executive Director
2. Abhaya Bahadur Singh – Access Advisory, Nepal Country Manager
3. Pragya Adhikari – Office of the Investment Board, Project Manager
4. Prem Khanal – Office of the Investment Board, Senior Community Relations Officer
5. Dibakar Thapa – Hulas Remittance/Nepal Remitters Association, General Manager/Treasurer
6. Dinesh Poudel – iPayRemit
7. Sugan Shakya – Prabhu Bank, Head - Treasury and Remittance
8. Vivek Niraula – Sunrise Bank, Head - Remittance Department
9. Deepak Rauniyar – Former CEO of HIDCL (Remit Hydro)
10. Shri Krishna Adhikari – Shalom Agriculture, Managing Director

Cases from the Philippines

Box 1 (Nicolas, 2012)

Tailor-made rural bank products for overseas Filipinos and their families

Starting in 1994 in a sixth-income class municipality called San Leonardo in Nueva Ecija (Luzon island), the New Rural Bank of San Leonardo (NRBSL) now has established 12 branches in three provinces. As of June 2010, its total resources stood at PHP650 million from PHP32 million in 1994. Of total loans outstanding of PHP436 million, 13.41 per cent is lent directly to overseas migrants and 38.10 per cent granted to migrants' family members, for a combined exposure of 51.51 per cent of the bank's total loan portfolio.

Of its total 9,902 depositors (with a total deposit base of PHP325 million), 40 per cent are from overseas Filipinos and their relatives. Indeed, NRBSL has made the overseas Filipino clientele part of their core business, offering them regular rural banking and microfinance product. This endeavor is guided by a vision of accelerating the development of local economies through the support of microenterprises (Panganiban, 2002). Among their remittance-backed products and services are the following:

- Regular deposits (savings, short- and long-term time deposits, current accounts, foreign currency deposits, Special Savings Deposits, Guarantee Deposit, Philanthropic savings, loans to families of departing OFWs, educational and retirement plans);
- NRBSL's so called "Preventive loans" or financial services that will provide income to minimise their desire to do overseas work. These include:
 - Solidarity Lending, or group loans of up to PHP30,000;
 - Salary loans of up to PHP150,000;
 - Individual enterprise loans of from PHP150,000 up to PHP200,000; and
- "Reintegrative" loans for returnees of up to PHP2 million.

Box 2 (Bagasao, 2013)

Remittance providers improve efficiency and speed

A review of various bank remittance channels also showed that their remittance services invariably include an SMS notice to recipient that remittance proceeds have arrived and could be claimed in authorized centres. The service also enables remitters or beneficiaries or allottees the ability to monitor remittances. Gone are the days when banks could delay the release of remittances for days, to enable them to additionally earn from the "float" of the remittance proceeds. These have been addressed through regulation (BSP) and self-regulation within the Bankers Association of the Philippines (key informant interviews with members of the ABROI).

Commercial banks, or at least ABROI members, as a practice, require their foreign tie-ups to make a deposit in a (*nostro*) account an amount equivalent to their expected remittance transfers (usually estimated from the last three days). Because of this practice, banks could start processing the release of proceeds for the beneficiary as soon as the remittance notice is received, enabling the release of proceeds on the same day, or even within minutes (C. Paras-Santos, key informant interview).

Box 3 (Bagasao, 2013)

Technology for rural financial inclusion

Globe Telecoms is a major player in the use of mobile banking for the payment of goods and services. A G-cash ATM card can be used for withdrawal of remittances received from Filipinos overseas, domestic money transfers, or for web-based entrepreneurs transacting online. In short, G-cash subscribers can perform banking activities through a wide number of ways, 24 hours a day, seven days a week.

A collaboration between Globe Telecoms and the RBAP-MABS (Microfinance Access to Banking Services) resulted in more than 70 rural banks enrolling in the system, translated into 950 rural bank branches acting as cash-in, cash-out centres. About 2,000 branches comprise the total branch network of rural banks, which means that almost half of the rural banks' network can service G-cash subscribers. There are over 3,000 traditional Globe partners such as pawnshops, Shoemart malls and Globe's own stores. With another 15,000 Globe sub-dealers that originally sold airtime (more popularly called "load" in the Philippines), there are in effect 18,000 cash-in, cash-out locations. G-cash subscribers can also tap all the 10,000-plus ATMs nationwide. For the unbanked and the under-banked populations, this outlet to join the financial system is empowering. Where there are not enough ATMs, the card serves as a valid ID, critical in making transactions with the thousands of cash-in, cash-out centres. Money transfers may also be received using GCASH Remit wherein a sender may choose to send remittance from abroad through international partners that allow beneficiaries to pick up the remittance at any accredited GCASH Remit local outlet using a unique reference code.

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