

Migration and Development: Impact of Migrants' Remittance on Poverty, Inequality and Entrepreneurship in Nepal

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ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
ATE	Average Treatment Effect
BV	Business Visitors
CBS	Central Bureau of Statistics
CSS	Contractual Service Suppliers
DOFE	Department of Foreign Employment
EDV	Electronic Divergent Visa
EPS	Employment Permit System
EU	European Union
FDI	Foreign Direct Investment
FGT	Foster-Greer-Thorbecke
FIML	Full Information Maximum Likelihood
GATS	General Agreement on Trade in Services
GATT	General Agreement on Trade and Tariffs
GCIM	Global Commission on International Migration
GDP	Gross Domestic Product
HDR	Human Development Report
HIV/AIDS	Human Immunodeficiency Virus /Acquired Immunodeficiency Syndrome
ICT	Intra-Corporate Transferees
ILO	International Labor Organization
IMF	International Monetary Fund
IOM	International Organization for Migration
IP	Independent Professionals
IT	Information Technology
LDCs	Least Developed Countries
LSMS	Living Standard Measurement Survey
MDGs	Millennium Development Goals
MOE	Ministry of Education
MOF	Ministry of Finance
MOHP	Ministry of Health and Population

MOTs	Money Transfer Operators
MPI	Migration Policy Institute
MTOs	Money Transfer Operators
NELM	New Economics of Labor Migration
NGOs	Non-Governmental Organizations
NIDS	Nepal Institute for Development Studies
NLSS	Nepal Living Standard Survey
NPC	National Planning Commission
NRB	Nepal Rastra Bank
NRS	Nepalese Rupees
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
PSUs	Primary Sampling Units
SAP	Structural Adjustment Program
UAE	United Arab Emirates
UK	United Kingdom
UN	United Nations
USA	United States of America
USD	United States Dollar
VDC	Village Development Committee
WDI	World Development Indicators
WTO	World Trade Organization

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CHAPTER 1

INTRODUCTION

1.1 Introduction

Migration or geographic mobility refers to a process whereby people move from one point in space to another. A person migrates from his home region to the destination region expecting the relative economic benefits of moving versus staying. The World Bank data shows there are more than 215 million migrant people worldwide and recorded remittance flow was estimated to be US\$(United States Dollar) 440 billion in 2010. Starting from 1990 and increasing from the start of the 21st century, remittances are increasing continuously, even during the economic crisis period of 2009 (World Bank, 2011). There will be significant impact for the development of remittance receiving countries' but there is limited research focusing on this sector (the remittance industry).

The optimistic view claims that migration reduces poverty because people migrate from low-income rural areas to high-income urban areas or from low income to high income economies. The increase in remittance income leads to a decrease in poverty. Migrants also learn new skills and business ideas from abroad, so migrants' remittances favor developing countries' development. Pessimistic thought argues that it is not the poor people but the richer or skilled and educated people who can migrate to high wage earning locations or countries. When people migrate to a new place they will work hard to settle and integrate within the new society but abandon their birth place. Therefore migration will create brain drain¹. Moreover,

¹ The term brain drain is the cross-border movement of highly skilled persons who stay abroad for a longer period of time. Highly skilled persons are defined as having studied or currently studying for a university degree or possessing equivalent experience in a given academic field (IOM, 2003).

remittance inflow will make an economy more dependent, increase inflation and exchange rate appreciation.

Recent studies show that temporary international migration will produce a win-win situation for the world economy but developed countries prefer to welcome qualified and highly skilled workers rather than unskilled or semi-skilled workers. There is labor surplus in developing countries while labor shortage prevails in developed nations due to population decline. Selecting a particular sector, if developed countries provide visas for low skill workers from developing countries, it will then help to achieve productive efficiency, and in return in developing countries the living standard goes up through remittance. However, the General Agreement on Trade in Services (GATS) Mode 4 commitment is unclear about international labor flow as the World Trade Organization (WTO) is clear on global merchandise trade flow. Hence, the first research issue is related to the policy barrier for global labor movement.

Poverty, inequality, unemployment and political instability have been major issues in Nepal for decades. About 25 percent of people live below the poverty line (Central Bureau of Statistics [CBS], 2011b). The *Asian Development Bank Report 2007* shows that Nepal has the highest inequality among 22 countries in Asia (.47 point Gini coefficient). A recent labor force survey estimates that 253, 000 people in the working age population are unemployed, and of the total labor force, 30 percent are under-utilized in Nepal (CBS, 2009). Hence work-related international migration is not only in the interest of Nepal but also a necessity. There are about three million international migrants from Nepal. Remittance is now the backbone of the Nepalese economy. A recent study shows that remittances contributed almost 20 percent to the reduction of poverty in Nepal between 1995 and 2004, but impact on inequality, is positive and very small (Lokshin et al., 2007). In 2011 more than fifty percent Nepalese

households receive remittance income which plays significant role in reducing poverty. However, there is no study based on the new data (2011). In addition, the author argues that poor and less-educated Nepalese cannot go to developed countries due to expensive migration costs. Only middle- or high-income people can migrate from rural to urban areas or from poor economies to high wage-earning destinations. In such cases, remittance can increase inequality. Therefore, the second issue is that an increase in remittance reduces poverty but may increase inequality in Nepal, but to the best of my knowledge there is no empirical study using the latest survey data to observe the impact of migrants' remittances on poverty types and inequality.

As per economic theory, limited resources (here remittance income) should be allocated to the productive sector, such as investment or entrepreneurship, to increase economic activities and employment creation. In the Nepalese context, there are unexhausted resources, and through remittances migrants or return migrants can invest in small or medium-size business enterprises. This helps to create jobs in the local community which is very important to decrease poverty in the long-run. However, latest data shows that most remittance income is spent on daily consumption, to build sophisticated houses, to buy expensive lands (for housing) and imported goods, while an insignificant portion is allocated for investment. If returned migrants do not allocate remittance income in an efficient way, then the next generation will also have to go abroad for their economic livelihood. Therefore, the third research issue is concerned with the foreign remittance income allocation behavior of returned migrants in Nepal. Moreover, the forth issue is about how return migrants are contributing to create jobs and generate income in their birth place.

1.2 Objectives of the Study

The general objective of this study is to analyze issues surrounding migration and development and their significance, focusing on the Nepalese economy. The specific objectives are:

1. To analyze the role of migration and remittance in the economic development of developing countries.
2. To review the importance of and issues relating to temporary labor migration under GATS Mode 4.
3. To analyze migrants' remittance trends in the global, regional and Nepalese economy.
4. To calculate the impact of migrants' remittances on poverty and inequality in Nepal in the short -run.
5. To examine the determinants of return migrants becoming entrepreneurs in Nepal.
6. To see the significance of return migrants' remittances on job creation and poverty reduction in the long -run in Nepal.
7. To provide policy recommendations for effective migration and remittance management in Nepal.

1.3 Research Questions

To tackle the issues outlined in the study and to fulfill the objectives, the following five questions are raised:

1. How do migration and remittance help the development of developing countries?
2. What are the barriers to temporary labor movement under GATS Mode 4?
3. Is remittance a stable income source for developing countries, including Nepal?

4. What is the impact of migrants' remittances on poverty and inequality in Nepal in the short -run?
5. What are the factors to increase the probability of return migrants becoming entrepreneurs in Nepal?
6. How are return entrepreneurs contributing to create jobs and reduce poverty in Nepal in the long -run?

1.4 Research Hypotheses

This dissertation uses two quantitative analyses. Chapter 5 and Chapter 6 hypotheses are given as:

Hypothesis A (Chapter 5)

- (1) Remittances decrease poverty in the short -run in Nepal.
- (2) Poorer households do not receive as much remittance as richer households.

Hypothesis B (Chapter 6)

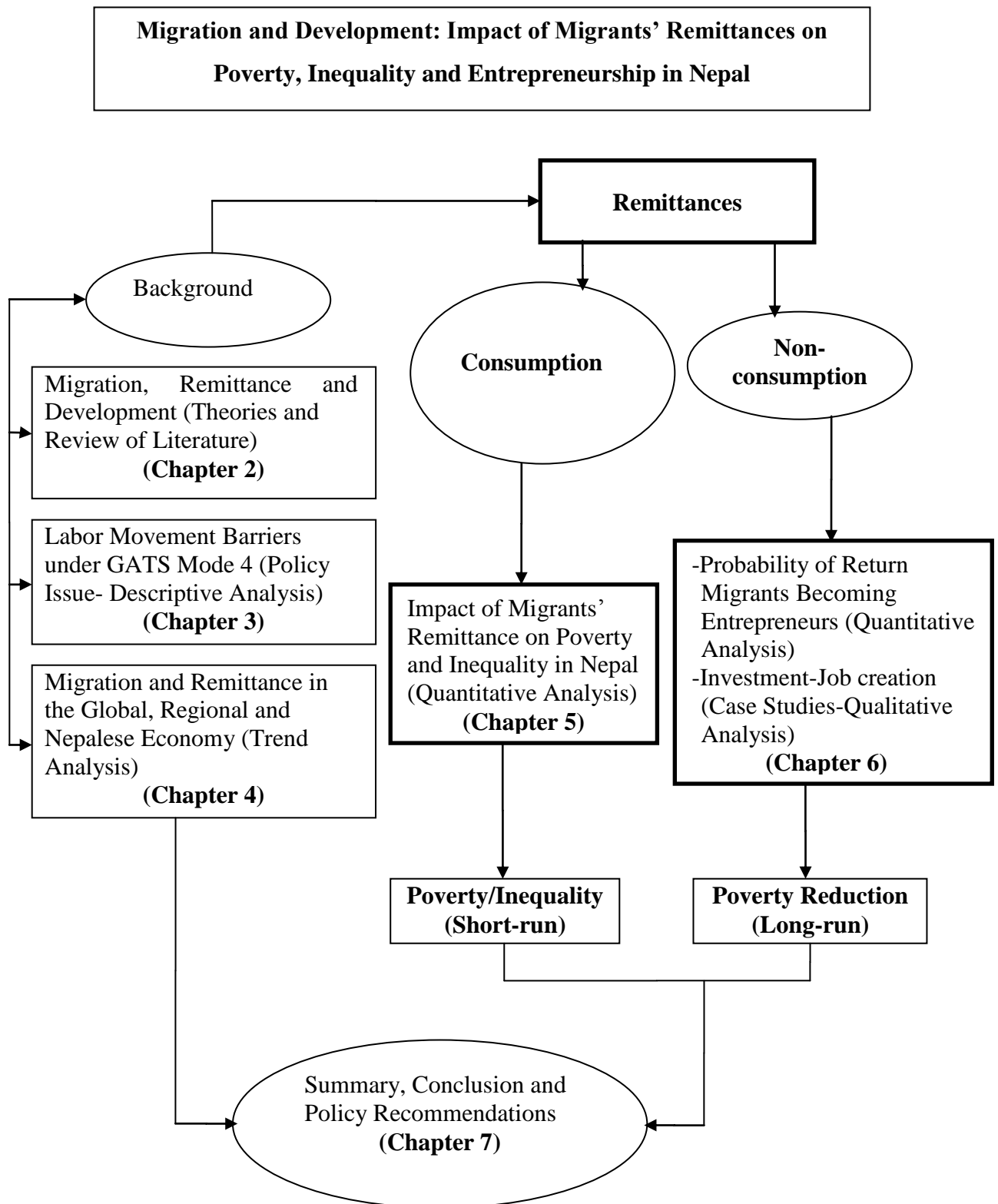
- (1) Individuals who save more money while overseas are more likely to become entrepreneurs on return.
- (2) The higher the education level of the migrant, the greater chance s/he will be an entrepreneur after returning.

1.5 Organization of the Study

This dissertation consists of seven chapters and each chapter is further divided into sections and subsections. The first chapter, which is the introductory section, gives a general overview of the whole study. The remaining chapters subsequently flow from the macro to micro level. Chapter two reviews existing theories related to migration, remittance and development. Moreover, this chapter reviews empirical studies about the impact of migrants'

remittance on poverty and inequality and also the use of remittances. Chapter three analyzes labor movement barriers under GATS Mode 4. Chapter four concentrates on migration and remittance trend analysis in the global, regional and Nepalese economy. In addition, this chapter will give an overview of the Nepalese economy. Chapter five is the quantitative analysis to see the effect of remittance on poverty and inequality at the household level. Chapter six applies both quantitative and qualitative method that examines the use of remittance income by returned migrants', factors to determine the probability of return migrants becoming entrepreneurs and how return entrepreneurs' investment contributes to create jobs and reduce poverty at the community level. Finally, chapter seven concludes the study with a summary and provides policy recommendations (see Figure 1.1).

Figure 1.1 Conceptual Framework of the Dissertation



Source: Created by Author, 2013.

1.6 Significance and Motivation of the Study

Three percent of the world population lives outside their countries of birth and remittance is increasing significantly compared to other financial flows like Foreign Direct Investment (FDI), foreign aid and so on. In 2010, developing countries received US\$325 billion as remittance, which represents an increase of 6 percent from the 2009 level (World Bank, 2010). Remittances have proved to be less volatile, less pro-cyclical and, therefore, a more reliable source of foreign currency than other capital flows to developing countries (World Bank 2005; Ratha 2005).

Migration-remittance-development debates are now not only limited to the bilateral or regional levels but have become a global issue. Currently international organizations like the United Nations (UN), the International Organization for Migration (IOM) and the World Bank are also emphasizing international migration and remittances as one of the important factors for developing countries to reach a higher development level. For example, UN for the first time started a High-Level Dialogue on International Migration and Development in 2006, published the *Human Development Report* (HDR) entitled “Human Mobility and Development” in 2009, and will give priority to migration in the future development framework. The World Bank is also expanding migration/ remittances data and research programs since 2004.

In Nepal, migration and remittances have been continuously rising since 2002. More than 50 percent of households are receiving remittances. Currently some migrants are also returning back to Nepal and doing some business. Data also shows that remittance accounted for 23 percent of total Gross Domestic Product (GDP) in 2009, which was 367 percent greater than merchandise export, 349 percent more than Official Development Assistance (ODA) and 7,821 percent higher than FDI (MPI, 2010). Remittance being the backbone of Nepalese

economy, analysis of its impact on poverty and inequality at the household level using new data seems relevant. Lack of employment opportunity is a major issue in Nepal. If returned migrants allocate their income for entrepreneurial activities, it will mitigate the current unemployment issue and future generations will not have to depend on foreign countries' growth for basic jobs. Hence micro level analysis focusing on returned migrants' remittance income allocation behavior and some case studies on their investment practice also seems appropriate for research given the current state of the Nepalese economy.

Moreover, various initiatives have been undertaken by the Nepalese government focusing on foreign employment. Development plans have also given special focus to the use the remittance income in the productive sector. Recently, the Central Bank of Nepal issued a Foreign Employment Bond (known as the Diaspora Bond) worth 7 billion NRS (Nepalese Rupees).

1.7 Data and Methodology

This study will use both primary and secondary data. To fulfill objective four I will use new secondary data from the third round of the Nepal Living Standard Survey (NLSS-III, 2010/11) conducted by the Central Bureau of Statistics (CBS, 2011a). This is authentic and representative data for Nepal, consisting of 5,988 households with separate remittance and migration headings. To calculate the impact of migrants' remittance in poverty and inequality I will use counterfactual method.

I will use primary data for objective five and six. A total of 275 samples (returned migrants) from rural, semi-urban and urban areas of Nepal are interviewed to analyze the use of remittance. This questionnaire is split into three sections in order to know the migrants' situation before migration, experiences abroad, and activities after return. I will use the Probit

model to observe the probability that return migrants become entrepreneurs. Moreover, I will apply qualitative analysis (case study) to fulfill objective six to analyze how return migrants are contributing to create jobs through entrepreneurship.

I will do descriptive analysis for the first, second and third objectives. The first and second objectives will analyze the importance and issues of migration-remittance-development, while for objective three trends of remittance flow at the global, regional and country level will be examined. For descriptive analysis I will mainly use empirical studies, data, reports and research performed by the World Bank, the International Monetary Fund (IMF), the International Organization of Migration (IOM), the UN, and other organizations' resources related to migration, remittance and development. I also use migration and remittance survey data published by the Nepal Institute for Development Studies (NIDS), various economic surveys from Nepal, and information from the Foreign Employment Department. Regarding the second objective, I will concentrate on the WTO-GATS Mode 4 provisions.

1.8 Some Definitions of the Technical Words

Remittances (World Bank definition): (Remittances) are defined as the sum of three types of transactions. "Workers' remittances" are current private transfers from migrants staying in a country for a year or longer to households in another country. Usually they are transfers between members of the same family residing in different countries. If migrants are staying in a country for less than a year, their entire income in the host country is recorded as "compensation of employees". "Migrants' transfers" are related to the transfer of household effects and financial assets that arise at the time when a migrant changes her or his country of residence. They are not transactions between two different parties (World Bank, 2009).

Remittance/migrant (NLSS III definition): According to Nepal Living Standard Survey 2010/11: “Remittance received is defined as a transfer in cash or in-kind by a household over the last 12 months. In kind refers to monetary value of received items such as television, computer, clothing and so on except cash. The Village Development Committee (VDC) or Municipality, in this survey, has been considered as the migration boundary within the country. A person who has changed his/her residence from previous place (another VDC or municipality or another country) to the present place (VDC or municipality) is considered a migrant in this (NLSS III) survey. Person who migrated several times, only the last movement is considered” (CBS, 2011a, p. 75).

Poverty line (Nepal): People with an average annual income of 19,261 NRS based on 2010-11 average prices are defined as people living below the poverty line. The poverty incidence (headcount) indicates the percentage of the population living below the poverty line while the poverty gap (depth of poverty) is the population of the poor measured in terms of the gap between the poverty line and the people below it. The indicator of the squared poverty gap (severity of poverty) shows the intensity of different levels of poverty amongst the poor (CBS, 2011b, p.16).

Household: According to the NLSS III “a household may consist of one person or a group of two or more persons. The persons in the group -may pool their incomes, may have a common budget, may be related or unrelated or may constitute a combination of persons both related and unrelated” (CBS, 2011a, p.5).

Counterfactual Scenario: A counterfactual scenario is to artificially construct what the status of a migrant household would have been if that household was non-migrant.

Returned migrants: Returned migrants mean those people who worked abroad at least for one year and returned to Nepal in the last five years. Return may be temporary or permanent.

Entrepreneur: Entrepreneur in this study refers to a person who is an employer or self-employed someone and who is engaged in business activities (and investment) other than their usual activities. Business investment refers to entrepreneurship.

1.9 Limitations of the Study

In this study, the first, second and third objectives (chapter 2, 3 and 4) are based on the descriptive analysis. In Chapter 6, field survey data shows that about one-third of the return migrants are planning to go abroad again (practice multiple migration), but they are considered returned migrants.

1.10 Conclusion

In the recent decades migration and remittance flow has been gradually increasing in scale. Remittance flow to developing countries has a profound effect on various economic and social sectors, but there are limited studies of this sector. Recent studies indicate the importance of migration for development, but some policy barrier do not allow for easy cross-border temporary labor migration. Nepal is one of the poorest countries in South Asia, where remittance contributes about one-fifth of the total GDP. However, there is no study using new data to analyze the impact of remittance on poverty and inequality. Micro level primary data analysis towards the productive use of remittances is also an important research area for Nepal. This dissertation will fill these gaps.

CHAPTER 2

THEORIES AND LITERATURE REVIEW OF MIGRATION, REMITTANCE AND DEVELOPMENT

2.1 Introduction

Due to globalization and economic interdependence it has been easy to move people, goods, services and technology throughout the world. The world economy is dynamic, so existing thought in economics or particular industries cannot explain the overall determinants for economic growth and development. In the last two decades, the movement of people and flow of remittance is increasing in scale, so policy makers, researchers and development actomaniacs are paying greater attention to whether migrants' remittance can play an important role for development or not. In this chapter I will analyze existing theories of migration and empirical findings related to the impacts of remittances on poverty, inequality and investment (entrepreneurship).

2.2 Reasons of Migration: Theoretical Background

Massy et al. (1993) did a comprehensive review on theories of international migration. Neo-classical macroeconomic theory argues that countries with excess labor have a low equilibrium wage rate and less capital, whereas countries with abundant capital and less labor have high wage rates. Therefore income difference is the main reason for international migration. After migration, a new equilibrium wage rate will be established because the destination countries' wage rates decrease due to immigrants' inflow, while in the country of origin wages increase due to international labor outflow. Geographical structure also influences migration. Hence wage differential, labor surplus or deficiency, and geographical

structures are the main factors for international migration. Highly skilled labor migration is different from the migration of low-skill workers.

Neo-classical microeconomic theory takes the view that migrants calculate costs (travel cost, new job search cost, new language learning and cultural adjustment cost, joining a new labor market cost and other psychological costs) and benefits (high wages and other returns) of international migration based on their skills. The employment rate in the destination country is another important determinant of migration. Human capital characteristics such as education, experience, training, and language skills also stimulate international migration. If domestic social or economic conditions, such as capital and technical availability, are low in the country of origin, then migration increases. In addition, the scale of migration depends on the size of expected returns after migration. Migration is independent of other markets. Government can intervene to affect the labor market. This means laborers have complete knowledge of different countries' wage rates.

Taylor (1999) propounded the New Economics of Labor Migration (NELM) theory and suggested a different view on the determinants of migration. The author argued that not only the individual laborer but the household makes migration decisions. Migration research is better done at the household level than in individual units. Wage differences are not the only necessary condition of migration because people migrate for risk diversification. Every household's objective is to improve living conditions within the given context (number of family members, amount of land and others). Some family members work in the local community while some practice international migration so that aggregate returns are maximized and risk minimized. In developed countries, a household's unexpected economic issues (such as health problem or diseases that affect agricultural products) are mitigated by governments through insurance. However, government benefits are insignificant or nil in

developing countries. Hence, in times of crisis migrants send remittances to support other family members. The stage of domestic development and international migration are not independent but rather are interdependent. An increase in the rate of return in the home country also influences migration abroad. Migration decisions also depend on mobility costs and the worker's age. Migration continues if other markets in the home country are imperfect. Governments can influence migration through insurance markets, capital markets and so on. Unemployment benefits and income distribution policy also affects migration.

Dual market theory advocates that demand-based industrial growth in developed economies is the main reason for international migration. The employer's motive is to recruit new workers so that the existing wage rate does not increase and profit levels do not decrease. Immigrants are in lower position due to institutional and policy barriers and cannot bargain for higher wage rates. Societies have no big role in influencing labor demand and supply, and government also has little policy role.

World systems theory also emphasizes that international migration is the natural result of capitalism. Capital and goods flow from developed to developing countries and labor flows in the opposite direction. Most migration is likely to flow between former colonies and colonial powers because the economic systems match. Government can do little to influence international migration because it is the consequence of globalization and the market economy.

Network theory advocates that when someone resettles abroad, he/she gathers socio-economic information about the destination country and then informs other family members or relatives about going abroad. This process minimizes migration costs and job risks in the destination country. This argument is relevant in the Nepalese context. One Nepalese worked in an Indian restaurant in Japan. Later he became a restaurant entrepreneur and called his

brothers to work. Consequently the other brothers also opened new restaurants and invited other relatives. Most of the Nepalese migrants in the hotel and restaurant business in Japan are from the *Baglung* district of Nepal. This trend also holds true in other countries.

Classical theory argues that migrants have perfect knowledge about destination countries' wage rates. This assumption does not apply to the real world. In the recent years, man-made causes such as political instability and wars, environmental issues such as sea level rise, and natural disaster are also responsible for migration. Economic ups and downs, expanding means of transportation and internet facility are also major determinants of international migration. Moreover, new generations are interested in going to new places and learning new ideas (knowledge migration) which will be useful after returning to their home country. However, existing international migration theories did not explain these points.

2.3 Optimistic vs Pessimistic View on Migration, Remittance and Development

There are two perspectives regarding the effect of migration/remittance and development in labor sending countries. The optimistic view argues that managed migration and remittances helps economic growth and development for both the destination country and the country of origin. Currently, about US\$1 billion of remittance flows to developing countries daily. This will help in poverty reduction, upgrading health and education-related indicators and the empowerment of women. Migration also helps to expand trade, investment, skill learning and cultural exchange (IOM, 2013).

Recent research by Clemens (2011) argued that if international labor movement barriers were significantly minimized than the World GDP would rise between 50 to 150 percent. International migration and remittance have a direct impact on poverty reduction and positive effects on health, education and gender equality (EU, 2013).

Laczko and Brian (2007) stated the importance of remittance for a Nepalese return migrant:

While working in Hong Kong I experienced many things...I have gained much experience and my confidence has grown. Now, I have a say in decision-making at home. My husband does not shout at me...I have bought a piece of land and four rickshaws and I am creating a means of livelihood for four other families. (p.11).

Adams and Page (2005) in a macro level study used 71 low- and middle-income countries' time series data and found that both international migration and remittance reduce poverty level, poverty depth, and the severity of poverty in the developing world. A 10 percent increase in per capita official international remittances will lead to a 3.5 percent decline in the number of people living in poverty. Using cross-country data of 64 developing countries, Cattaneo (2009) investigated empirically the effect of international migration on poverty in labor-sending countries and saw that a 10 percent increase in the per capita stock of migrants resident in Organization for Economic Cooperation and Development (OECD) countries augments the income of the poor by 1 percent, and 10 percent increase in expenditure per capita augments the dollar value of the poor by 3 percent on average and *ceteris paribus*. Based on 33 African countries' panel data (1990-2005), Anyanwu and Erhijakpor (2010) postulated that a 10 percent increase in official international remittances as a share of GDP leads to a 2.9 percent decline in the poverty headcount. The point estimates for the poverty gap and squared poverty gap suggest that a 10 percent increase in the share of international remittances will lead to a 2.9 percent and 2.8 percent decline respectively.

Remittance contributes positively to development because when remittance inflow increases, aggregate investment and growth increases. Remittances are helpful for

macroeconomic crises and natural disasters in Latin America (Fajnzylber & Lopez, 2008). At the micro level, remittance contributes to increased savings, consumption of durable goods, human capital and children's health. If remittance is not immediately consumed, then it will help financial sector development by increasing bank deposits and credits. Remittance receiving households are more likely to increase deposits than non-receiving households in Guatemala, the Dominican Republic and Haiti. More bank branches have opened in large-scale remittance receiving municipalities in Mexico, and there is a relatively higher saving ratio.

When people migrate to a new country they do not abandon ties with the country of origin. For example, migrants continue communication with their family members and transmit new ideas related to economic and cultural aspects from the destination country. Development economists argue that the migrants' diaspora can play an important role for development. For example, there are more than 30 million international migrants in Africa, so the diaspora can play an important role in African region's development.² Diaspora can promote trade (migrants may prefer foods from their country of origin), direct investment (migrants know more information about market structure in his/her birth place than foreigners) and capital market development (issuing diaspora bonds). Moreover, technology transfer and the establishment of medium- and large-scale industries is also possible through collective remittance (Plaza & Ratha, 2011). Sometimes governments face problem with external finance but can manage money through diaspora bonds. For example, India and Israel issued diaspora bonds worth US\$40 billion. Nepal also issued a five year foreign employment bond in 2010 targeting infrastructure development (Mohapatra et al., 2012). Hanson and

² Diaspora as consisting of people of African origin living outside the continent, irrespective of their citizenship and nationality and who are willing to contribute to the development of the continent and the building of the African Union (Plaza & Ratha, 2011).

Woodruff (2003), and Cox-Edwards and Ureta (2003) found forward linkage between remittances and human capital formation in Latin America.

In contrast, the pessimistic view argues that migration and remittance erodes labor sending countries' development by creating labor shortage, dependency, brain drain and the Dutch disease effect.

Remittance incomes can produce the Dutch Disease Effect. When remittance inflow increases, marginal expenditure goes up for both domestic and imported goods. Factors of production demand goes up to meet increased aggregate demand. Higher demand for labor increases wage rates, so inflation increases. Sometimes tradable products producing sectors' labor switch to the not-tradable products producing sector. Labor shortage in export industries pushes up wage rate. Ultimately, the economy will lose price competitiveness with the rest of the world (Lopez et al., 2008). If remittance is used to buy imported goods, then the current account deficit erodes. The World Bank (2003) reported that the main reason for the trade deficit worsening in El Salvador during 1990s was due to remittance income being used to purchase imported goods. For example, Amuedo-Dorantes and Pozo (2004) used 13 Latin American countries' data and found that when workers' remittances double, the real exchange rate appreciates about by 22 percent.

Skilled migration is the major trend in the current migration pattern, which can result in brain drain for developing countries. The ultimate objective of any country's immigration policy is to attract skilled and, if possible, economically better foreigners. Australian immigration policy in 1984 clearly stated that "immigrants who can contribute to the Australian economy" will be selected (Schiff & Ozden, 2006, p. 152). The point system for migration of Canada and New Zealand are other examples of demand for educated immigrants. In 1997, 50,000 highly qualified people and entrepreneurs migrated to Canada

along with 75,000 additional family members. In the United States of America (USA), visa quotas for highly skilled people was 110,200 in 1992 but increased to 355,600 in 2000. From 2000, the European Union (EU) also announced various easier schemes to welcome highly skilled immigrants. Canada and Australia have the largest percentage of highly qualified migrants among total migrants, and about 25 percent immigrants are skilled workers in Australia, Luxemburg and Switzerland (Schiff & Ozden, 2006). Small African countries are badly affected by skilled migration. If there was surplus labor (highly skilled individuals) in developing countries then this would be the best practice. However, the reality is the opposite. Most of the poor economies lack teachers, doctors and Information Technology (IT) specialists.

Leading international organizations and recent empirical studies indicate that migration and remittance can play very important roles for both developed and developing countries' economic gains and particularly for development. However, we should not forget the limitations of current migration data, informal remittance and political influence on transnational labor migration.

2.4 Migrants' Remittances: Poverty and Inequality

Most of the empirical studies show a negative relationship between migrants' remittances and poverty, but impact on inequality shows mixed results. Migration reduces poverty because people migrate from low-income rural areas to high-income city areas or from low-income economies to high-income economies. In the country level study by one of the pioneers in this field, Adams (2004) analyzed the expenditure behavior of Guatemalan households. Sampling 7,276 households, the study employed a two-stage selection model to correct selection bias and calculated poverty types in a counter-factual scenario. Both internal

and international remittances decreased poverty but had more effect on the poverty gap and squared poverty gap than the poverty headcount. Applying the same methodology, Adams et al. (2006) also asserted that total remittances reduced poverty in Ghana. In Ghana the poverty gap decreased by 4.1 percent through internal remittance and 34.8 percent through international remittances. A recent study by Adams and Cuecuecha (2010) used Indonesian Family Life Survey panel data (2004 and 2007). Distance to railroad stations, the level of rainfall and unexpected rainfall were used as instrumental variables, whereas a pair wise Average Treatment Effect (ATE) model was used to compare with a counterfactual scenario. These findings also showed that international remittances have a significant effect in poverty reduction in Indonesia. International remittances help to decrease poverty headcount by 26.7 percent, poverty gap by 55.3 percent and squared poverty gap by 69.9 percent. Following the same methodology, Nguyen et al. (2011) estimated the impact of work and non-work migration on per capita income, per capita expenditures, poverty rate and inequality in Vietnam. Work-related migration contributed a 19 percent increase to per capita income, while non-work related migration contributed an insignificant portion. Migration slightly decreased inequality. Using poverty decomposition techniques by income method and data from the 2003 Mexico National Rural Household Survey, Taylor et al. (2005) confirmed that overall poverty decreases when migrant remittance goes up but rural poverty decreases more through international remittance than internal remittances. Gustafsson and Makonnen (1993) used 1986/87 households survey data (7,680 sample size) in Lesotho. International remittances represent the main source of income for 35 percent of Lesotho households. If remittances were set to zero, average per capita household consumption would fall by 32 percent, the poverty headcount index would increase by 26 percent and the poverty gap index would increase by 52 percent.

There are a few empirical studies about migration, remittances and the impact on poverty and inequality in Nepal. For example, previous studies have put their energy into analyzing the migration process of Nepal, focusing on historical trends of migration and the significance of remittances in the Nepalese economy (Yamanaka, 2000; Thieme & Wyss, 2005; WFP, 2008). One study argued that rapid migration and a huge flow of remittances will produce the Dutch Disease Effect in Nepal by wage rise and exchange rate appreciation (Sapkota, 2013). In a micro level study, Maharjan et al. (2013) found that migration reduces labor participation in the agricultural sector and crop production declines in Nepal. Lokshin et al. (2007) used a cross-sectional sample of NLSS II (2004) data and estimated migration decisions and consumption. This study used the Full Information Maximum Likelihood (FIML) model using instrumental variables (percentage of migrants at district and ward level) and found that of the total poverty reduction in Nepal between the period 1995 to 2004, 20 percent was contributed by internal-external migrants' work-related remittance. The study argued that if there was no migration and remittance, the poverty level would be 33.6 percent compared the observed level of 31 percent. Per capita consumption would also decrease from 15,000 NRS to 14,000 NRS. In addition, this study claimed that remittance helped a little to minimize inequality. The latest study by Acharya and Leon-Gonzalez (2012) used panel data (1995 and 2004), employed the Fixed Effect model and found that higher remittance contributes to greater consumption. The role of remittance is greater to decrease the poverty gap and the severity of poverty than headcount poverty. Remittance income from India in Nepal is lower than other countries but it has the biggest role in decreasing poverty and inequality because the majority of people migrating to India are from the lowest income quintiles.

Taylor et al. (2005) argue that poor people cannot migrate to the high-wage destinations due to high transport and recruitment costs. In this case, migration has little impact on poverty and inequality increases. Poor people will not benefit unless their migration constraints are minimized. I agree with this argument. In Nepal, people from the lowest income quintiles cannot migrate to high wage-paying countries because poor households in remote areas cannot easily even raise the money to get a passport.

Wouterse (2010) analyzed 223 households in four villages of Burkina Faso and stated that intra-African remittance reduces income inequality, whereas the long distance migration case has opposite results because of cost and risk. He argued that certain households benefit from international remittance; however, there is limited impact on social welfare because the beneficiaries are not poor rural people. Some studies showed that migration and remittances reduced inequalities in China's Hubei province and in Vietnam (Zhu & Luo, 2010; Pfau & Giang, 2010). In the case of China, people are migrating from rural areas (where agriculture productivity is low) to the urban areas. This leads to increase in income. In Vietnam, not only urban people but rural people are also taking part in international migration, through which international remittance is contributing to household consumption and to decreasing inequality. On the other hand, other works revealed that migration and remittance increased income inequality in Ghana and rural Egypt (Adams, 1991; Adams et al., 2008). In these cases relatively richer households received more remittances than poor households due to expensive migration costs.

2.5 Use of Remittance: Consumption or Investment

Most of the studies found that remittance is used for consumption purposes rather than investment or entrepreneurship. Adams (1998) analyzed the use of international remittances

using five-year panel data with a 500-household sample size. This research found that more remittance is used to buy land as asset accumulation than for business investment in Pakistan. Adams (2004) observed marginal expenditure behavior in five sectors: consumer goods, housing, education, health and others. The result is positive in the use of remittance because marginal spending is less on food expenditure among remittance receiving households than among who don't get remittances. Internal remittance-receiving households spend 15 percent on housing, whereas external remittance receivers spend only 2.2 percent. International remittance-receiving household expenditures are 45.2 percent in education, whereas it is 58.1 percent for those who get internal remittances. Using the panel data of Indonesia, another study by Adams and Cuecuecha (2010) found that households spend more on consumption and less in investment at margin. In the case of Albania, Castaldo and Reilly (2007) found that budget share is increased by 25 percent in durables and 16 percent in utilities in those households who get external remittance, whereas marginal propensity to consume is modest (only 3.5 percent) on food consumption.

Other studies reveal that more remittance is allocated for buying conspicuous goods than for investment (Chami et al. 2003). Remittance-receiving household members work less hours (leisure) and spend less on education for their children but save more and borrow less from banking institutions. With a small sample size (160 households), Grigorian and Melkonyan (2008) showed that remittance earnings were mainly used for household purposes, buying real estate and a house, repaying loans and purchasing ornaments. Mueller and Shariff (2009) examined correlations between the receipt of remittances from internal migrants and human capital investment in rural areas of India. Using the Propensity Score Matching approach study found a positive correlation between remittances received from internal migrants and the school attendance of teens. The magnitude of the correlation is greater when

focusing on low-caste households, and male schooling attendance in particular becomes more positive and statistically significant. Tabuga (2007) analyzed expenditure behaviors with remittance income in the Philippines and found that the highest degree of consumption is for conspicuous goods. Remittance influences households to allocate more to consumer goods and leisure; however, this does not include tobacco and alcohol. Such income has also strong impact on education and housing expenditure.

In a micro level study, Gumbert and Nordman (2011) found that only 33 percent of returned migrants invested in the business enterprises in Algeria, Morocco and Tunisia. In addition, Amuedo-Dorantes and Pozo (2006) found that in the Dominican Republic remittance income is used for basic consumption, health care and education for the household members rather than business investment. Similarly, Osili (2004) found that high remittance-earning people allocate more to housing than other sectors in Nigeria.

Some studies found that remittance is used in productive sectors. For example, Woodruff and Zentano (2007) revealed that remittance helps as capital to expand micro-enterprises in Mexico. In a micro analysis, McCormick and Wahba (2001) found that savings abroad and length of stay are positively correlated to entrepreneurship in rural Egypt. Higher savings overseas solves credit constraint problems and longtime stay abroad helps in learning new skills and business ideas to apply in the local community. Kilic et al. (2009) also found that there is positive association between return migrants and business ownership in Albania but business investment is towards the non-farm sector. Ammassari (2004) in a micro level study postulated that highly skilled elite returned migrants allocate remittance to productive investment aiming at innovation in Côte d'Ivoire and Ghana. To date there is no study to analyze the use of foreign remittance and to see the likelihood of return migrants to become entrepreneurs in Nepal.

2.6 Conclusion

Research work on the effect of migration and remittance in different economic variables is increasing year by year. Most of the studies indicate that remittance is a positive contributor to improving welfare indicators. Some studies also indicate that poor people are getting relatively less remittance than richer people due to expensive migration costs, which can increase inequality. The majority of the research found that remittance is used for normal consumption; however, some found that remittance is contributing to investment or entrepreneurship.

CHAPTER 3

TEMPORARY LABOR MOVEMENT BARRIERS UNDER GATS MODE 4

3.1 Introduction

International migrants account for three percent of the world population and the official recorded remittance flow for the world is US\$ 440 billion. A significant portion (US\$ 325 billion) is received by developing countries, making the volume larger than official aid flows (World Bank, 2011). Principally from start of the 21st century, international migrants' remittance represents one of the main resources for economic development.

The existing reality is that developing countries have surplus labor as seasonal and disguised unemployment due to poor economic performance, social unrest and political instability. Developed nations are facing demographic decline which may create friction to achieve economic efficiency in the world economy. The aging and declining population is an alarming issue in Europe, Japan and North America. The United Nation's demographic projection shows that the population of the EU and Japan will fall by 10 percent and 14 percent respectively between 2000 and 2050, which is about 55 million people in total. However, the United States' population is expected to increase over the same period (UN, 2000). In the coming decades, globalization and climate change will also increase migration pressures across borders. If labor movement from south to north is minimized selecting a particular region or industry then production cost decreases through productive efficiency.

Economic theory and some empirical findings show that skilled and mainly unskilled temporary international labor migration will produce a win-win situation for the world economy (Hamilton & Whalley, 1984; Winters et al., 2003; World Bank, 2006; Clemens, 2011). However, the GATS Mode 4 commitment is insufficient and unclear regarding low-

skill temporary labor movement and is confined to highly skilled workers, where migration practice is determined by bilateral immigration policy. Under these circumstances, questions arise such as: What is the significance of temporary labor movement for world economic efficiency? What are the labor movement barriers under GATS Mode 4?

This chapter discusses the significance of labor movement, focusing on theoretical and academic perspectives. On the other side, I will also analyze existing low-skilled labor export barriers from a policy prospective, focusing on the GATS Mode 4 regimes. To conclude, the way forward will be discussed.

3.2 Theoretical Approach to International Labor Flow

Comparative advantage theory argues that there are cost and specialization differentials among economies, so liberalization increases the quantity and quality of production and improves living conditions around the world. Assuming labor as one of the inputs of production, international migration will produce comparative advantage for both developed and developing countries due to wage, education and specialization differences.

Viewing the importance of immigration in the USA, Borjas (1999) writes:

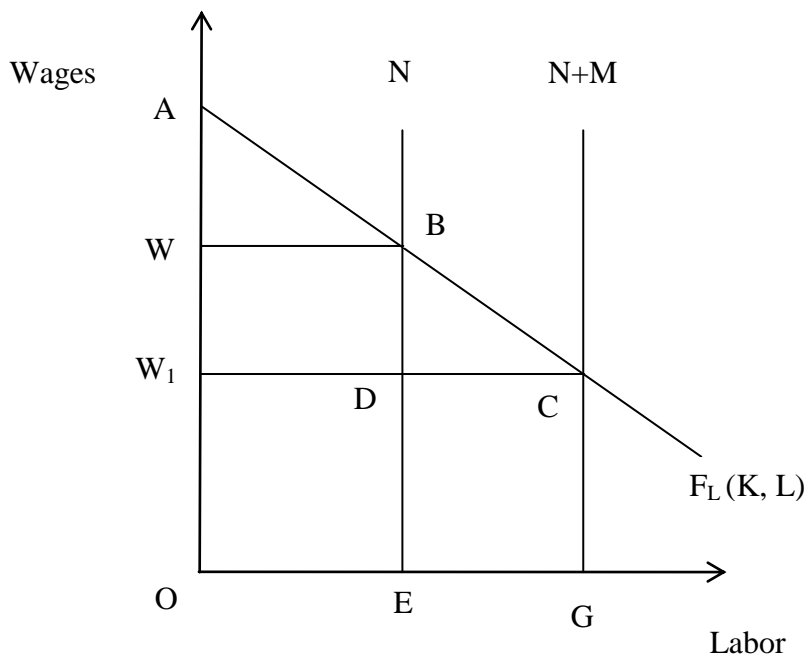
The principles of free trade first enunciated by Devid Ricardo almost two centuries ago suggest that the world would be much richer if there were no national borders to interfere with free movement of goods and people. By prohibiting the immigration of many persons, the United States inevitably shrinks the size of the economic pie, reducing the economic opportunities that could be available to many persons in the source countries. (p.181).

International labor flow can be analyzed by a simple economic theory. Consider that labor is a homogeneous factor of production and wages are determined under a perfect

competitive market. As shown in the Figure 3.1, in the short-run the downward sloping labor demand curve is $F_L(K, L)$, which indicates an inverse relationship between the wage rate and the scale of labor demand. Suppose there are an increasing number of people joining the international labor market. An increase in the labor force through a wave of immigration with capital remaining constant leads to a decrease in the wage rate and marginal productivity. Because migrants are less-skilled, their wages decrease relative to native labor. The total labor force is $N+M$ by adding natives and immigrants and the wage rate decreases from W to W_1 .

$F_L(K, L)$ is a constant returns production function. Here, an increase in the number of immigrants leads to an increase in GDP from the area $OABE$ to $OACG$. Surplus or profit in the destination country is equal to the triangular area BCD . This means an increase in the labor force causes a decrease in costs of production and increases profit as capital earnings for entrepreneurs.

Figure 3.1 Impact of Immigration with Homogenous Labor and Fixed Capital



Source: Cahuc and Zylberg (2004). Labor Economics, pp. 608-609.

This theory assumes that all international migrants are homogenous and are not categorized as skilled and unskilled labor. In reality, the labor demand and supply curve of skilled workers appears more inelastic than for the unskilled.

3.3 Academic Approach to Temporary Migration

Empirical studies strongly indicate a positive stimulus to economic growth and development through temporary migration flexibility. For example, two decades ago Hamilton and Whalley (1984) suggested that the liberalization of the labor market could double world income, wherein developing countries would proportionately gain more than developed countries. Similarly, Winters et al. (2003), applying a global General Equilibrium model, postulated that if developed countries introduce a temporary visa system to permit movement and a quota of up to three percent of their labor force from developing countries, worldwide economic gain would rise by US\$ 156 billion. Gains are expected to be distributed as remittances for developing countries and through licenses fees, certification of qualification, living costs of laborers, insurance costs, and other expenses in developed countries. Educated people in developed countries are generally not interested in working in agriculture and construction. Labor-intensive work, such as medical-personal care services for the aged population, cannot be substituted by capital. Low-skilled temporary migration would lead to greater productivity, and their remittances would offset the original losses in the countries of origin. Walmsley and Winters (2005) again indicated that if there remain restrictions in the cross-border flow of people, then all countries should bear the cost, estimated at over US\$ 150 billion. The cost of low-skilled worker restriction will be greater than that of high-skilled labor. The downward demographic effect could reduce the US standard of living by 10 percent, the EU by 18 percent and Japan by 23 percent by 2050 (Moses & Letness, 2004).

The World Bank claims that if the recorded migration rate from 1970 to 2000 continues, then the labor force of developed nations will increase by 3 percent over the period 2001-2025. Wage rates will decline slightly in developed countries, but it will be offset on average by gains in capital returns. Migrants' wages will be higher in destination countries than in their countries of origin, and finally total welfare gain (output) would account for US\$ 365 billion by 2025 (World Bank, 2006).

Focusing on poverty, Adams and Page (2005) showed that international migrants' remittances have a strong impact on the reduction of poverty in developing countries. Some international organizations also emphasize labor movement as the key factor for economic development in this century. The *Human Development Report* (HDR) 2009 showed that human mobility from one place to another is an essential part of freedom. Migration, whether it is internal or external, helps to raise incomes, improve access to health and education and better prospects for future generations. Removal of human mobility barriers will improve human development enormously (UN, 2009).

3.4 The Policy Approach: GATS Mode 4 Barrier on Labor Movement

The General Agreement on Trade and Tariffs (GATT) could not address new service-related trade issues, so the WTO was established in 1995. The General Agreement on Trade in Services (GATS) was one of the achievements of the Uruguay Round (1986-1994), which covers a wide range of service sector trade liberalization. Trade in services under GATS has four Modes of international service supply³. Mode 4 is concerned with the movement of

³ Mode 1 refers to cross-border trade, defined as the delivery of a service from one territory to another (for example, legal advice from abroad given by letter or telephone). Mode 2 is related to consumption abroad (such as visiting law office abroad). Mode 3 is related to commercial presence (for instance, when a service supplier establishes a base in another country and supplies services from that base or FDI) (WTO).

natural persons who travel to another territory to deliver services (labor mobility while providing services).

Technically Mode 4 is defined in Article I: 2(D) of GATS as being “a service supplier of one Member, through presence of natural persons of a Member in the territory of any other Member” (WTO, Definition of Services Trade).

Further elaboration is provided in the GATS Annex on Movement of Natural Person Supplying Services. Under the agreement, which expressly provides that the GATS "measures affecting natural persons who are service suppliers of a Member, and natural persons of a Member who are employed by a service supplier of a Member, in respect of the supply of a service". The annex also states that the GATS “shall not apply to measures affecting natural persons seeking access to the employment market of a Member, nor shall it apply to measures regarding citizenship, residence or employment on a permanent basis”. Moreover, governments are free to regulate entry and temporary stay, provided these measures do not nullify or impair the commitments. The WTO Secretariat background note on Mode 4 further elaborates that differential visa requirements should not to be regarded as nullifying or impairing benefits under a specific commitment.

Here the first part is clear, “presences of natural persons who are service a supplier of a member” means self-employed or independent service suppliers who obtain their remuneration directly from customers. However, the second part, “natural persons of a Member who are employed by a service supplier of a Member” causes some confusion about what is meant. For instance, the WTO secretariat background note suggests that foreigners employed by host country companies are also included under Mode 4 if they work on a contractual basis as independent suppliers for a locally-owned firm, and they will be excluded if they are employees of that firm. However, Article I.2 (d) covers only foreign employees of

foreign firms established in another member. The GATS cover only services and supply of services, and do not cover people working in agriculture and the manufacturing sector. For example, is a fruit-picker a temporary agricultural labor (which does not lie under Mode 4) or providing fruit-picking services? Confusion also seems from the term “temporary”, which does not clearly classify the period of stay for different types of people. Only about one-third of commitments include any specified duration of stay, and these are mostly for intra-corporate transferees (generally two to five years) and business visitors (generally three months) (Nielson & Taglioni, 2003). Hence, vague terminology covering types of workers and the period of stay can cause misinterpretation of labor movement issues by governments and immigration officers.

There is one category of service suppliers that includes mainly highly qualified and skilled manpower. They are Intra-Corporate Transferees (ICT) - that is, employees of the same company which has a commercial presence in another member's territory as a branch company. The contract is made between the home and host companies (movement within juridical spheres). Business Visitors (BV)-prospecting business opportunities such as preparing the establishment of a branch; Contractual Service Suppliers (CSS) - provision of a service on a pre-obtained contract possibly within the context of a legal person; Independent Professionals (IP)- and individual service supplier, such as architect who moves abroad to supply a service. Mode 4 accounts for less than two percent of the total value of the services trade and commitments are biased to higher level personal. More than 40 percent of commitments are for ICTs whose mobility is directly related to FDI and another 50 percent of commitments cover executives, managers, specialists and business visitors (World Bank, 2004).

It is difficult in some cases to determine precisely which Mode is applicable among the four Modes of supply. For instance, a US-owned hospital established in Australia (Mode 3) may employ foreign doctors and nurses (Mode 4) and receive medical advice through the internet from US-based specialist (Mode 1). Some services can be established among member countries in a very short period of time through the internet. However, it is challenging to identify which work is done from abroad and which domestically (World Bank, 2008). For example, a housing construction company can provide service under one Mode, but if labor movement is obstructed under another Mode by government policy or political reasons then the whole project will be disturbed.

3.5 Rethinking Highly-Skilled Migration from Developing to Developed Countries

Permanent migration liberalization of skilled workers is a particularly sensitive issue for developing countries. This is because poor economies are still facing education and innovation traps that exhaust their resources, but the migration of talented young people is continuous. If there is rapid permanent migration from poor to richer economies (for example, under the points system for immigration to Canada) then the slogan ‘migration for development’ will be questionable in the long-run. Education produces many positive externalities, but educated peoples’ permanent migration from a rural society may produce negative impacts in the economic, political and other societal activities. In many destination countries, qualified migrants feel depression because wages are not paid commensurate with their qualification. Oreopoulos (2011) finds that the wages of highly skilled recent immigrants to Canada is 36 percent lower than native workers. It is also true that unskilled permanent migrants will have more chances of losing cultural, social and even economic identity in the host countries.

Brain drain from developing countries accounts for 7 percent of the total migration but it is 43 percent in countries having a population of less than 1.5 million. Polynesia and Caribbean islands have even higher rates: 75 percent of individuals with tertiary education leave their country of birth (Docquier & Schief, 2008). Fifty-seven UN member countries (36 of these Sub-Saharan African countries) are facing a critical shortage of doctors and nurses. There is high demand for health workers in both developed and developing countries. In OECD countries, 18 percent of doctors and 11 percent of nurses are foreign born. Countries with small populations may suffer more from the migration of health workers than highly populated countries like India and the Philippines. Hence, the large-scale migration of health workers threatens to undermine the Millennium Development Goals (MDGs) (UN, 2010).

3.6 Academics and Policy Makers' Underestimation

Researchers know complex economic models better than real societal issues. For example, Winters et al. (2003) and the World Bank (2006) have already found large benefits from temporary labor migration; however, the GATS Mode 4 implementation part is weak. Instead of implementing appropriate policy for the issue based on what has already been found, some researchers are just devoting energy to publishing papers. On the other hand, national politicians are only close to politics and have little knowledge about research findings. Policy makers in prominent international organizations are influenced by a circle of leaders. There is no academic research showing a positive relationship between the American-Muslim war and economic gain, but it has been going on for years. Hence, I argue that all existing economic, political and social unrest is not only due to limited resources, but more importantly due to underestimation and a lack of coordination among academics, policy makers and so-called international organizations.

3.7 The Way Forward

First, world migration data should be updated to include permanent and temporary migrants because existing statistics do not meet Mode 4 criteria. Migration and remittance should be recorded in survey and census data properly matching with the Mode 4 provision. This facilitates exact economic impact analysis and the formation of appropriate policy.

Further negotiations on the GATS Mode 4 are necessary to foster practical and action-oriented outcomes. This requires a new level of policy co-ordination between relevant regulatory agencies, particularly those responsible for trade, immigration and the labor market, to find workable solutions and to move forward with liberalization. Interpretation of commitments, classification of workers and host country regulatory regimes should be made clear in Mode 4. De-linking Mode 4 from Mode 3 is necessary. Labor flow between countries seems like a positive step that needs more bilateral and regional coordination at the ministerial level.

It is not wise long-term economic policy to pull a mass of talented academics permanently from south to north. Instead, it would be wiser to set a quota for low-skilled temporary working visas. Migrants should abide by the rules and regulations of host countries. Developing countries are heavily subsidizing the education sector, so permanent skilled migration is a direct flow of human capital investment to developed countries. Therefore, promotion of return and circular migration minimizes the costs of skilled labor migration.

Not only developing countries but developed countries and policy makers in international organizations should realize the gain in productive efficiency caused by the admission of temporary labor migration. Business groups will also benefit from increasing labor market flexibility, profitability and competitiveness. This provides an incentive for trade

and the search for new markets, especially in the primary sectors which face difficulties because of expensive labor in developed countries. Coordination and understanding of the nexus between migration and development is needed among economists, politicians and international organizations.

3.8 Conclusion

Economists agree that the overall effect of temporary migration from developing to developed economies is positive for the improvement of the world's living standards, assuming that the migrant moves from a less productive to a more productive place. All of these gains do not directly accrue to the poorest countries. Developed countries also incur costs, but through the reaping scale effect and increasing competitiveness in the labor market, international migration can be an effective means of shrinking the income gap between rich and poor countries. Different types of international migrants should be clearly separated and data should be gathered as an economic needs test. The GATS Mode 4 commitment and its unclear definitions should be improved. The WTO should also clearly classify types of occupations as the International Labor Organization (ILO) does with regard to international migration. Moreover, politicians and policy-makers should together deepen dialogue to implement labor movement commitments for the interests of greater global prosperity and development. The mass influx of immigrants also puts pressure on infrastructure, social benefit systems, security, unemployment rates and cultural activities in the destination countries.

In spite of these labor movement barriers, cross-country migration and remittance flow is increasing every year. I will analyze this trend in the next chapter.

CHAPTER 4

MIGRATION AND REMITTANCE SCENARIOS IN THE GLOBAL, REGIONAL AND NEPALESE CONTEXT

4.1 Global Migration Scenario

According to the Global Commission on International Migration (GCIM) (2005), the highest percentage of migration of the world population occurred between 1850 and 1910. Migration flow decreased between 1914 and 1950 due to the world wars and the world economic depression of the 1930s. Immigration policies became tighter during this period. Economic growth and migration flow started to again increase from 1960 to the present. Currently, more than 214 million people, or about three percent of the total world population, live abroad (IOM, 2013). International migration has increased rapidly in the last few decades. The highest number of immigrants in 2010 were in Europe (69.7 million), followed by Asia (61.3 million), North America (50 million), Africa (19.2 million), Latin America and Caribbean (7.5 million), and Oceania (6 million) (see Table 4.1).

Table 4.1 Historical International Migration Flow (1960-2010)

Stock of immigrants (in million)				
Regions	1960	1990	2005	2010
Asia	28.5	50.9	55.1	61.3
Africa	9.2	16.0	17.7	19.2
Latin America and Caribbean	6.2	7.1	6.9	7.5
Europe	17.5	49.4	64.3	69.7
North America	13.6	27.8	45.6	50.0
Oceania	2.1	4.4	5.5	6.0
World	77.1	155.5	195.1	213.8

Source: Author's compilation from IOM (2013).

The top migration destinations are the United States, followed by the Russian Federation, Germany, Saudi Arabia, and Canada. The United States has seen the largest inflow of migrants between 2005 and 2010. Gulf countries like Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE) are also important destinations for South and East Asian migrants. Migration growth rate decreased somewhat in 2009 in Spain, Italy, and the United Kingdom (UK), and from Eastern Europe as well as Latin America and North Africa due to the world financial crisis and the increase in the unemployment rate (World Bank, 2011).

Generally, most migration occurs from economically poor regions to the prosperous regions, but recent evidence reveals some interesting scenarios. For instance, the number of migrants is larger in the South-South than in the South-North migration corridor⁴. High-income non-OECD countries (the Gulf region) are major destinations for southern migrant workers (see Table 4.2).

Table 4.2 South-South Versus South-North Migrant Stock

Migration From	Migrants living (population in million and %)			
	Developing countries	High-income OECD countries	High-income non-OECD countries	Total
Developing countries	74.0(43.1%)	73.3(42.8%)	24.2(14.1%)	171.6(100%)
High-income OECD countries	5.1(13.6%)	31.1(83.3%)	1.2(3.1%)	37.3(100%)
High-income non-OECD countries	1.4(20.9%)	5.1(74.1%)	0.3(5%)	6.9(100%)
Total	80.5	109.5	25.7	215.8

Source: Author's compilation from *Migration and Remittance Fact Book 2011* (p.12), World Bank (2011).

⁴ South-South migration is migration from developing to developing countries and South-North migration refers to migration from developing countries to developed countries.

Mexico-United States is the largest migration corridor in the world, accounting for 11.6 million migrants in 2010. The migration corridors in the former Soviet Union -Russia-Ukraine and Ukraine-Russia -are the other largest corridors, followed by the Bangladesh-India corridor. The percentage of female immigrants is 48.4 percent. In 2010, refugees and asylum seekers were eight percent of the total international migration (World Bank, 2011).

4.2 Remittance at the Global Level

Official recorded remittance flow started to increase gradually after the 1980s. It can be argued that remittance is positively correlated with the world income and reflects the wave of the globalization. It increased at the steady rate from the beginning of this century. It was US\$ 147 billion in 2001, rose to US\$ 268 billion in 2006, on 83 percent increase. This is due to increased scrutiny of flows after the terrorist attacks in 2001, decrease in remittance intermediary costs, depreciation of the United States Dollar(USD) and the growth of migrants' income (World Bank, 2006). Remittance was stable and countercyclical for the receiving country; however, for the first time since the 1980s, remittances declined modestly in 2009.

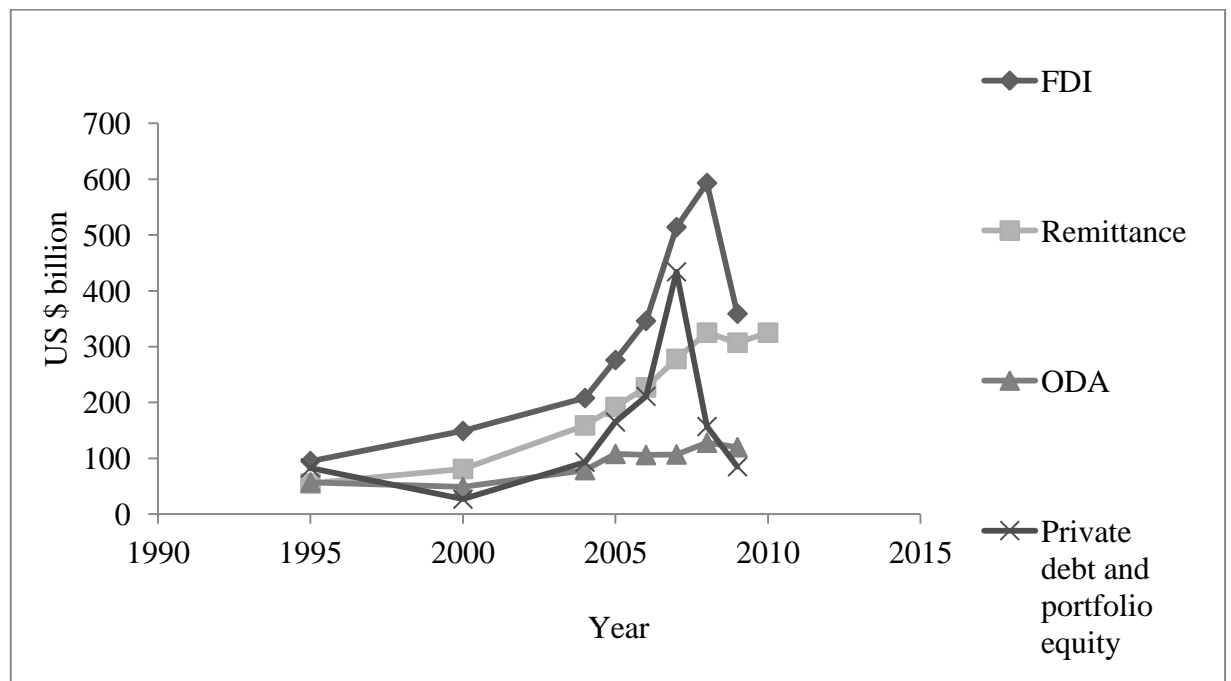
Remittances started to decrease from the third quarter of 2008 and this lasted to mid-2009. Remittance decreased by six percent in 2009 compared to 2008, at US \$316 billion in 2009 and US\$ 336 billion in 2008, but world remittance flow returned to pre-crisis level in 2010, reaching US\$ 440 billion. The real remittance amount could be significantly larger if unofficial flow is included. The World Bank projection show remittance flow to developing countries was expected to grow by 7.3 percent in 2012, 7.9 percent in 2013 and 8.4 percent in 2014, to reach US\$ 441 billion by 2014. These forecasted rates of growth are considerably lower than those seen prior to the global financial crisis, when the annual increases in remittances to developing countries averaged 20 percent from 2003-08. There is also risk of

remittance decrease due to the employment crisis in Europe and the US, political interventions affecting new immigrants, unstable exchange rates and oil price fluctuations (World Bank, 2011).

4.2.1 Resource Flow in Developing Countries

The amount of remittances was smaller than ODA in 1995, but by 2009 it was almost three times larger. Remittance flow to developing countries seems more consistent than FDI for the period 1995 to 2010 (World Bank, 2011). Private debt and portfolio equity (which includes only medium-and long-term debt) reached US\$ 434 billion in 2007, exceeding remittances, but decreased sharply thereafter. The trend of remittance increase is stable from 1995 to 2010, except for 2009, proving to be a stable resource for developing countries (see Figure 4.1).

Figure 4.1 Trend of Resource Flows to Developing Countries (1990-2015)



Source: Author's compilation from *Remittance and Migration Fact Book 2011*, World Bank (2011).

4.2.2 Regional Level Remittance Flow

According to the *World Bank Report 2011*, remittance flow to East Asia and the Pacific was the highest (US\$ 94 billion), followed by South Asia (US\$ 82 billion) ,and Latin America and Caribbean (US\$ 57 billion) in 2010. In comparison to 2009, the overall growth rate of developing countries stood at six percent, East Asia and Pacific experienced 10.2 percent and South Asia 9.2 percent growth; however, Europe and Central Asia had negative growth, at -0.1 percent. Sub-Saharan Africa was getting the lowest amount of remittances but its growth rate was positive in 2010(see Table 4.3).

Table 4.3 Regional Level Remittances (2010)

Region	US\$ billion	Growth rate (%)
East Asia and Pacific	94	10.2
Europe and Central Asia	36	-0.1
Latin America and Caribbean	57	1.2
Middle East and North Africa	35	3.3
South Asia	82	9.5
Sub-Saharan Africa	21	4.5
Developing Countries	325	6.0

Source: Author's compilation from Mohapatra et al. (2011).

4.2.3 Migrants' Remittance in South Asia

Emigrants in South Asia number 26.7 million, which is 1.6 percent of the total population. Inward remittance was US\$ 74.9 billion in 2009, which was 4.8 percent of the total GDP in South Asia. In terms of remittance amount, India stands in the top position, followed by Bangladesh, Pakistan, Sri Lanka and Nepal in the last position (see Table 4.4.). On the other hand, contribution to GDP seems just the opposite, that is, Nepal is in the top

position (contributing 22.9 percent of the total GDP) followed by Bangladesh (8.8 percent), Sri Lanka (8.8 percent), Pakistan (4.0 percent) and India (2.8 percent) in 2009 (World Bank, 2011).

Table 4.4 Migration and Remittances in the South Asian Economies

Population (million, 2009)		1,568
Number of emigrants		26.7 million (1.6% of total population)
Inward remittance flow	74.9US\$ billion (2009)	4.8% of GDP (2009)
Remittances received (2009 US\$ billion)	India	49.3
	Bangladesh	10.5
	Pakistan	8.7
	Sri Lanka	3.4
	Nepal	3.0
Remittances as percentage of GDP (2009)	Nepal	22.9 %
	Bangladesh	8.8 %
	Sri Lanka	8.7%
	Pakistan	4.0%
	India	2.8%

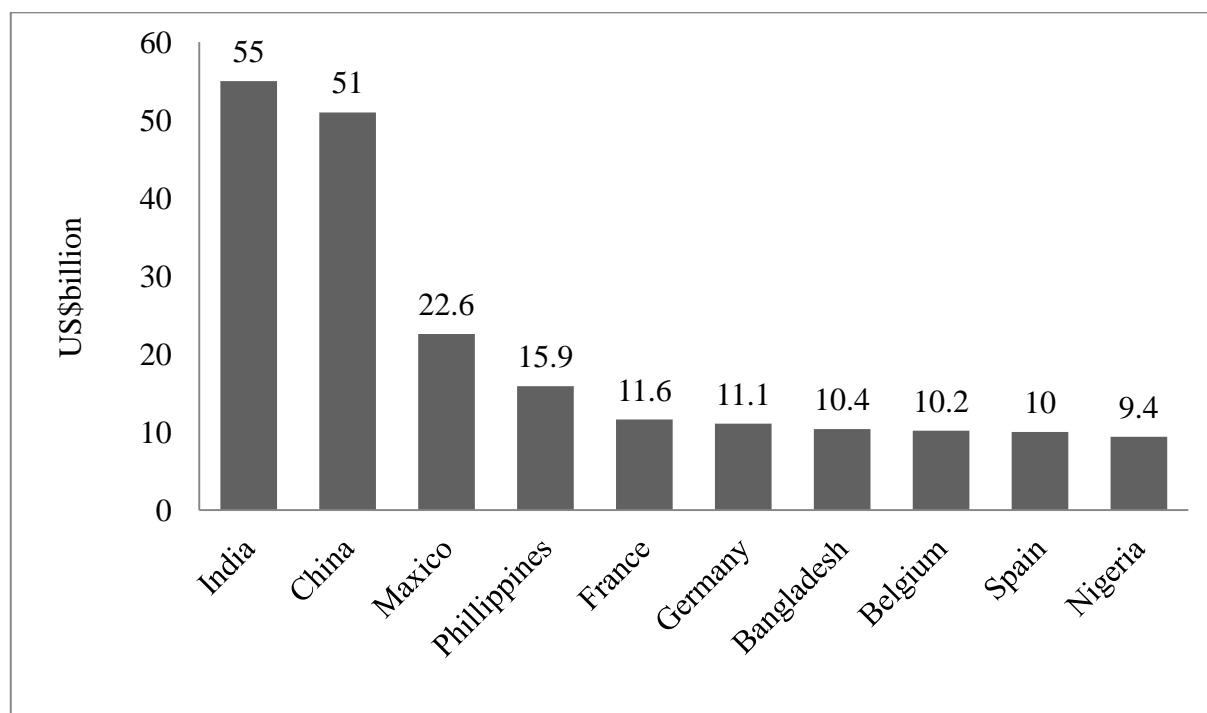
Source: Author's compilation from *Migration and Remittances Fact Book 2011*, World Bank, (2011).

4.2.4 Top 10 Remittance-Receiving Developing Countries

Figure 4.2 shows that in 2010 growing economies like India (US\$ 55 billion) and China (US\$ 51 billion) were the largest remittance-receiving countries, followed by Mexico (US\$ 22.6 billion), the Philippines (US\$ 15.9 billion), France (US\$ 11.6 billion), Bangladesh (US\$ 10.4 billion), Belgium (US\$ 10.2 billion), Spain (US\$ 10 billion) and Nigeria (US\$ 9.4

billion). India, China, Mexico and the Philippines have held their position as top remittance receiving countries for years, but the ranking of other countries changes over the period.

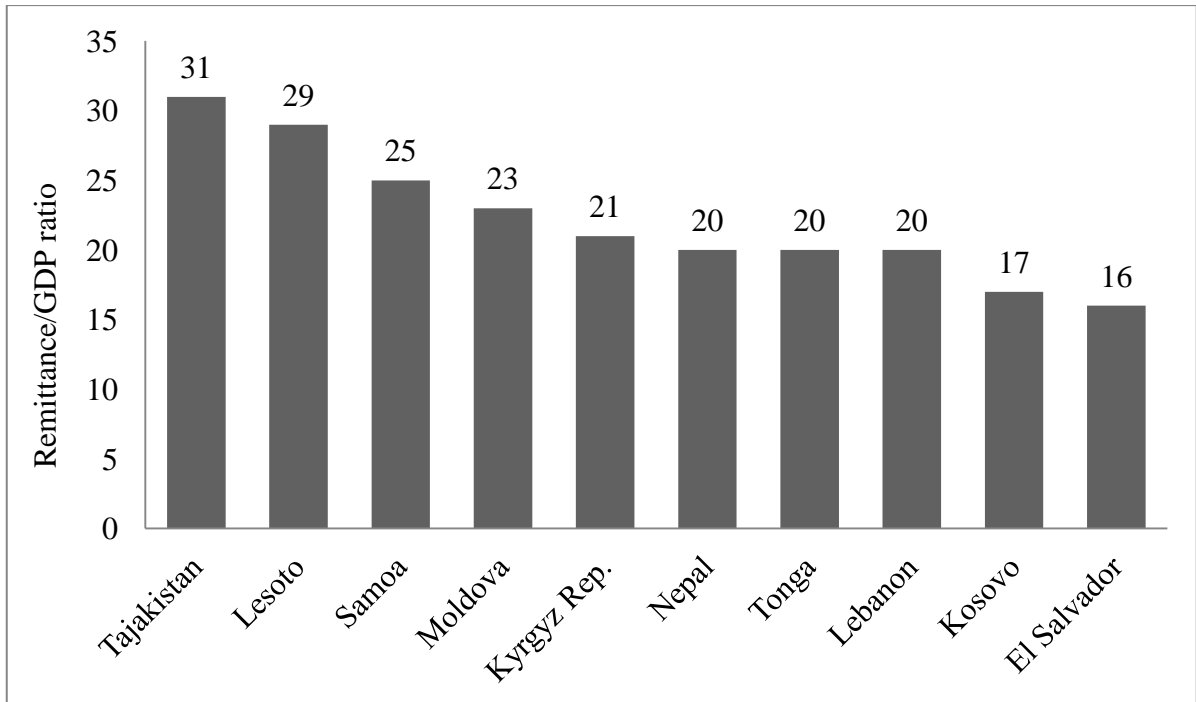
Figure 4.2 Top 10 Remittance Receiving Developing Countries (2010)



Source: Author's compilation from *Migration and Remittances Fact Book 2011*, World Bank, (2011).

In terms of GDP contribution by remittance, smaller economies are in the top positions, whereas larger economies come in lower. In 2007, remittance contributed 36.2 percent and in 2008, 45.5 percent of Tajikistan's GDP. Other similar economies are Lesotho, Samoa, Moldova, Kyrgyz Republic, Nepal, Tonga, Lebanon, Kosovo and El Salvador. Nepal ranked in ninth position in 2008, fifth in 2009 (23 percent of the total GDP) and sixth position in 2010 (20 percent of the total GDP) (see Figure 4.3).

Figure 4.3 Top 10 Remittance Receiving Countries in Terms of GDP (2010)



Source: Author's compilation from *Migration and Remittances Fact Book 2011*, World Bank (2011).

4.3 An Overview of the Nepalese Economy

Nepal is a landlocked least-developed country in South Asia. It is surrounded by two emerging Asian economies; the Republic of India to the south, east and west, and the People's Republic of China to the north. Administratively, it has 75 districts, 58 municipalities, and 3,915 Village Development Committees (VDCs). Nepal's population comprises over 100 ethnic groups which speak 92 languages. Some 80.6 percent of the populations are Hindu, 10.7 percent are Buddhist, 4.2 percent are Muslim, 3.6 percent are *Kirant*, and the rest are various other religions (CBS, 2003).

Over the last 50 years (1951- 2001), Nepal's development indicators are positive for the literacy rate (increased from 2 to 43 percent), infant mortality rate (decreased from 300 to 61 per 1000 live births) and life expectancy (increased from 35 to 59 years) (Kernot, 2006). In addition, after the democratic government formation (1990-2000), the road network more than

doubled to 15,308 kilometers and telephone lines quadrupled to more than 255,000 (Whelpton, 2005). Its population is growing at an annual rate of 1.94 percent (2000-09) and reached 26.62 million in 2010. Life expectancy at birth is only 62 for males and 63 for females. Less than five mortality rate remains 51:1,000 live births (ADB, 2010). The average GDP growth rate was four percent between 2005 and 2010. Gross National Product (GNP) per capita income is US \$721. The trade deficit is increasing in the recent years and inflation recorded 10.6 in 2012 (Ministry of Finance, 2013). Nepal is an aid-dependent country because foreign aid increased from US \$14 million in 1960 to US \$382 million between 2000 and 2002 (Shakya, 2012).

Poverty headcount decreased from 41.8 percent to 30.8 percent from 1995-96 to 2003-04 and again came down to 25.2 percent in 2010-11. However, in 2010-11, the poverty rate in rural areas was almost double (27.43 percent) that of urban areas (15.46 percent). The Gini coefficient was .35 points in 1995-96, increased to .44 in 2003-04, but decreased to .33 in 2010-11 (CBS, 2011b). However, Nepal's horizontal inequality (inequality between groups or regions) is at some of the world's highest levels (Einsiedel et al., 2012). Nepal's development plans were less inclusive and urban-centered, which is why the Maoist war started in Nepal.

The Maoist insurgency started in 1996, resulted in the death of over 13,000 people, and led to the destruction of physical infrastructure. Many people were displaced and the country experienced recession. The king dissolved the democratic parliament in 2002. The Maoists and major political parties joined together to dismiss the monarchy, which had lasted almost 240 years, in 2008. Nepal was thus declared a republican, federal and secular nation on 28 May 2008. The first round of elections could not deliver a constitution, so there was second round called for the election of the Constitutional Assembly on 19 November, 2013. Political instability is a constant issue in Nepal, so Nepalese people lost their faith in political

parties. Hence, political instability, Maoist insurgency and job scarcity are the main reasons for internal and external migration in Nepal.

Figure 4.5 shows ten years of macroeconomic indicators of Nepal (2002/03-2011/12). The average real GDP growth rate stood at 4.03 percent over the last ten years. The peak year of the Maoist war (2006) showed the lowest annual growth, and improvement started in the successive years. However, this growth rate is significantly lower than neighboring countries India and China. Nominal GDP per capita reached US \$706 in 2011 which is also the lowest among South Asian countries. Inflation is going to reach double digits in recent years. Sometimes government cannot pass a full budget on time, while low capital expenditure is seen as a major issue in the Nepalese economy. Data shows that capital expenditure is gradually decreasing from the Fiscal Year (FY) 2008/09 to 2011/12⁵. Export of goods is weak and volatile, whereas the import rate is increasing year by year. The tourism sector's income growth went negative in the Maoist war period, but it has been showing positive indications after the peace process. The contribution of remittances to the Nepalese economy has been increasing continuously since the last decade, reaching to 23 percent of total GDP in 2011 (Ministry of Finance [MOF], 2013).

⁵ Nepal should stabilize scale level development expenditure to increase economic activities and attract private investment but frequently-changing governments cannot unveil budgets on time. Capital expenditure is consistently decreasing in recent years. For example, out of the total budget, 38.3 percent (NRS 129.5 billion) was allocated for capital expenditure in FY 2011, dropped to 18.9 percent (NRS 92.6 billion) in 2012 and again this decreased to 16.3 percent (NRS 66.1 billion) in 2013 (Sapkota, 2013).

Table 4.5 Macroeconomic Indicators of Nepal (2002-2011)

Fiscal Year	2002/ 03	2003/ 04	2004/ 05	2005/ 06	2006/ 07	2007/ 08	2008/ 09	2009/ 10	2010/ 11	2011/ 12
Real GDP (% change, basic price 2000/01)	3.8	4.4	3.2	3.7	2.8	5.8	3.9	4.3	3.9	4.5
GDP Per Capita Income (in US\$)	261.0	293.0	328.0	350.0	410.0	491.0	497.0	610.0	718.0	706.0
Consumer Price Index (Base year 2005/06)	4.7	4.0	4.5	8.0	5.9	6.7	12.6	9.6	9.6	8.3
Capital Expenditure (% change)	-9.8	3.3	18.4	8.3	34.2	34.7	36.6	23.5	16.8	8.6
Foreign Loan/GDP	0.9	1.4	1.6	1.3	1.4	1.1	1.0	0.9	0.9	0.7
Merchandise Export (% change)	6.4	8.0	8.9	2.6	-1.4	-0.2	14.2	-10.2	5.8	15.4
Merchandise Import (% change)	15.8	9.6	9.7	16.3	12.0	14.0	28.2	31.6	5.8	16.5
Tourism Income (% change)	35.7	54.5	-42.3	-8.7	6.0	84.2	49.9	0.6	-12.5	24.8
Remittance Income/GDP	11.0	10.9	11.1	14.9	13.8	17.5	21.2	21.8	18.5	23.1

Source: Author's compilation from *Economic Survey of Nepal*, Ministry of Finance (2013).

4.3.1 Migration Practices in Nepal

Domestic migration in Nepal increased when the government was able to control endemic malaria in the *Terai* (lowland region) in the early 1950s. According to the latest *Nepal Migration Survey Report 2009*, internal permanent migration is 28.2 percent. Female permanent migrants are more than males (41.1 percent to 16.4 percent). In Hindu culture a married girl should permanently go to the husband's house. By development region, the Mid-Western has the highest percentage (32.2), followed by the Western region (27.1 percent), while urban areas have a higher rate of internal permanent migration (37.3 percent) than rural areas (27.2 percent) (NIDS, 2009a). Geographical structure also influences internal migration in Nepal. In comparison to the *Terai*, the Himalayan and highland regions have less fertile land, difficult transportation systems, insufficient health and education facilities and limited market access.

The history of foreign migration in Nepal started 200 years ago, when Nepali youths were recruited into the British Army (*Gurkha* Army). When India became independent in 1947, Nepalese youth begin to enlist in the Indian armed force. Currently, about 3,500 Nepali solders serve in the British army and more than 50,000 in the Indian military (Sheddon, 2005). Migration between Nepal and India has been guided by the Peace and Friendship Treaty of 1950, which allows people of both countries to freely cross the border and find employment without any restrictions. Many Nepalese migrate to India due to cheap migration cost associated with the open border. Industrial progress has taken place faster in India than Nepal. There are large agricultural plots in India, so Nepalese also practice seasonal migration for the cultivation and harvesting of rice crops and wheat. All *Terai* region's Nepalese can speak fluent Hindi and share similar religion (Hinduism) and customs. There is no exact data, but it is estimated that about 1.5-2 million or more Nepalese are working in India. A serious issue on the Nepal-India corridor is the trafficking of women. First, the middlemen promise to provide good jobs in India, but later women are forced to work in brothels. It is claimed that about 25,000 Nepalese women are working in Indian brothels and many of them are infected with HIV/AIDS (NIDS, 2009a).

In the recent years international migration to the Gulf States and other developed countries is increasing but migration to India decreased between 2003 and 2010. In 2001, 80 percent of Nepalese migrants went to India, but this decreased to 41 percent in 2009. Currently women are also going abroad for work. Females are also practicing work-related migration in recent years. Officially recorded female migrants reached 11,507 in 2009, while the figure was only 316 in 2007 and 11,007 in 2008. The number of migrant recruitment agencies increased from 103 in 1998 to 630 in 2009, and currently there are about 1,000 international education consultancies also helping to boost international migration from Nepal

(Sharma, 2012). From 2009, Nepalese migrant workers can apply in 107 foreign countries (NIDSb). As shown in the Table 4.6, official work-related international migration has been continuously increasing from the start of this century, reaching about 3 million in 2010, which is more than 10 percent of the total population of Nepal (Department of Foreign Employment [DOFE], 2011).

Study abroad is another part of migration in Nepal. Permission letters from the Ministry of Education in the fiscal year 2008/09 numbered 10,121 for Australia, 1,162 for Cyprus, 6,627 for the UK, 2,934 for the USA, 805 for Japan and 3,174 for other countries (Ministry of Education [MOE], 2009). In recent years, the Electronic Divergent Visa (EDV) in the USA and point system immigration schemes in Canada, Australia and other developed countries are also attracting highly educated and skilled Nepalese. In the United Arab Emirates Abu Dhabi is constructing Khalifa City and Qatar will host the 2022 World Cup, which may further increase Nepalese workers' demand in the future. The growing Indian economy also means there will be more demand for seasonal migrants in India (Mohapatra, et al., 2012).

A push factor for migration is the lack of employment opportunities in Nepal. Wage difference is another factor of migration. Cheap labor demand from Gulf countries is a pull factor for Nepalese migration.

Table 4.6 International Migration Trend in Nepal (1994-2010)

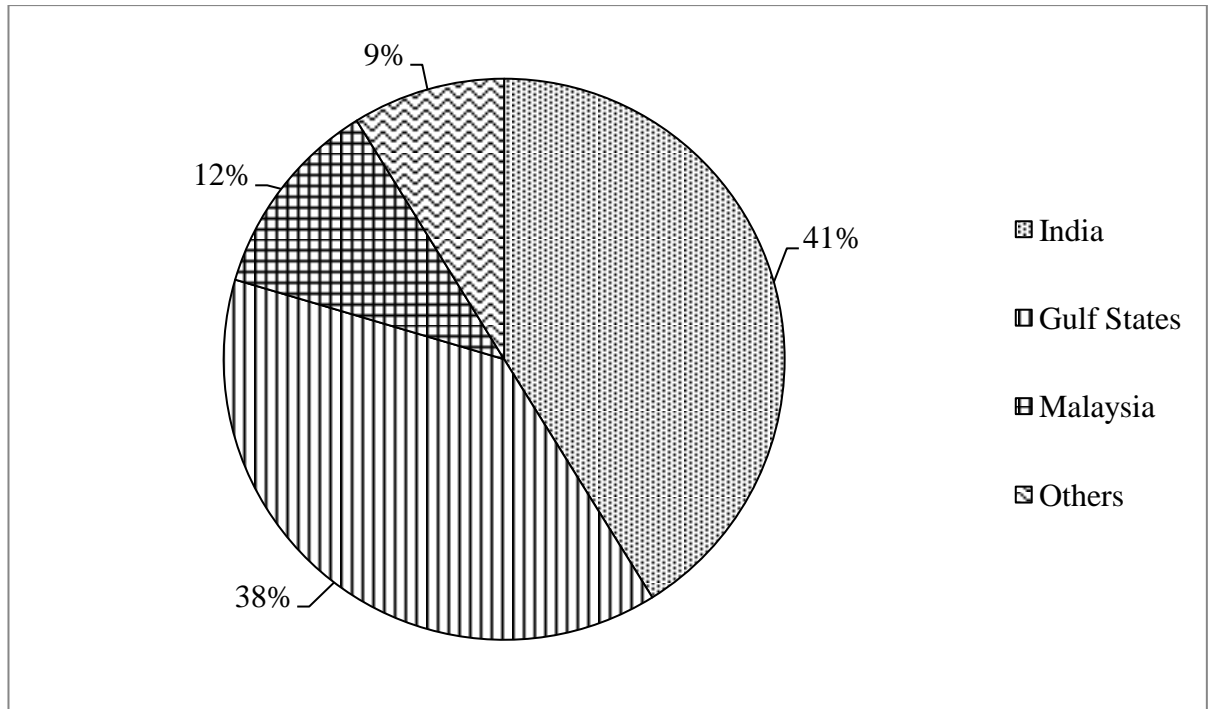
Years	Work-related migration
1994	3,605
1995	2,159
1996	2,134
1997	3,259
1998	7,745
1999	27,796
2000	35,543
2001	55,025
2002	104,736
2003	105,043
2004	106,660
2005	139,718
2006	165,103
2007	204,533
2008	249,051
2009	219,965
2010	294,094

Source: Department of Foreign Employment (2011).

4.3.2 Destination Countries for Nepalese Migrants

The Pie Chart shows that India and the Arabian countries are the main destination for Nepalese migrants. According to data from the Nepal Migration Survey 2009, the top destination is India (41 percent) and second is Gulf States- Saudi Arabia, UAE, Kuwait and Bahrain (38 percent). The third destination is Malaysia (12 percent) and other destinations (developed countries) account for only 9 percent (NIDS, 2009). Migrants to developed countries (USA, Japan, UK, Australia, and so on) are a small part of the total migration, but the number is increasing in the recent years. Currently there are about 30,000 Nepalese migrants in Japan (see Figure 4.4).

Figure 4.4 Nepalese Migrants' Destinations

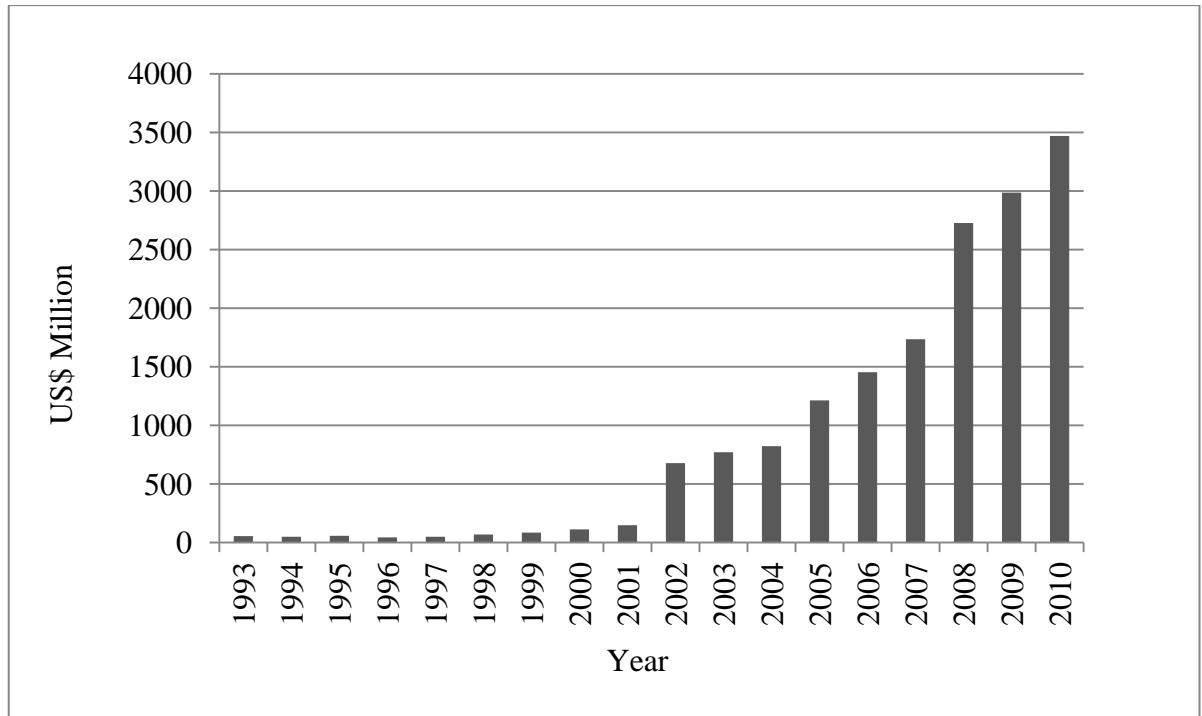


Source: Author's compilation from the *Nepal Migration Survey*, NIDS (2009b).

4.4 Remittance Trend in Nepal

Foreign remittance, which was very small until 1999, started to increase in the 21st century, reaching US\$ 678 million in 2002 in Nepal. In the succeeding years the Nepalese economy did not experience a decline in remittance inflow. In 2010 it stood at US\$ 3,468 million, with a growth rate of 16 percent compared to the preceding year, and it is estimated to grow by 14 percent in 2014. The official flows exclude money sent through the informal system. World remittance flow decreased in 2009 due to the financial crisis but Nepalese remittance did not experience the blow (see Figure 4.5). Nepalese currency depreciation against some large economies' currency (US/Australian Dollar, Japanese Yen and British Pound) also heightened remittance amount in Nepal (Ministry of Finance, 2011).

Figure 4.5 Nepal's Remittance Trend (1993-2010)



Source: Author's compilation from *Economic Survey of Nepal*, Ministry of Finance (2011).

In 1995/96, 23.4 percent of households received remittance, which increased to 31.9 percent in 2003/04 and further increased to 55.8 percent in 2010/11. The average income transfer in the form of remittances is 80,436 NRS (in nominal terms) per household. Per capita nominal remittance when the whole population is considered stands at 9,245 NRS (CBS, 2011a). This figure does not include all remittance inflow from India. Real remittance is considerably higher if undocumented remittances are included. Households in the richest quintile receive one-third of total remittance, the fourth quintile receives 30.7 percent, the third quintile receives 17.2 percent, the second 9.8 percent and the poorest quintile receives 9.2 percent (Jones & Basnett, 2013).

Remittance transfer is relatively efficient in Nepal because there are many Money Transfer Operators (MTOs). However, they are concentrated in the urban or semi-urban areas, so rural people have no access. Remittance transfer cost from the Middle East and Malaysia to

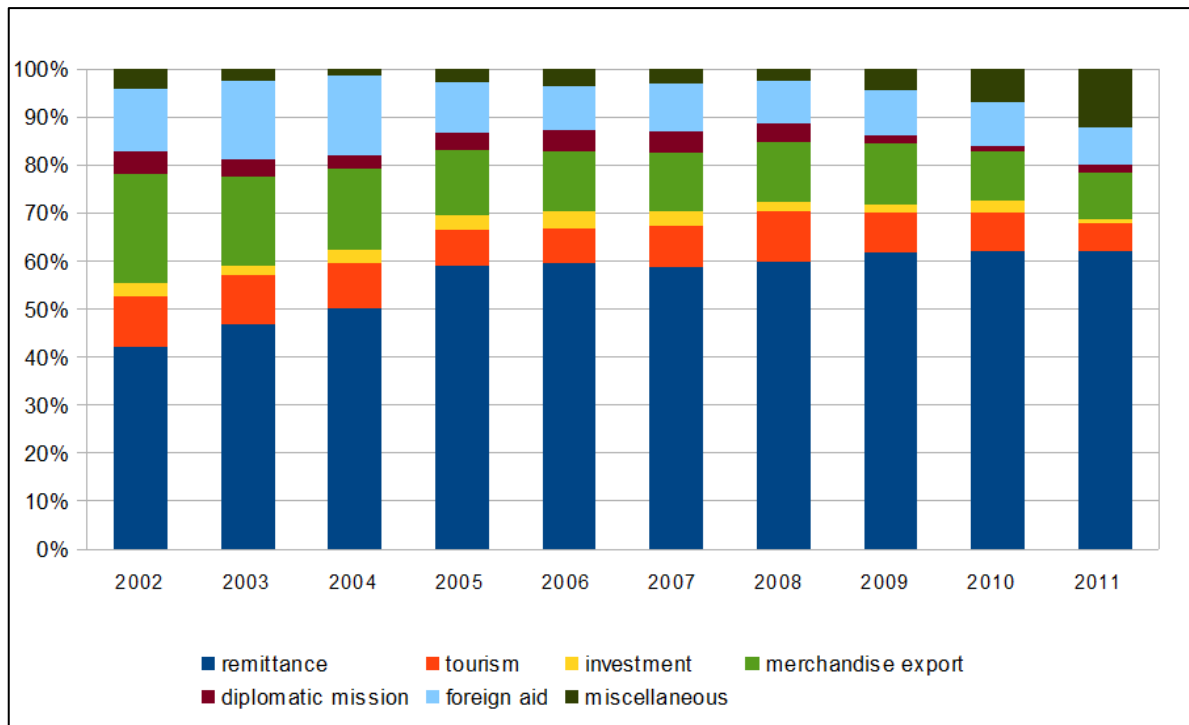
Nepal is significantly cheaper (2-5 percent of the amount) than the global remittance cost (9-10 percent). However, remittance cost is expensive from South Korea to Nepal.

4.5 Foreign Exchange Earnings Means Labor Export in Nepal

Merchandise export is stagnant but the total of imports has been accelerating in the last ten years. Data indicates that the trade deficit was 15 percent of the total GDP in the fiscal year 2003, but reached 23 percent of GDP in 2011. In contrast, exports accounted for 10 percent of the GDP in 2002, but shrank to 4.8 percent in 2011. The huge inflow of international remittances is significantly contributing to keep the current account surplus and accumulate foreign exchange reserves (Ministry of Finance, 2013). The continuous increase in remittance is increasing imports and consequently helping to raise government revenues through import tax.

Figure 4.6 shows that over the period 2002 to 2011, of the total foreign exchange income, the tourism sector's share was very small, the merchandise sector and foreign aid were decreasing, but remittance was increasing and contributed more than 60 percent of the total foreign exchange earnings in 2011. Unlike other types of international inflows, remittance will have a direct effect on the net financial position of the economy against the rest of the world. The principle issue is that if the Gulf States experience economic downturn, then the Nepalese economy's foreign exchange earnings will be badly affected.

Figure 4.6 Sources of Foreign Exchange Income in Nepal (2002-2011)



Source: *Economic Survey of Nepal*, Ministry of Finance (2013).

4.6 Other Issues Related to Migration and Remittances in Nepal

It is always a good thing to go to a new place, get new ideas and earn money to support family members. However, some economic and social problems in Nepal arise due to migration and remittance inflow. First, Nepalese search for opportunities in other countries rather than in Nepal. There are unexhausted natural resources for economic growth and job creation in Nepal. People hesitate to work in low-skill work in their country of birth, but they are ready to do any type of work abroad. The paradigm for young people is to go abroad, neglecting their own country's potential and current social issues. Who is responsible for building the nation?

Second, migration costs are high for poor people. Usually rural people borrow money from the village money lender or relatives to undertake international migration. The interest rate is very high in this kind of informal borrowing. Middlemen also charge high

commissions in the visa process. Migrants have to work a long time to repay the migration costs. Third, Nepalese migrants are concentrated in the high-risk, low-skill jobs and low paying jobs due to lack of training or language skills. The Guardian Magazine reports that 185 Nepalese migrants died in Qatar in 2013 because of heart attacks and workplace accidents (Gibson and Pattisson, 2014). Furthermore, there are informal remittance transactions in the rural areas. Many rural bank branches were closed during the Maoist war and have not reopened yet. Significant numbers of rural people have no access to a bank account. Family members receive remittance but hold it as cash under the mattress or practice informal lending.

In addition, there could be labor shortage in the future. The labor supply is shrinking in the domestic market because of migration. Recently more than 1,200 labors are leaving Nepal per day. In this context new investors hesitate to invest in large scale labor-intensive industries. Labor shortage increase wage rates, raise production costs and thus profit goes down.

In a related issue, the Dutch Disease Effect is clearly seen in the Nepalese economy.⁶ Consumption expenses increased on average by 12.48 percent between 2000 and 2010; however, real GDP growth was only 3.43 percent and labor productivity increased by 1.10 percent in the same time period. The high degree of expenditure is for imported goods. Exchange rate appreciation results in Nepalese exports being less price competitive in the international market (Sapkota, 2014). In the recent years manufacturing sector's value addition is slowly increasing, real estate price is skyrocketing and trade deficit is widening.

Finally, there is rising concern about those left at home. Social vulnerability arises for the migrant's family members who are left home. Parents go abroad for work, leaving children with grandparents or relatives. Sometimes, children must allocate more time for

⁶ In economics, the Dutch Disease Effect is a concept that explains the relationship between the increase in exploitation of natural resources and a decline in the manufacturing sector.

household work, thus decreasing study time. There are more psychological problems among the children of migrants than non-migrants. Teen aged children are found to be involved in drugs use and drop out of school early. Wives left behind by husbands suffer from depression and mental illness. Some highly educated and skilled manpower is practicing permanent migration in the developed countries. This will create negative impact in the long term development of Nepal.

4.7 Conclusion

International migration is one of the salient features of globalization in the twenty-first century. South to north migration was the major migration practice in the previous century, but now the number of migrants is larger in the south to south migration corridor. In the recent years about one billion US dollars of remittances flow every day towards developing countries in an increasing trend. It is noteworthy that remittance flow to developing countries was more stable than FDI between 1995 and 2010. In South Asia, India is receiving the largest amount of remittance, but per GDP contribution Nepal is in the highest position.

Lack of job opportunities in the domestic market, low level industry, food insecurity, inefficient institutional development, internal conflict and prolonged political instability are push factors, while the Gulf boom, wage differences between Nepal and the destination countries, decreasing costs of transportation and globalization are pull factors of migration from Nepal. Some highly skilled migrants, such as doctors, nurses and accountants, go to developed countries. Semi-skilled Nepalese migrate to the Gulf States. People from the lowest economic quintile and those who live near the Nepal-India border still go to India for seasonal work. The latest data shows that there are about three million international migrants from Nepal. Though Nepal has potential in tourism, hydroelectricity and agriculture but the year-to-

year increase in remittance reveals that remittance is the biggest contribution to total GDP. International remittance contributed about one-fifth of the total GDP of Nepal and about 57 percent of households received remittance in 2010. Migration has created some social problems in Nepal. For example, children of migrants left behind spend too much time on housework, leave school early and may become involved in drug use. Elderly parents become redundant in the society. Wives left behind suffer from mental illness. The divorce rate is also increasing. The death toll of Nepalese migrant workers is increasing every year.

CHAPTER 5

IMPACT OF MIGRANTS' REMITTANCES ON POVERTY AND INEQUALITY IN NEPAL

5.1 Introduction

Remittances are the money and goods sent from urban areas or abroad to households by migrant workers working outside their communities of origin. The international migratory population accounts for three percent of the world population, while official remittance flow was US\$ 440 billion in 2010. A significant portion (US\$ 325 billion) is received by developing countries, a volume which is substantially larger than official aid flows (World Bank, 2011). No doubt remittance represents important resources for developing countries. It has recently been more prominent in scholarly research.

Nepalese international migrants reached three million in 2010, where there were only ten thousand in the early 1990s (Department of Foreign Employment, 2011). Remittance has increased rapidly in the last fifteen years. Officially recorded remittance stood at US\$ 2.7 billion in 2009, that is, 22 percent of the total GDP.

If the unrecorded amount from India to Nepal is added, then the contribution of remittances could be as high as 30 percent of GDP (World Bank, 2009). Remittance can contribute to capital formation, hydro electricity production, banking sector, government revenue and microfinance.

The Nepalese rupee has been continuously depreciating against US dollar since October 2011. As a result, remittance inflow and inflation is increasing but banks are lowering interest rates for deposits and lending.

In 2010, remittance receiving households reached 55.8 percent, whereas it was only 23.4 percent in 1995. Nominal average remittances per household also jumped to 80,436 NRS (Nepalese Rupee) in 2010, while it was 15,160 NRS in 1995(CBS, 2011a). The large-scale migration and remittance inflow over the last two decades have shown Nepal to be a remittance economy, presenting challenges for policy makers. Over the last fifteen years, the poverty headcount decreased appreciably in Nepal, from 42 percent in 1995 to 31 percent in 2004 and to 25 percent in 2010. On the other hand, inequality increased from 35 to 44 percent between 1995 and 2004, before decreasing to 33 percent in 2010(CBS, 2011b).

Here, the first issue is that, although remittance is explicitly recognized as the backbone of the economy and its effect on poverty reduction can be significant, there is no empirical study using the latest Nepal Living Standard Survey, (2010, hereafter NLSS III). If remittances flowed to the relatively poor households, it would accelerate poverty reduction and achieve equity. However, the reality is that subsistence farmers cannot easily save money to obtain passports or afford international airfare. In addition, there are lengthy administrative procedures for international migration from Nepal. Financial institutions provide loans based on the borrower's economic status; however, poorer households have little or no wealth. There is a Nepalese saying: "Sheep with sheep and goat with goat". This means rich peoples' friends and relatives are rich whereas poor people's network is poor. I argue that households in the upper quintiles have more chances to migrate to well-paid destinations, whereas youths from lower quintiles move to low-wage areas. Therefore, the second issue is that relatively poorer households receive less remittance than richer households. Obviously, the third issue is that remittances increase inequality in the Nepalese economy. Under these circumstances, the research questions are: do poorer households receive as much remittance as richer households do? What is the impact of migrants' remittances on poverty and inequality in Nepal?

First I argue that poorer households are not as likely to get remittance as richer households. Second, I reason that migrants' remittances do not decrease inequality in Nepal.

The rest of the chapter is organized as follows. Section 5.2 explains the reasons for the rapid growth of migration in Nepal; Section 5.3 presents a selective review of literature; Section 5.4 explains the data; Section 5.5 explains methodology; Section 5.6 analyses the estimated results; and Section 5.7 concludes the study.

5.2 The Political Economy of Migration and Remittance in Nepal

There has been political instability in Nepal over the past two decades. It has had 20 governments from 1990 to 2010. When multiparty democracy was restored in 1991, one segment of the population that was especially inclined to politics prospered dramatically, enough to move up in economic status from the lower to middle-income class and from the middle to high-income level. There was extensive abuse of democracy from the ward level up to the level of government policy. Politicians thought that public resources and top-level positions were for their parties and supporters rather than for the overall development of the country. There was democratic government on the surface, but all government institutions became weaker due to political intervention. A large portion of the population, especially from lower castes and those who own little or no land, were excluded from economic and political opportunities and joined the Maoist Party, which is the main source of conflict in Nepal (Draniyagala, 2006; Macours, 2010). The Communist Party of Nepal (Maoist) gradually became stronger and launched the People's War in 1996 for social and economic transformation⁷.

⁷ Maoist People's War began on February 13, 1996. They attacked police outposts, banks, factories and private houses simultaneously. About 13,000 people were killed and more than 200,000 people were displaced in a 10-year period 1996 -2006(Nepal et al., 2011).

China and India have double digit economic growth; however, Nepal's domestic as well as international investment was curtailed by insecurity, corruption and power shortages. Many industries were closed, and thus overall economic indicators signaled a downturn. Educational institutions and transportation service were badly affected by frequent strikes. A peace agreement was made in 2006 between the former Maoist rebels and the state to write a new constitution, but this process experienced a setback as the Constituent Assembly failed to deliver it by the deadline of May 27, 2012. Nobody loves unemployment. Nepalese peoples main internal migration destinations are the *Terai* region (lowland) and Kathmandu, while international migration destinations are India, the Gulf countries, Malaysia, Australia, Japan, United Kingdom, and the United States.

Geographical structure is heterogeneous in Nepal. The mountain region is cold and land is infertile. The highland regions' land is also infertile in comparison to the *Terai* region and transportation is risky. Schools, hospitals and the security situation are also better in the *Terai* region. Therefore people migrate from mountain and highland regions to the *Terai*. Less job and business opportunities in the rural sector than the urban sector is also important reason for internal migration in Nepal. The wage rate is significantly higher in the Gulf and developed countries than Nepal. The unique open border between Nepal and India, the Gulf States' boom and globalization are other reasons for cross-border migration from Nepal, including women and talented university graduates. Economic activities, government policies, bureaucracy and social services are directly linked with politics. Thus, political instability is the main reason for both internal and international migration in Nepal.

The literacy rate is less in the rural sector than the urban sector but more qualified teachers migrate to urban areas to earn and learn more. External migration is also stimulating internal migration in Nepal. Husband migrates abroad for work and wives migrate to city

areas to search for good schools for their children. Education quality is better in urban-private schools than rural-government schools. Currently big cities like *Kathmandu*, *Pokhara* and *Chitwan* are getting crowded due to rapid domestic migration while most of the elderly parents in the village areas are engaged in the agriculture sector. Developed countries such as Australia, Canada and USA easily provide visas to doctors and nurses. This is why external migration is creating a scarcity of medical personnel even in the capital city. Nowadays, European styles houses are built rapidly, people prefer to go shopping in the supermarket, and internet users are increasing. However, in recent years the divorce rate has been increasing due to long-term separation. Nepalese workers' death rate is also increasing, especially in the Gulf countries, due to risky work and high temperatures.

5.3 Review of Literature

As we see indications of increase in international migration and remittances flow, the literature on migration and remittances at the world, regional, country and community level has been expanding enormously. Economists associate poverty level with income; therefore remittance income can play a vital role in poverty reduction from the point of view of developing economies. Most of the studies found that when remittance income increases, poverty level decreases. Using household survey data from 71 developing countries, Adams and Page (2005) noted that a one-percent increase in per capita international remittances in developing countries leads to a 0.35 percent decrease in poverty headcount ratio. Similarly, Acosta et al. (2007) postulated a moderate impact of remittances on poverty reduction in Latin American economies. That is, one percentage point increase in remittances to Gross Domestic Product (GDP) ratio causes only a 0.4 percentage decline in poverty headcount ratio. Gupta et

al. (2009) also agreed that remittance is an important resource for African regions' well-being through financial sector development.

Using country-level household survey data, empirical works show that both internal and international remittances are vital for poverty alleviation. For instance, Adams (2004) using counterfactual method found that in Guatemala internal and external remittances reduce the poverty headcount ratio by 3.18 percent, the poverty gap by 8.05 percent and the squared poverty gap by 16.86 percent. Also, Lokshin et al. (2007) argued that the role of remittance to bring down the poverty head count rate from 42 percent to 31 percent points between 1995 and 2003 in Nepal is 20 percent. Adams (2006) also identified that internal and external remittances in Ghana reduced the poverty headcount ratio by 2 percentage points, the poverty gap by 2.62 percent and squared poverty gap by 4.29 percent. Further, Taylor et al. (2005) agree that role of international remittances is greater than internal remittances in poverty decline in rural Mexico. The impact of remittances on inequality has mixed findings. Some studies identified that migration and remittances reduced inequalities in Hubei province of China and in Vietnam (Zhu & Luo, 2010; Pfau & Giang, 2010). Conversely, other works reveal that migration and remittance increased income inequality in Ghana and rural Egypt (Adams, 1991; Adams et al., 2008).

5.4 Data

I use the third and latest round of the Nepal Living Standard Survey cross section data (henceforth NLSS III). This survey was conducted by the Nepalese Central Bureau of Statistics (CBS) in 2010-11 following the Living Standard Measurement Survey (LSMS) methodology developed by the World Bank. In addition, the first and second round surveys, which were conducted in 1995-96 and 2003-04, are also used for some descriptive analysis.

NLSS III is a representative survey of Nepal, enumerating 5,988 sample households from 499 Primary Sampling Units (PSUs), covering all three economic belts, five development regions and 75 districts. The statistical unit of this study is the household⁸. This data's main focus is poverty analysis with 20 multi-topic headings⁹. Moreover, it has separate sections and a detailed questionnaire on migration and remittances that enables us to work on various social and economic issues connected to migrants' remittances. The 'out migration' section has 11 questions, 'absentee information' consists of 19, and 'remittances and transfer income received' gathers 10 pieces of information. The questions cover place of migration, the amount received and in kinds. It also brackets demographic variables such as remittance sender and receiver. In NLSS III, remittance value is given at an individual level that is converted to the household level. A total for remittance is obtained by adding cash and goods sent by an absentee household member plus that sent by others¹⁰.

We use annual household per capita consumption expenditure to measure households' welfare. The poverty line was 19,261 NRS based on 2010-11 average prices. Measuring living standards based on consumption is more advantageous as an income measure in less developed countries like Nepal. Respondents often cannot remember a whole years' income clearly in a single interview, and they are reluctant to disclose total income or illegal income due to tax evasion, while some value added income is difficult to evaluate (Haughton and Khandker, 2009).

⁸ A household may consists of one person or a group of two or more people. People in the group may share their incomes, may have a common budget, may be related or unrelated or may constitute a combination of persons both related and unrelated (NLSS III, *Statistical Report Volume-I*, p.5, CBS, 2011a).

⁹ The 20-heading questionnaire includes demography, housing, access to facilities, migration, consumer expenditure, education, health, marriage and maternity history, work and time use, employment and unemployment, wage and salary, agriculture, non-agricultural activities, credit and savings, absentee population, remittances and transfers, social assistance, adequacy of consumption and government services/facilities and anthropometry (NLSS III Questionnaire, CBS, 2011a).

¹⁰ Remittance received in this survey is defined as a transfer in cash or goods to a household over the previous 12 months. In kind refers to the monetary value of received items such as TVs, computers, clothing and so on (NLSS III, *Statistical Report Volume- II*, p.78 CBS, 2011a).

5.5 Methodology

A. Probit Model

First, we employ the Probit model as migration and remittance choice function to observe probability of receiving remittances:

$$\text{Prob. (y = migration and receiving remittances)} = f (hs, hhage, hshare, hhedu, caste/ethen, lands, region, qg) \quad (5.1)$$

Here, the migration and remittance receiving outcome variable is coded as $y=1$ if households receive remittances, and $y=0$ if households receive no remittance. Independent variables are household size (hs), household head age ($hhage$), share of different age groups in a household ($hshare$), household heads' education ($hhedu$), castes and ethnicity ($caste/ethen$), household land size ($lands$), developmental region ($region$) and quintile groups (qg).

Household size can be meaningful as an independent variable to affect the likelihood of migration and receiving remittances. The industrial base in Nepal is very weak and there is no guarantee of a job even after university graduation. There is no way to employment without migration. Hence, we expect that migration or the chances of receiving remittances are greater in larger households than in smaller ones. The household head's age influences migration choice and remittances but does not influence household expenditure. That is because the higher the household head's age, the greater the chance for household members to be in the working age group. Conversely, if the household head is over 65 years old, there is no or less chance to receive personal income or expenditure (Adams, 2006).

The range of different age groups in a household also influences migration and reception of remittances. This variable is split into six groups. Our expectation is that

households with more members between the ages of 0-3, 4-7, 8-15 and more than 65 years old have less chance to migrate and receive remittances compared to the 16-65 year old age group.

Following human capital theory, education level is split into five sections: illiterate, literate, primary level, secondary level and more than secondary level. More educated people enjoy greater employment and hence more chances to get high wages in the destination countries (Schultz, 1982; Todaro, 1976). Therefore we suppose that if the household head is educated, then other members will have more chance to be educated and get more remittances.

Caste and ethnicity is also a suitable variable for Nepal. This is classified into six groups: high caste, *Newar*, middle caste, low caste (untouchables), Muslim and others. High castes own more wealth and have good networks to migrate better places. The expectation is that lower castes receive lesser remittances than higher castes.

Household wealth is categorized into four sections: no land, small land size, medium land size, large land size and very large land size (in hectares). The expectation is that no land or small land size households receive lesser remittances than large land size. Geographical locations are categorized in five groups: eastern region, central region, western region, mid-western region and far-western region. Eastern and central regions' economic indicators are better than western and far-western regions. The capital city Kathmandu is in the central region. I argue that eastern and central regions get more remittance than rural regions. Finally, quintile groups are also included in the study. I also argue that lower quintiles get less remittance than upper quintiles.

B. Counterfactual Measures

When working on migrants' remittances impact on poverty and inequality, some problems arise because of the nature of migration and remittances. The migration decision

depends on both observable and unobservable characteristics, such as education, experience, and training for the former and ability, ambition, skill, and physical strength for the latter. Household members compare their potential wages based on their observable and unobservable human capital in their locality with those in migration destination regions. Therefore, remittances are not exogenous but substitute for the earnings that migrants would have had if they had not decided to work abroad. When migration is also an endogenous outcome, remittance incomes are inconsistent unless some corrective measures are taken. Correction is possible by applying counterfactual measurements¹¹.

For this task, households should first be split into three groups, internal remittance-receiving external remittance-receiving and non-receiving. First, household per capita expenditure is estimated only with remittance not receiving households and then this group's parameters (coefficients) are used to all households (Adams, 2004; 2006). This enables us to analyze the poverty types and inequality in no remittance scenario. Second, internal remittance (household) is added to analyze the poverty types and inequality in internal remittance scenario. Third, external remittance is added to calculate the poverty types and inequality in external remittance case. Finally total remittance is added to observe the poverty types and inequality in total remittance scenario.

Poverty types are calculated using the Foster-Greer-Thorbecke (FGT) index which enables us to analyze the poverty head count, the depth of poverty and the severity of poverty. The FGT poverty measure is expressed as:

$$P(Yd; z)^n = \frac{1}{nz^\alpha} \sum_{i=1}^q gi^\alpha \quad (5.2)$$

Where, n is the total number of households, $q = q(Yd; z)$ is the number of poor households,

¹¹ A counterfactual scenario is to artificially construct what the status of a migrant household would have been if that household was not migratory (Adams, 2011).

and $gi = z - Ydi$ is the income(here consumption) shortfall (the gap between the household's income and the poverty line) of the i^{th} (poor) household, and α is a parameter.

Poverty head count means the share of the population living below the poverty line. Depth of poverty refers to how far below the poverty line the average poor households' income (expenditure) falls. Severity of poverty explains sensitivity to changes in the distribution of income among the poor (Foster & Greer, 1984; Haughton & Kandker, 2009). Finally, we also use the Gini coefficient, a widely-used index to explore the impact of remittance on inequality.

I regress household per capita expenditure ($pcex$) as the dependent variable. This is given as:

$$pcex = g(hhy, hs, hhage, hshare, hhedu, caste/ethen, lands, region) \quad (5.3)$$

Household income (hhy) directly affects household consumption. Therefore this variable is used as independent variable in the second stage; however, consumption quintile variable is dropped here due to co-linearity. Other independent variables are same as equation 5.1.

5.6 Results

First, descriptive statistics are exhibited in Table 5.1. The first column shows explanatory variables. They include household's income, demographic characteristics, human capital, caste and ethnicity, wealth status, geographical regions and quintile groups. Household head age, household size and share of different age group member are continuous variables where as other variables are categorical variables. Households are categorized into three groups: internal remittance-receiving households, international remittance-receiving households and non-receiving households. Out of 5,977 households, 2,030 household units

(34 percent) are getting internal remittances, 1,861 (31 percent) are receiving international remittances and 2,086 (35 percent) get no remittances¹². Based on NLSS III, remittance appears as the main household income because 65 percent of households are getting it. The first, third and fifth column shows mean values. For example, the mean household income is biggest in external remittance receiving group (229,925 NRS) where as it is smallest in the remittance not receiving group (132,900 NRS). Internal remittance receiving households' average income is in the middle range (150,720 NRS). Similarly, the second, fourth and sixth columns show standard deviation. Similar trend is found in the household expenditure.

¹² 489 households receive both internal and international remittances. If the internal remittance is greater than international remittance, that household is counted as an internal remittance receiving household and vice versa. Two participant households receive the same amount of internal and external remittances and are counted as external remittance receiving households. Actual sample size is 5,988; however, 11 outliers are excluded in our calculations.

Table 5.1 Summary Statistics of Remittances Receiving and Non-Remittance Receiving Households

Variables	Household receiving internal remittances		Household receiving external remittances		Household receiving no remittances	
	Mean	Std.	Mean	Std.	Mean	Std.
Household income (in NRS)	150719.60	14264.40	229925.10	411730.70	132900.60	302606.40
Demographics						
Household size	4.45	2.29	4.77	2.45	5.03	2.16
Household head age	46.45	14.64	46.86	14.25	44.80	13.47
Share of children 0-3(years)	0.06	0.11	0.07	0.12	0.07	0.11
Share of children 4-7	0.07	0.12	0.09	0.14	0.08	0.12
Share of children 8-15	0.18	0.20	0.20	0.21	0.19	0.19
Share of men 16-64	0.26	0.21	0.20	0.20	0.30	0.18
Share of women 16-64	0.35	0.21	0.37	0.18	0.30	0.17
Share of elderly > 64	0.08	0.20	0.06	0.15	0.07	0.17
Human Capital						
Illiterate	0.65	0.48	0.69	0.46	0.68	0.47
Literate	0.22	0.41	0.20	0.40	0.20	0.40
Primary school	0.04	0.19	0.05	0.21	0.04	0.20
High school	0.08	0.26	0.05	0.22	0.06	0.23
More than high school	0.02	0.14	0.02	0.14	0.02	0.13
Caste and Ethnicity						
High caste	0.40	0.49	0.31	0.46	0.32	0.47
Middle caste	0.06	0.24	0.13	0.33	0.08	0.28
Low caste	0.07	0.25	0.06	0.25	0.15	0.36
Newar	0.28	0.45	0.27	0.44	0.24	0.43
Muslim	0.02	0.14	0.05	0.21	0.03	0.17
Other castes	0.17	0.38	0.18	0.38	0.17	0.38
Wealth: Land Size (in hectare)						
No land	0.24	0.43	0.24	0.43	0.37	0.48
Small land(0-.5)	0.41	0.49	0.42	0.49	0.35	0.48
Moderate land(.5-1)	0.10	0.29	0.10	0.29	0.07	0.25
Large land(1-2)	0.09	0.29	0.10	0.29	0.07	0.26
Very large land(>2)	0.17	0.37	0.15	0.36	0.13	0.34
Geographical Region						
Eastern	0.24	0.43	0.20	0.40	0.19	0.40
Central	0.36	0.48	0.29	0.45	0.49	0.50
Western	0.18	0.38	0.28	0.45	0.12	0.33
Mid-western	0.13	0.33	0.12	0.33	0.13	0.34
Far-western	0.10	0.30	0.10	0.30	0.07	0.25
Quintiles(consumption)						
Poorest	0.10	0.30	0.15	0.36	0.16	0.36
Second	0.15	0.35	0.16	0.37	0.15	0.36
Third	0.18	0.39	0.18	0.38	0.16	0.36
Forth	0.24	0.42	0.21	0.41	0.20	0.40
Richest	0.34	0.47	0.30	0.46	0.33	0.47
N=5,977	2,030		1,861		2,086	

Source: Author's calculation based on Nepal Living Standard Survey (NLSS III), 2010/11.

Table 5.2 presents the first stage Probit model results. Most of the outcomes are as expected and highly significant. Household size is significant at a 1 percent level in remittance reception. Here the coefficient is negative, indicating that there is a negative relationship between household size and the chance of receiving remittances. This is possible in the Nepalese context because poorer rural households have large families. Such households get minimum wages because of less education. Therefore there is less or no chance to send remittances back home. The age of the household head is positive and significant in remittance reception. This means if the household head is of retirement age, then his/her son/daughter or even grandchildren have more chances to migrate and that he/she has more chances to receive remittances.

Households with a large share of women between the ages 16-64 have a highest probability of receiving remittances than other groups. This means husbands or men are working abroad (migrants are counted as absentee in this data) and sending remittance to their wives in Nepal. Similarly, Households with more small children, especially younger than 15 years old, have significant or positive chance to receive remittances. Women are more responsible for caring for their children. However, households with a share of men between the ages 16-64 have insignificant and even negative probability of receiving remittances. This indicates that if men are not migrating and engaging in their domestic activities then they do not get remittance.

In comparison to the illiterate (household head) group, primary, the secondary and tertiary education groups show positive and significant results. The point to note here is that the coefficient is highest for the group with more than high school education, proving that more educated households have a higher likelihood of receiving remittances. This is

consistent with the hypothesis that richer people are more educated and so acquire more remittances than less educated households.

When compared to low castes, all caste is significant in remittance reception. Landholding groups exhibit unexpected result. However, no lands household shows statistically significant probability to get remittances with negative coefficient compared with the reference group, very large land size households. Households with no landholdings do not obtain easily loans from relatives and financial institutions to migrate to developed countries.

All five geographical locations are statistically significant, however, some value appear with negative coefficients. Negative coefficients are unexpected result. For example the western region has the positive coefficient. This fact is rational with the geographical condition of Nepal. Western region is closer to the Indian border and there is more chance to find employment in India than Nepal.

All quintile groups are highly significant with positive coefficient. However, it is noteworthy that coefficient value is lowest in the poorest quintile, increases in the successive quintiles and shows the highest value in the richest quintile. This finding also supports the argument that richer groups are more likely to receive remittance than poorer ones (see Table 5.2).

Relying on this evidence, we can infer that the chance of remittance reception is relatively more likely in richer, more educated households than the opposite case. My first null hypothesis is accepted.

Table 5.2 Remittances and Migration Choice: Probit Model (Reference Category: Non-Remittance Receiving Households)

Variables	Receive remittance
Household size	-0.0560*** (-6.138)
Household head age	0.00855*** (5.236)
<i>Share of elderly > 64 years : reference group</i>	
Share of children 0-3	0.633*** (2.972)
Share of children 4-7	0.516*** (2.621)
Share of children 8-15	0.363** (2.428)
Share of men 16-64	-0.568*** (-4.351)
Share of women 16-64	1.089*** (8.236)
<i>Illiterate: reference group</i>	
Literate	0.0882 (1.300)
Primary	0.169** (2.322)
High school	0.306*** (3.152)
More than high school	0.474*** (3.302)
<i>Low caste: reference group</i>	
High caste	0.389*** (5.916)
Middle caste	0.461*** (5.310)
Newar	0.518*** (7.537)
Muslim	0.633*** (5.510)
Other castes	0.593*** (8.081)
<i>Very large land: reference group</i>	
No land	-0.347*** (-5.710)
Small land	-0.0386 (-0.702)
Medium land	0.0558 (0.726)
Large land	0.0153 (0.202)

Table 5.2 Contd.

Variables	Receive remittance
<i>Far-western region: reference group</i>	
Eastern	-0.159** (-2.294)
Central	-0.495*** (-7.685)
Western	0.120* (1.675)
Mid-western	-0.265*** (-3.525)
<i>Lowest Quintile: reference group</i>	
Second	0.113* (1.769)
Third	0.224*** (3.461)
Forth	0.252*** (3.867)
Richest	0.372*** (5.288)
Constant	-0.955*** (-5.103)
N	5,977

***Significant at 1 percent level, ** 5 percent, and *10 percent level.

Source: Author's calculation based on Nepal Living Standard Survey (NLSS III), 2010/11.

As stated above, household per capita expenditure (excluding remittances) is predicted with household income, demographic variables, education, caste/ethnicity, land size and regional variables. The most important finding from this regression is that fourteen variables are statistically significant for per capita household expenditure in the non-receiving scenario. Moreover, constant term is also significant. Therefore, this result can be applied to predict household per capita expenditure for all households (Adams, 2004) (see Table 5. 3).

Table 5.3 Regression (Non-Remittance Receiving Households), Household Per Capita Expenditure (PCEX): Dependent Variable

Variables	Household consumption
Household income	0.0444*** (15.63)
Household size	-3,450*** (-10.83)
Household head age	94.72 (1.933)
Share of men 16-64	37,197*** (10.27)
Share of women 16-64	17,720*** (4.429)
Secondary level	18,158*** (6.351)
More than secondary level	39,548*** (8.046)
High caste	16,733*** (11.19)
Low caste	23,297*** (11.41)
No land	9,793*** (6.653)
Large land	1,225 (0.481)
Eastern region	8,838*** (2.990)
Central region	20,994*** (7.535)
Western region	16,347*** (5.226)
Mid-western region	6,052** (1.972)
Constant	7,926* (1.900)
R-squared	0.449
N	2,086

***Significant at 1 percent level, **5 percent, and *10 percent level.

Source: Author's calculation based on Nepal Living Standard Survey (NLSS III), 2010/11.

Counterfactual analysis is done by the following process. First, remittance not receiving households' per capita household expenditure is regressed using equation (2). Then these coefficients (Table 5.3) are used to all household. This means all households' per capita expenditure is estimated in no remittance scenario. We used this predicted average household expenditure to find poverty types (poverty line is 19,261 NRS based on 2010-11 average prices) and Gini coefficient. Hence, second column in Table 5.4 result shows poverty types and inequality level in no remittance case for 5,977 households (Adams, 2006). For instance, in the no remittance scenario, the poverty headcount is 31.08 percent, poverty gap is 16.55 percent and squared poverty gap is 14.21 percent. Similarly Gini coefficient is 36.06 points.

Second, we only added actual internal remittances amount in no remittance scenario. This is internal remittance receiving scenario. Poverty types and Gini coefficient calculation follows the same procedure. Third column in Table 5.4 result shows poverty types and inequality level in internal remittance case. This result also applies to all households. In the internal remittance case poverty head count level decreases from 31.08 percent to 28.44 percent, poverty gap decreases to 15.09 percent, squared poverty gap decreases to 12.79 percent, however, Gini coefficient increases to 41.74 points.

Third, we added only actual external remittances amount in no remittance scenario. This is external remittance receiving scenario. Forth column in Table 5.4 shows poverty types and inequality level in external remittance case. In the external remittance case, poverty head count level decreases from 31.08 percent to 24.51 percent. Poverty gap decreases to 12.86 percent, squared poverty gap decreases to 10.09 percent, however, Gini coefficient again increases to 54.57 points.

Fourth, we added both internal and external remittance (total remittance) in no remittance scenario. Hence, fifth column in Table 5.4 shows poverty types and inequality

level in total remittance case. In the total remittance case, poverty head count level decreases from 31.08 percent to 22.27 percent. Poverty gap decreases to 11.64 percent squared poverty gap decreases to 9.7 percent. Gini coefficient further increases to 54.95 points.

Sixth, seventh and eight column shows the role (percentage change) of internal, external and total remittance in changing poverty headcount, poverty gap and squared poverty gap ratio and Gini coefficient. For example, if we see internal remittance versus no remittance scenario, poverty head count ratio value decreases from 31.08 percent (second column) to 28.44 percent (third column), this is 8.49 percent decrease. Similarly, in external remittance versus no remittance case poverty head count ratio decreases from 31.08 percent (second column) to 24.51 percent (fourth column), this is 21.13 percent decrease. Hence, external remittance seems more important than internal remittance to reduce the poverty level. This is shown in the seventh column. Total remittance versus no remittance scenario shows that it decreases from 31.08 percent (second column) to 22.27 percent (fifth column), this is 28.34 percent decrease. Therefore, of the total poverty reduction, 28.34 percent is contributed by total remittances in Nepal. This is shown in the eighth column. This result is compatible with Lokshin et al. (2007).

In addition, remittance income is also important to bring down the poverty gap and squared poverty gap. Total remittances decrease the poverty gap from 16.55 percent to 11.64 percent. Here also the contribution of external remittance is more significant (22.29 percent) than internal remittance (8.82 percent). Similarly, the squared poverty gap is 14.21 percent in the case of non-remittance, whereas it declines to 9.7 percent due to total remittances. Among three types of poverty, the biggest contribution of remittance is found in decreasing the squared poverty gap (31.73 percent). This implies that remittances are working as positive

catalysts to decrease inequality among those who are below the poverty line. This finding is closer to Adams (2004).

In contrast, the Gini coefficient increases from 36.6 percent to 54.95 percent by total remittances. Here also greater percent increase is due to external remittances (51.53 percent) than internal remittances (15.75 percent). This is relevant because although the numbers of migrants from lower quintiles are significant, the received remittance amount is less than the upper quintiles. At this point my second null hypothesis is proved because remittances are found to increase inequality in Nepal.

Table 5.4 Impacts of Migrants' Remittances on Poverty and Inequality in Nepal
(Counterfactual Scenario)

	No remittance	Internal remittance	External remittance	Total remittance	Percentage change		
					Internal remittance vs. no remittance	External remittance vs.no remittance	Total remittance vs.no remittance
Poverty Headcount (percent)	31.08	28.44	24.51	22.27	-8.49	-21.13	-28.34
Poverty Gap (percent)	16.55	15.09	12.86	11.64	-8.82	-22.29	-29.66
Squared Poverty Gap (percent)	14.21	12.79	10.9	9.7	-0.09	-23.29	-31.73
Gini Coefficient	36.06	41.74	54.57	54.95	+15.75	+51.33	+52.35
N=5,977							

Source: Author's calculation based on Nepal Living Standard Survey (NLSS III), 2010/11.

5.7 Conclusion

This study used the 2010 Nepal Living Standard Survey cross section data to analyze the impact of remittances the FGT index and the Gini coefficient. For this purpose, total

households are separated in three groups as non-receiving households, internal remittance-receiving households, and international remittance-receiving households. The probability of receiving remittance is calculated using the Probit model, and poverty types and inequality is calculated using a counterfactual scenario. This chapter has key three findings.

First, I found that 65 percent of households are receiving remittances. Household characteristics, consumption quintile groups and geographical location are also likely to predict migration and remittances. The chance of receiving remittances is relatively greater in educated and upper quintile households than those who are less educated and poorer. This illustrates that less-educated and economically weak households cannot migrate to high wage destinations, making them less likely to receive remittances than the economically sound and educated households. Second, the predicted result shows that, if there were no remittances, the poverty headcount level would be 31.08 percent. Internal remittance brings this down to 28.44 percent, while external remittance brings it down further to 24.51 percent. Finally, in the total remittances scenario, the poverty headcount comes down to 22.27 percent. This means total remittances contribute to 28.34 percent of the total poverty reduction in Nepal. Of the total poverty headcount reduction, international remittances contribute more (21.13 percent) than internal sources (8.49 percent). Remittance is also important in decreasing the poverty gap and squared poverty gap. The largest role of remittances is to reduce the squared poverty gap among three types of poverty. This indicates that remittances are contributing to maintain equality among those who are below the poverty line. Third, the Gini coefficient is increased by remittances. Calculations show that inequality increases from 36.06 percent to 54.95 percent because of total remittances. Here also the impact of external remittances is found to be greater than internal remittances. Poor young people cannot afford expensive migration costs to developed countries.

We are grateful to migrants who send large amounts of remittances to sustain the Nepalese economy and to reduce the poverty level. First, currently there is surplus labor in Nepal. So, labor export seems like a suitable practice. Higher remittance income leads to higher consumption and positive effect on poverty reduction. But up to what point? The economy seems over-reliant on foreign remittances. If migration destination countries experience economic downturn, Nepalese migrants will lose their jobs and consequently remittance dependent Nepalese economy will be badly affected. Second, some part of remittances should be invested into productive sectors by households so that there will be job creation in Nepal. In addition, the government should set some quotas for high wage-paying destinations, especially to those who are in the lowest quintiles and lower caste households (by inclusive policy) so that these groups' income level increases and the inequality will be decreased. There will be more egalitarian society in Nepal due to remittance income. Impact of migrants' remittance on household health and education sector and analysis of the use of international remittance by return migrants would be a suitable topic for further research.

CHAPTER 6

USE OF REMITTANCE BY RETURN MIGRANTS IN NEPAL: CONSUMPTION OR INVESTMENT

6.1 Introduction

In the previous chapter the evidence showed that remittance plays a very important role in decreasing the poverty level in Nepal. However, if destination countries face economic downturn, then Nepalese migrants must return to their home country. Consequently foreign remittance decreases, and this in turn decreases income and consumption. The poverty level may go up. Hence, wiser practice would be to use the current remittance in the productive sector rather than for normal consumption. Specifically, if return migrants practice entrepreneurship in Nepal it will then help to create jobs in the home country. This chapter concentrates on this issue.

Nepalese people have experienced several political changes except observed economic growth. Development plans are urban-centered and less-inclusive. Almost all economic agents are over-politicized but economic policies are poorly implemented. This is why lack of investment and job scarcity have remained the major economic issues of Nepal for decades.

Work-related international migration is not a new practice in Nepal. The traditional major migration destination was India it has now shifted toward the Gulf States and other developed countries. Low economic status Nepalese still go to India, semi-skilled young people migrate to the Arabian countries, while highly educated and skilled manpower goes to the developed countries. Recorded work-related international migrants reached about three million in 2012, while there were only about ten thousand in the early 1990s (Department of Foreign Employment, 2013). International remittance reached 359.6 billion NRS in 2011, that

is, 23.1 percent of the total GDP (Ministry of Finance, 2013). There is no doubt that Nepal is a remittance economy.

Credit constraint is the principal barrier for investment in low income countries like Nepal. This also holds true for an individual person. However, the recent rapid inflow of remittance indicates that many Nepalese are capable of investing in at least small- or medium-scale businesses. In recent years migrants are returning to Nepal with some money. Moreover, return migrants acquire more new business ideas from destination countries than non-migrants. If new businesses started by return migrants enter the market with innovative products, then it will help to create a prosperous society and decrease unemployment.

The basic principle of economics is to use available resources (here remittance) in the most efficient way. However, the latest Nepal Living Standard Survey 2010/11(NLSS III) reports that twenty-five percent of the population lives below the poverty line (less than US\$1 a day). Most remittance is used for normal expenditure (79 percent) while a very small portion (2 percent) is used for investment. The nominal household per capita expenditure except of the tenth decile increased by over 120 percent between 2004/05 and 2010/11, but the average real GDP growth rate stood at only 4.01 percent (Central Bureau of Statistics, 2011). As a percentage of GDP, the merchandise trade deficit has increased from 13 percent in 1989/90 to 25 per cent in 2010/11. Remittance finances these imports. This scenario increases the real exchange rate but decreases the price competitiveness of tradable goods in the external sector (Sapkota, 2014). Another reality is that remittance is used for housing and to buy urban land-plots¹³. Hence most of the remittance is not used in the productive sector in Nepal. Moreover, the deposits in commercial banks are increasing year by year due to huge

¹³ Land plots are purchased for house construction and their value is much higher than normal agricultural lands.

remittance inflow in Nepal¹⁴. I argue that this creates a jam in the macroeconomic flow. If we do not allocate more remittance in the investment, then future generations will also have to migrate to the extremely hot regions (Arabian countries) for their livelihoods. Under these circumstances, the research questions are: How do return migrants use remittance for different things? Which factors determine probability of return migrants becoming entrepreneurs? How are return entrepreneurs contributing to create jobs and reduce poverty in the long-run? And what are the investment barriers in the Nepalese economy? This chapter is devoted to answer these questions.

The rest of this chapter is organized as follows. Section 6.2 outlines the questionnaire and data used. Section 6.3 compares migration costs and income levels in the destination country. Section 6.4 shows changes in the work sector during migration. Section 6.5 observes the use of remittance on different headings. Section 6.6 presents a selective review of literature. Section 6.7 describes methodology. Section 6.8 analyses estimated results. Section 6.9 observes return migrants investment and its signification in job creation by case studies. Section 6.10 concludes.

6.2 Data

Existing country level secondary data lacks individual return migrant's detail information and do not focus in a particular region. This study uses micro level primary data collected from three districts (*Palpa, Dang and Nawalparasi*) of Nepal. Location was selected

¹⁴ In recent years remittance inflow is approximately more than one billion NRS per day. Hence CBs (Commercial Banks) deposits are rising every year. Central Bank is issuing reverse repo to absorb excess liquidity. Reverse repo issue is a monetary policy to sell treasury bills to banks and financial institutions when there is excess cash in the market and fear of inflation. This policy offers less interest rate in deposits.

by judgmental sampling method; however, return migrants were interviewed randomly¹⁵. Total 275 returned migrants were interviewed from rural area (*Palpa* district), semi-urban area (*Dang* district) and urban area (*Nawalparasi* district) and female respondents are also included in the survey to make representative sample¹⁶. Survey was conducted in October-November, 2013. Questionnaire is both close and open ended. Survey was conducted by personal interview meeting return migrants. Unit of the analysis is individual person (return migrant in Nepal). Entrepreneurship is determined by several factors so the questionnaire is divided into three sections to know the returnee's situation before migration, experiences abroad and activity in the local community after returning from abroad.

Business investment or entrepreneurship depends upon the return migrant's demographic characteristics, human capital, geographical regions, ideas learned abroad and overall existing situation in the home country. Therefore in questionnaire the first section gathers information like migrants' age, gender, origin (rural or urban area), working sector in Nepal, education level, migration reason and total cost of migration. The second section covers types of destination country (India or Gulf States or developed country), income level in abroad, total money saved abroad (overseas savings) and sent to Nepal (in the last 10 years), skills learned and length of stay in the foreign country. Problems faced in abroad are also bracketed in the questionnaire. In the third section use remittance income is split into 12 parts as non-durable consumption, durable consumption(electronics and vehicles) health, education, loan repayment, business investment, house construction, land plots purchase, saving, repay loans and others.

¹⁵ This survey was performed in three districts' three Village Development Committees. Most of the households had at least one migrant and some of them had returned to Nepal in these areas.

¹⁶ Returned migrants mean those people who worked abroad at least for one year or more and returned to Nepal in the last five years. Return may be temporary or permanent. Some individuals practice multiple migrations. They are also counted as return migrants.

If remittance is used in the business investment (entrepreneurship) then further information is gathered to know the business type (innovation or new start or old business expansion), business location (rural or urban), number of job creation and raw material used (local or foreign). Finally the questionnaire also contains existing investment barriers in Nepal (see Questionnaire in Appendix 1)¹⁷. Limitation of this study is one- third of the total return migrants came in Nepal in the vacation period and are planning to return abroad but they are assumed as returned migrants.

6.3 Destination Countries, Migration Cost and Overseas Income

Table 6.1 exhibits migrants' destination country, birth place in Nepal (rural or urban) migration cost and income abroad. There are 16 destination countries in this sample. The United Arab Emirates (UAE), Qatar, Malaysia, Saudi Arabia and Kuwait are the main migration destinations. Out of 275 return migrants, 116 were born in rural areas and 159 are from urban areas. The fourth column shows that of the total return migrants, 79 people (54.13 percent) migrated to the Gulf States, 43 people (15.63 percent) to India, 33 people (16 percent) to Japan and the remaining to other developed countries. As shown in the second and third column, the majority of the migrants of rural origin went to the Gulf States and India. In contrast, individuals of urban origin went to the developed nations. Usually urban migrants' education level and wealth status is higher than migrants of rural origin. There is huge variation in migration cost and overseas income among India, the Gulf States and developed countries. The migration cost is highest for Japan, Australia and other developed countries. The cheapest cost is to go to the neighboring country, India. The cost of migration to the Gulf States is in the middle range. Migration costs and monthly salary are positively correlated.

¹⁷ Investment barriers in Nepal were based on multiple choice options for respondents.

For example, migrants get lowest salary in India whereas the highest salaries are in Australia and Japan¹⁸. Salary per month is about 11 times higher in Japan and 13 times higher in Australia than India. If poor people were able to migrate to the high-wage destinations then income inequality would reduce at a faster rate, but they cannot afford the expensive migration cost.

Table 6.1 Migrants' Origin, Destination, Cost and Income

Country	Migrants of rural origin	Migrants of urban origin	Total migrants	Migration cost (in NRS)	Abroad salary/month(in NRS)
India	33	10	43	2,412	22,744
UAE	18	21	39	95,359	29,769
Qatar	18	18	36	110,305	27,222
Malaysia	19	20	39	107,615	23,667
Saudi Arabia	14	14	29	83,966	26,638
Kuwait	1	6	7	72,143	29,429
Japan	6	38	33	1,023,181	207,117
Denmark	-	2	6	832,667	83,333
UK	-	11	11	831,800	92,272
Korea	-	4	4	62,499	82,500
Australia	1	9	10	910,000	286,000
Norway	1	-	4	748,981	82,499
USA	4	-	7	671,429	104,285
Other*	1	6	7	340,000	88,888
Total	116	159	275		

Source: Field survey data (2013).

*Afghanistan, Singapore and Israel

- Not available

¹⁸ 1 US Dollar = 94.07 NRS on 19th May, 2014.

6.4 Changing Work Sector and Issues during Migration

Table 6.2 illustrates changes in work sector during migration. Nepal is an agricultural based economy so 103 of migrants (37.45 percent) were engaged in the agriculture sector before migration, but only 6 migrants (two percent) worked in the same sector while working abroad. Marked change is found in the manufacturing industry. The industrial base in Nepal is weak, so only 7 migrants (2.55 percent) worked in the manufacturing sector before migration, but abroad 85 migrants (30.91 percent) worked in this sector. A similar trend is found in the hotel and restaurant sector. For example, 65 migrants (23.64 percent) were students before leaving, but only 11(4 percent) abroad are. Changes in work sector are a good opportunity to learn new skills, but adjustment to the new working place creates many difficulties. The process of learning a skill becomes slower in the foreign country due to language barrier. The company pays less for new workers and life is riskier while operating big machines (see Table 6.2).

Almost all migrants sent money to Nepal by official means but Indian migrants remitted in informal ways. People who lived in India knew that salaries were low but living and weather conditions suited them. Most of the returned migrants from the Gulf countries experienced hard work, high temperatures in the outdoor work and also some religious problems. Language seems to be the main issue in Japan, while highly qualified Nepalese worked in the lowest paid jobs in the USA, UK and Australia.

Table 6.2 Changes in Working Sector during Migration

Sectors	Working sector before migration (number of migrants)	Working sector during migration (number of migrants)
1. Agriculture	103	6
2. Mining and quarrying	1	1
3. Manufacturing industry	7	85
4. Building/road construction	11	28
5. Wholesale and retail store	9	25
6. Transport	10	6
7. ICT	6	7
8. Hotel and restaurant	7	59
9. Financial service sector	5	2
10. Business services	7	6
11. Education/health services	29	15
12. Social services	3	0
13. Student/some part time job	65	11
14. Other	12	24
Total	275	275

Source: Field survey data (2013).

6.5 Use of Remittances

The survey data shows that most remittance income is used for the consumption purpose. Within the sample, the highest amount (17.84 percent of total remittance) is used to purchase plots of land. Specifically, people are buying land in urban areas as wealth accumulation. I argue that if a few people buy expensive land in the city, then it is a simple thing, but if thousands of Nepalese allocate huge remittance income to such plots then it is unproductive investment for the aggregate economy. It is blockage in the macroeconomic circulation. The multiplier effect is insignificant in such investment. Housing expenditure stands at 17.84 percent. If house is old or weak, the construction of a new house is necessary good. However, if we look from a macroeconomic perspective, then construction of many houses for social prestige is not a wise allocation in Nepal, where 25 percent of people are

still below the poverty line and thousands of Nepalese migrate abroad for employment. Of the total remittances, 17.12 percent is used for daily consumption and 16.57 percent to repay loans. Young returnees use remittances to organize their own marriage and buy motorbikes. This increases inflation and imports (for instance, motorbikes are made in India). Saving stands at 8.36 percent, whereas business investment is only 4.44 percent. Of the total remittance, 6.64 percent is spent in the education sector. This is a positive point from prospective of human capital. Also, 3.76 percentages goes to health related consumption. Other expenditure is to support family member's marriage and to enjoy leisure (see Table 6.3).

Table 6.3 Use of Foreign Remittance in Nepal

Expenditure headings	Total remittance (in %) (2004-2013)
1. Land plots purchase	17.84
2. Food/Drinks/Clothing	17.12
3. Loan repayment	16.57
4. House construction	12.67
5. Saving	8.36
6. Education	6.64
7. Business investment	4.44
8. Health	3.76
9. Furniture/Electronics	3.47
10. Jewelry	2.41
11. Vehicles	2.18
12. Others	4.54
Total	100

Source: Author's calculation based on field survey data (2013).

6.6 Literature Review

Just as we see a gradual increase in international migration and remittances, the literature on migration and remittances at the macro as well as micro level has been expanding. Focusing on the Nepalese economy, some studies have applied their energy to analyze the

migration process and significance of remittance in Nepal (Yamanaka, 2000; Thieme & Wyss, 2005; WFP, 2008). Other works found that the role of remittance is significant in reducing poverty in Nepal (Lokshin et al. 2007; Acharya & Leon-Gonzalez, 2012). One recent study argues that rapid increase in external migration and huge inflow of remittances will produce the Dutch Disease Effect in the Nepalese economy due to wage increase and exchange rate appreciation with slow real GDP growth (Sapkota, 2013). Recently a micro level study also claimed that migration reduces labor participation in the agricultural sector and then crop production declines (Maharjan et al., 2013).

There are limited studies to analyze the use of foreign remittance. The majority of the studies found that remittance income is more used for consumption purposes than investment. Chami et al. (2003) argued that major portions of the remittances are spent on status-oriented goods while a smaller percentage is allocated for productive investment. He argued that investment in housing, land and ornaments are not productive to the economy. In a micro level study, Gumbert and Nordan (2011) found that only 33 percent of returned migrants invested in the business enterprises in Algeria, Morocco and Tunisia. In addition, Dorantes and Pozo (2006) found that remittance income is used more for basic consumption, health care and education for the household members than business investment in the Dominican Republic. Similarly, Osili (2004) found that high remittance-earning people allocate more to housing than to other sectors in Nigeria. However, these findings were challenged by some other studies. Woodruff and Zentano (2007) agreed that remittance helped as capital to expand micro-enterprises in Mexico. Regarding the determinants of entrepreneurship, McCormick and Wahba (2001) found that savings abroad and length of stay abroad are positively correlated to entrepreneurship after return in Egypt. Higher savings overseas solves credit constraint problems and long-term stays abroad help in the acquisition of new skills and

business ideas to apply in the local community. Kilic et al. (2009) also noted that there is a positive relationship between return migrants and business ownership in Albania but business investment is in the non-farm sector. Ammassari (2004) in a micro level study postulated that elite returned migrants allocate remittance to productive investment and innovation in Côte d'Ivoire and Ghana. There is no research to examine the probability of return migrants becoming entrepreneurs and the role of return entrepreneurs creating jobs in a particular region of Nepal. I will fulfill this research gap.

6.7 Methodology

There is no concrete economic model to gauge return migrants' probability to become entrepreneurs. However, most of the existing studies applied the Probit model. For example, an entrepreneur is assumed as an unknown dependent variable. Demographic characteristics of the migrants, overseas savings, length of stay abroad and skills learned abroad are taken as independent variables (Wahba & McCormic, 2001; Amuedo-Dorantes & Pozo, 2006; Nordan & Gubert, 2011).

People from low income countries can have good business ideas; products can be sold easily in the market –there is no demand side problem due to big populations, hence more consumers –but a lack of money stands as the first barrier for starting a business. Therefore overseas savings which is sent or brought to the home country as remittance is an appropriate independent variable to explain entrepreneurship in the Nepalese context. Education level, family size, type of destination country and how long ago the migrant returned to the home country also matter for entrepreneurship. These points have not been covered in past studies. I will fill these gaps and employ a Probit model to calculate the probability of return migrants becoming entrepreneurs.

An entrepreneur is an unknown dummy variable 1 if the returnee is an entrepreneur and 0 otherwise. It can be expressed as:

$$I=1 \text{ if } I^* > 0 \quad (6.1)$$

$$I=0 \text{ if } I^* \leq 0 \quad (6.2)$$

Where, I^* is a latent variable measuring the pay off from becoming an entrepreneur after return, assuming that

$$I^* = \beta_0 Age + \beta_1 Gen + \beta_2 Fsize + \beta_3 Ed + \beta_4 S + \beta_5 Tstay + \beta_6 Skill + \beta_7 ReturnT + \beta_8 ReturnC + \varepsilon \quad (6.3)$$

There are 9 independent variables in this model. *Age* indicates migrants' age, *Gen* means gender, which is a dummy variable with male=1, *Fsize* indicates household size, which is divided into 3 categories. *Ed* indicates returnee's education level (in years of schooling completed), which is split into two categories. *S* implies total savings overseas and sent to Nepal and is a continuous variable. *Tstay* means total length of stay abroad which is also a continuous variable. *Skill* is a dummy variable to know whether returnees learned new skills abroad or not. *ReturnT* is how long ago migrants returned to Nepal and is also a continuous variable, while *ReturnC* indicates from which country migrants returned, which is divided into three categories (Malaysia is included in the Gulf States group because it has almost the same migration cost from Nepal and a similar salary range as the Gulf countries). ε is a normally distributed error term.

I first hypothesized that individuals who saved higher money overseas were more likely to become entrepreneurs on return. Secondly, qualification also influences whether the returnee become entrepreneurs.

I expected that bigger household size fulfills the human resource gap better than the nuclear family, particularly to run medium- or large-scale industry. If a returnee is more

educated, he/she will allocate more remittance to investment and less to other categories. As stated above, I assumed that the bigger the overseas savings, the greater chance there would be to be an entrepreneur. Saving stimulates investment. Migrants who live abroad long-term can save more. Similarly, skills learned abroad also matter for entrepreneurship in the home country. Fresh returnees (i.e., returned to Nepal just a few months earlier) are less likely to invest in business than those who returned more than one year ago. Finally, the type of destination country can also be a meaningful variable for the likelihood of starting a business.

In addition, I will apply qualitative method (case study) to see the importance of return entrepreneurs' role in creating jobs in their own locality.

6.8 Estimation Results

Table 6.4 shows return migrants' summary statistics. The first column shows the list of explanatory variables. Successive columns show mean, standard deviation and minimum-maximum value. Survey data shows that return migrants were between the ages of 20 and 64, while the mean age is 34. Only nine percent of the total migrants were females while 91 percent were males. The majority of the return migrants (68 percent) have medium-sized households, followed by small families (25 percent) and large families (7 percent). More than half of the migrants (58 percent) had not completed grade 10 education (secondary level in Nepal), while the remaining number completed beyond grade 10. Mean abroad savings in the last 10 years is very high (2,014,000 NRS) in comparison to the average Nepalese savings. Migrants lived abroad about six years on average. Most migrants (72 percent) learned some new skills abroad. Most of the return migrants worked in the manufacturing sector as factory workers. Migrants in the hotel and restaurant sector learned serving, cooking, and cleaning skills. Migrants in the construction sector learned to operate heavy machines and painting.

Others learned the skills of storekeeping, driving, watchman, tailoring, electrician, housemaids, caregivers, office boy, carpenter, and wood-cutter. Most of the return migrants are from the Gulf countries (55 percent) followed by developed countries (29 percent) and India (16 percent). Seventy percent of migrants had returned to Nepal less than one year before the interview, sixteen percent three years prior and fourteen percent five years prior.

Table 6.4 Summary Statistics of Return Migrants in Nepal

Variables	Mean	Standard Deviation	Minimum	Maximum
Age	34.0	7.78	20	64
<i>Gender</i>				
Male	0.91	0.28	0	1
Female	0.9	0.28	0	1
<i>Family size</i>				
Small family(1-4)	0.25	0.43	0	1
Medium family(5-10)	0.68	0.47	0	1
Large family(>11)	0.07	0.25	0	1
<i>Education level (years of schooling completed)</i>				
≤ secondary level	0.58	0.49	0	1
> secondary level	0.42	0.49	0	1
Total savings abroad (in thousands NRS, 2004-2013)	2014.0	2628.0	25	3000
Length of stay abroad (in years)	6.07	4.9	1	30
Skill learned abroad	0.72	0.45	0	1
<i>Returned from</i>				
India	0.16	0.36	0	1
Gulf States	0.55	0.50	0	1
Developed countries	0.29	0.46	0	1
<i>Returned(Nepal)</i>				
1 year ago	0.70	0.46	0	1
2-3 years ago	0.16	0.37	0	1
4-5 years ago	0.14	0.35	0	1
N	275			

Source: Author's calculation based on field survey data (2013).

Table 6.5 documents the Probit (probability) of return migrants becoming entrepreneurs. Education level, overseas savings and individual who returned before 2 to 5 years ago in Nepal are highly significant for entrepreneurship at one percent level.

More highly educated people are more likely to be entrepreneurs in comparison to less educated return migrants. First, better educated migrants are more likely to work in high wage-paying companies in the destination countries. More income results in more saving. Second, they are more up-to-date on the home country's ongoing socio-economic situation and establish networks with friends or relatives using the internet. Networking is important for business. Third, more educated people have better managerial ability than less educated people. This finding is consistent with Le (1999).

The total savings overseas abroad seems to be another important factor for the likelihood of entrepreneurship. There are several factors that influence entrepreneurship, but as stated above, credit constraint is the main barrier for entrepreneurship for low-income rural Nepalese individuals. Second, banking service is not efficient in Nepal and several bank branches were closed in the Maoist war period. In some of the field survey areas (particularly in rural areas) there are no banks. Third, most of the migrants said that the wage rate is very low in Nepal in comparison with the foreign country. The main reason for migration is to earn and save more money so that they can support family members and start some kind of business after returning. If returnees saved or brought more remittance, he/she first allocates money for necessary consumption, and then the remaining portion is kept as savings. Saving is one of the important factors for investment (classical theory of investment). Therefore, overseas savings is significant for entrepreneurship. This result echoes McCormic and Wahba (2001).

Generally, entrepreneurs invest money in low-risk, high-return sectors. Some migrants live abroad for long periods, save money and return to the home country with some business plan. But market structure changes over the years. It takes at least one year to select an appropriate business niche or suitable product. This result is logical since more investment opportunity is found among old returnees (who returned more than two years ago) than fresh returnees.

Large family size is also significant at a five percent level. I assert that division of labor is possible in businesses run by larger households than smaller ones. In the field survey I observed division of labor practiced by return migrants in a wholesale food store. For example, the elderly parents and women looked after children or prepared foods for all family members, the eldest son made the business plan and spent more time in banking transactions (deposits or loans), the second son sold goods in the store, the third one bought the liquid items and the fourth son specialized in vegetables. Return migrants from the Gulf States and developed countries are positive and significant at 10 percent level for entrepreneurship compared with India. The coefficient value of developed countries is greater than for the Gulf countries. As shown in Figure 6.1, income range is higher in the developed countries than the Gulf States. Consequently higher income leads to higher investment possibility. Finally, Pseudo R-Squared value indicates that explanatory variables in the Probit model predicted 27 percent of the variability in entrepreneurship.

Age and gender variables are insignificant for entrepreneurship. Though male returning migrants constitute 91 percent of the survey, entrepreneurship likelihood is not significant. Length of stay abroad is insignificant for investment, which was also an unexpected result. Skill learned abroad is also statistically insignificant for business startup in Nepal. This means skills learned abroad do not directly contribute to entrepreneurship in

Nepal. This was an unexpected result. This is plausible because the current development stage differs markedly between Nepal and destination countries. The technology level and institutional set-up is more advanced in most of the destination countries than in Nepal. The survey data revealed a food factory worker in Japan running a solar power business (supplier) in Nepal after return, an auto worker in Korea opening a cosmetics shop, a baker in America invested in public transportation in Nepal after return, and so on. Some return migrants found indirect help from the destination countries for their business. Some examples are time management, product decoration and proper maintenance. A few skills learned abroad are applied in Nepal after return. For example, one return migrant who was a cook in India opened a restaurant in Nepal. Another, highly educated (doctorate degree) returnee from Australia is involved in research work in Nepal (see Table 6.6 for details).

Table 6.5 Probit Model of Becoming an Entrepreneur after Return (Marginal Effects)

Variables	Probit
Age	0.003 (0.836)
Gender (ref. female)	
Male	0.094 (1.295)
Family size (ref. small family)	
Medium family(5-10)	-0.029 (-0.543)
Large family(>11)	0.216** (1.742)
Education level (ref. ≤ secondary level)	
> secondary level	0.236*** (3.671)
Log total savings abroad	0.116*** (3.281)
Length of stay abroad	0.001 (1.453)
Skill learned abroad	0.003 (0.06)
Returned from (ref. India)	
Gulf countries	0.209* (1.745)
Developed countries	0.288* (1.694)
Returned (Nepal) (ref. one year ago)	
2-3 years ago	0.293*** (3.391)
4-5 years ago	0.334*** (3.417)
Pseudo R-Squared	0.273
N	275

Source: Author's calculation based on field survey data (2013).

***Significant at 1% level, ** 5%, and * 10% level.

Apart from the Probit model, I observed in the field survey that social structure, family members age structure, geographical location, road networks to the market center, and the migrant's work sector before migration also influenced entrepreneurship after return.

If neighbors, relatives or friends are investing in business, then return migrants follow these activities, even with limited remittance. In contrast, if friends or relatives are constructing big houses, purchasing land-plots in the urban areas, buying ornaments and vehicles, then returnees also do the same activities even though they have more remittance. Family members' age structure also effects entrepreneurship. Some returnees' households have more children. In other households there are less children but relatively more working age members. We observed that households with more children do not become entrepreneurs because parents spend more time looking after children. Households with more working age people (more than 15 years of age) were found to be more likely to be entrepreneurs because they can work more. Some return migrants who were businessmen before migration returned to the same occupation after coming home. Expectations about the current or future political condition of Nepal also effects investment practice. Some return migrants think that Nepalese politics is going in the right direction. Such individuals are starting businesses, but in the opposite case people instead deposit money in the bank, lend to relatives, purchase vehicles (especially motorbikes), buy fixed assets like land and sometimes even accessories. There are different types of geography and road networks in Nepal. In the highland region, some lands are fertile but others less so, thus return migrants with fertile land are engaged in agriculture, but in the absence of fertile land either they live without work or plan to migrate again. Similarly, some communities have better road networks and are close to the market center, while some rural communities have no roads and the market place is too far to take their products. In the field survey I noted that return migrants who live near the market place are engaging in agriculture-related packaging and semi-processing businesses but others who don't have this advantage are not.

6.9. Case Study: Successful Return Entrepreneurs

The survey data shows that out of 275 return migrants, only 62 individuals (22.54 percent) used foreign remittance in business enterprises. Seven returnees started innovative businesses (such as internet café, tomato production, and poultry farming), 36 opened new businesses (wholesale and retail stores, restaurants, small-scale furniture factory, public transportation vehicles) and 19 expanded their existing business (private schools and cooperatives).

Case A: Tomato Production

One group of return migrants is involved in the tomato production business in a community. The land is fertile and irrigation water is sufficient the whole year. This business is located in a semi-urban area. This community's tomato production is appreciable in terms of commercial production and job creation. This is an innovation in that area and they are producing on a large scale. Five years ago ten returnees started this business. Now other return migrants are also recently starting in the same type of business. They said that remittance helped with initial investment, such as to buy seeds, fertilizer and other agricultural equipment. This community first received tomato production training from Japanese people.

In this business, more workers are hired in the tomato planting and harvesting period. At least 20 people get temporary jobs (for approximately one month) in the tomato planting period. One of the entrepreneurs said that low-income people come to cut bamboo and dig the fields. High-income people do not choose such hard work. After this, household members fetch water and cut damaged leaves. It is also observed that college students are engaged there as part-time workers. One positive factor is that the younger generation is gradually learning parents' production skills, which will help to sustain this business for a long period. It takes

about three months for the tomatoes to ripen after planting, so again at least 30 people get jobs (for about two months) in the harvesting period. Some farmers are also producing off-season tomatoes. They produce less quantity in the off-season but get high price in the market. Because there is forward and backward linkage in business investment, more tomato production leads to increased jobs in chemical or fertilizer companies as backward linkage, and when production goes up there is a need for more wholesalers and retailers as forward linkage. Therefore, such business helps to create jobs in the local community, increases household income and decreases poverty in a stable way.

In tomato harvesting season (January-February), all farmers want to sell their product in the market, so the price goes relative to the off-season. Tomatoes being a perishable good, they cannot be stored for a long time. This locality has no cold store facility.

Picture 6.1 Return Migrants Harvesting Tomatoes in Dang District, Nepal



Photo: Author, 2013.

Case B: A Poultry Farm

One return migrant from the UK established a poultry farm. It is located in a semi-urban area. He produces more than 1, 000 chickens every month and 400 eggs every day. This

is an innovative business in this area which was established five years ago. Fifteen people have jobs in his business, including family members, throughout the year. Out of the total workers, seven people are household members, whereas eight workers are hired from the same locality. Poor people are getting an employment opportunity through a return migrant's investment. In addition, this farm also opened a meat store (outlet) in the city area where two people are working as retailers. One worker (22 year old male) completed his secondary school and planned to go abroad to search for jobs but could not easily manage money (migration cost). At the same time there was vacancy in the poultry firm and he was hired. The worker said that it was positive to find employment in the same community and maintain household expenses. Moreover, he can live with his parents and helps his younger siblings to do homework.

The entrepreneur has the view that it is a matter of prestige to work as an entrepreneur and create jobs in birth place. However, all medicines are not available on time in Nepal and frequent load shedding is seen as major issue to keep chickens warm. Therefore, such business also plays an important role to reduce poverty in Nepal.

Picture 6.2 Return Migrant's Poultry Farm in Dang District, Nepal



Photo: Author, 2013.

Case C: A Cyber Café

Another returnee opened an internet café in a semi-urban hill area. That is a completely new business in that area. There are seven computers and one photocopying machine. Usually men go abroad for work, but the migrants' wives, children and parents live in rural areas. Therefore, this café was basically established as a communication center because international calls or Skype calls are cheaper by internet than phone calls. However, it has also started to provide basic computer courses. Two computer instructors are working as part-timers in the morning and evening.

School children come there to learn the Microsoft Office package (Word, Excel, Power Point and so on) and internet. Currently 15 students are benefiting from this centre. Now, almost all office work or academic work requires computer skills. Basic computer concepts and internet browsing skills are positive points for children's studies as well as future careers. Knowing how to use the internet to send email, use search engines to find course notes, and listen to online lecture videos also plays a positive role in children's school performance. Even learning a beginner's computer course gives the students better job prospects. In the long run, candidates with computer skills will have more chance to get high income employment in comparison to candidates with no such knowledge.

Therefore, such technology-related investment also plays important role to find better jobs or income and reduce poverty in the long run. This business also faces load shedding problems in the dry season (less water in the river results in less electricity and more load shedding).

Picture 6.3 A Return Migrant in his Cyber Café in Palpa District, Nepal



Photo: Author, 2013.

D. Other Entrepreneurs

Return migrants who worked as teachers before migration are investing in private schools and foreign study consultancy after return. For instance, those who returned from the UK, Australia and the USA teach English and returnees from Japan teach the Japanese language. Because they are already familiar with the situation in the respective destination countries, they are in contact with foreign schools or universities and prepare documents. This is a new kind of business in the urban areas. One migrant worked twelve hours per day in Qatar in the construction sector. After three years, he earned some money and returned to Nepal. He took an agro-farming training course and started vegetable production on his own land. Now he is self-reliant in this business.

Most of the businesses are in the commercial (wholesale or retail stores) and service sector (such as transportation or cooperatives) rather than the agriculture sector. One return

migrant also opened a small furniture factory. Wholesale and retail stores sell basic goods (rice, oil and so on), housing construction materials, and cosmetics, among other items.

Return migrant Nar Bahadur Thapa, residing in *Tahoon 7 Palpa*, said “I learned important lessons during migration...If I work as hard in my own country as I did in the foreign country then I can do many things here...Now I am earning more by selling vegetables than what I would earn abroad...The weather is very good in Nepal...I can take care of my family”.¹⁹

Picture 6.4 Return Migrant’s Secondary School in Nawalparasi District, Nepal



Photo: Author, 2013.

¹⁹ Interview with Nar Bahadur Thapa by (Author), (*Tahoon, 7 Palpa*, Nepal), (October 22, 2013). Interview in (Nepalese language), translated by (Author).

Picture 6.5 Return Migrant (right) Working in a Furniture Factory in Palpa District, Nepal



Photo: Author, 2013.

Picture 6.6 Return Migrant's Construction Material Store in Nawalparasi District, Nepal



Photo: Author, 2013.

Most of the entrepreneurs said that remittance helped for investment; however, skills learned abroad were not directly useful for this business. Unmatched skills from the destination country (the skill learned during migration) and occupation after return which is shown in the Table 6.6.

Table 6.6 Skills Learned Abroad and Occupation in the Home Country after Return

Destination country	Skill learned abroad during migration	Occupation in Nepal after return
India	Cook	Cook (restaurant owner)
UAE	Watchman	Restaurant owner
Qatar	Heavy machine operator	Farmer
Malaysia	Cook	Businessman(food store)
Saudi Arabia	Factory worker	Taxi driver
Kuwait	Wall painter(buildings)	Businessman(hardware shop)
Japan	Factory worker(food)	Businessman(solar power)
Korea	Factory worker(auto parts)	Businessman(cosmetics)
UK	Student (hotel management)	Teacher(english)
USA	Baker	Businessman(public transport)
Australia	Research	Research job

Source: Field survey data (2013).

Thirty-five individuals invested in urban areas, fourteen in semi-urban areas and thirteen in rural areas. Many of the return migrants undertake internal migration from rural area to semi-urban or urban areas. This means the density of population or consumers is increasing year by year in urban areas; however, it is decreasing in the rural areas. Hence, more businesses are concentrated in the semi-urban or urban areas due to more population and better transportation facilities.

Twelve businesses used local raw materials and fourteen used foreign products, whereas thirty-eight firms use both. Simple fertilizer and normal agricultural tools are

available in Nepal, but some pesticides, modern agricultural tools and medicines are imported from India or China. Forty-two firms created less than five jobs, fourteen firms provided jobs for 6-15 people and only five firms created 16-30 jobs. In the survey the majority of businesses are small-scale investments. Medium-scale investment is creating jobs for family members while scale level investments hire other labor (see Table 6.7).

Table 6.7 Business Types, Location, Input Use and Job Creation

Sector	Farm	Non-farm	Service	Total
	14	24	24	62
Business type	Innovation*	New start	Old-expansion	
	7	36	19	62
Location	Rural	Semi-urban	Urban	
	13	14	35	62
Input use (raw material)	Domestic	Foreign	Both	
	12	12	38	62
Job creation	1-5 people	6-15 people	16-30 people	
	43	14	5	62

Source: Author's calculation based on field survey data (2013).

* Significantly improved firm or new firm in that area.

According to the *Doing Business Report 2013*, Nepal's business indicators are not so bad in comparison to other South Asian economies, but returned migrants viewed some obstacles for investment (business start or expansion) in Nepal²⁰. As shown in Figure 6.2, most of the respondents thought that load-shedding is the first hindrance for investment. There is 12 hours of power cuts during the dry season. General strikes were the second barrier

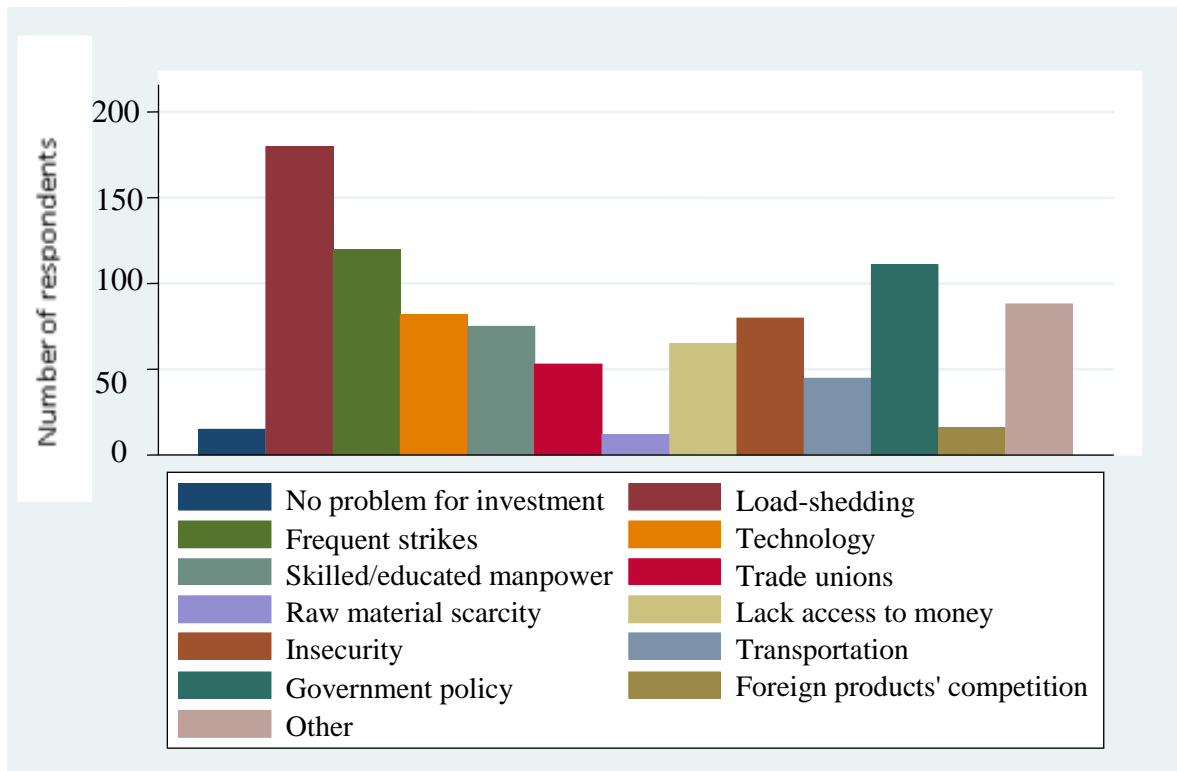
²⁰ Doing Business ranking shows business environment of a particular economy based on 10 different indicators. Among 185 countries, Singapore is first and the Central African Republic is last. South Asian economies rankings are: Sri Lanka 81, Maldives 95, Pakistan 107, Nepal 108, Bangladesh 129, India 132, Bhutan 148 and Afghanistan 168 (World Bank, 2013).

to running a business in Nepal (for import and export transportation). *Bandh* (strikes) are like a disease for the Nepalese economy²¹.

Another major problem is government policy. Investment policy is unclear and bureaucratic procedures are time consuming. Without a bribe it takes several days to finish even a minor transaction in a government office. The majority of the return migrants also mentioned that investment barriers are closely related to political instability. In particular, returned migrants from developed countries (who usually have big amount of remittance) feel insecure in Nepal. Returned migrants from India said that they have less or no saving for investment, financial institutions do not easily provide loans due to a lack of collateral, and village money lenders charge more than 24 percent interest rate. Some respondents also view the lack of technical know-how and the migration of educated manpower as a major issue for scale investment in Nepal.

²¹ *Bandh* means close, or general strike. Markets are closed, businesses shut, roads are empty and students don't go to school. The cost of one day of strikes is 1.96 billion NRS, which is about 88 percent of the total products of the Nepalese economy in a day (WFP, 2010). In 2010, there were 125 days of strikes in various parts of Nepal, organized by different political parties (Adhikari, 2010).

Figure 6.1 Business Investment Barriers in Nepal



Note: This Figure is based on multiple choice responses.

Source: Field survey data (2013).

6.10 Conclusion

Using primary data from the *Palpa*, *Dang* and *Nawalparasi* districts of Nepal, this study analyzed the use of remittance, determinants of entrepreneurship, significance of return entrepreneurs in job creation and investment barriers in Nepal. I gathered information to understand the return migrants' situation before migration, overall experiences abroad and activities after returning. Most returned migrants think international migration is due to a lack of jobs in Nepal. Some people migrated to earn and learn more from abroad.

People in the lowest quintile migrated to India; the majority of young people from rural and semi-urban areas went to the Gulf States; and those of urban origin and qualified people moved to developed countries. Both the cost of migration and wage rate is lowest in

the India, moderate for Arabian countries and high for people in developed countries. People often work in different sectors in the destination countries than where they worked in Nepal. Most migrants were engaged in the agriculture sector or were students in Nepal, but they worked in the manufacturing, construction and hotel-restaurant sectors abroad. Most remittance was not used in the business investment. The biggest percentage is spent on daily consumption, followed by land plots, repay loan and house construction. Savings also constituted a large amount. Only 4.44 percent of total remittances is allocated for business investment. Only 62 returned migrants among 275 individuals were entrepreneurs.

I used the Probit model to see the probability of return migrants becoming entrepreneurs. Results showed that the highest probability for entrepreneurship depends upon the education level, overseas savings and how long time before a returnee came back to Nepal. Apart from the Probit model, social structure, family members' age structure, geographic location, road networks, market access, and the migrant's work sector before migration also influences entrepreneurship after return. Although business investment is small portion but some successful return migrants' case studies show that business investment is playing positive role to use local resources, create jobs and consequently reduce the poverty from long-term perspective.

Savings and higher education level plays positive role to be an entrepreneur among return entrepreneurs but most of the migrants have just deposit account and do not have saving account in abroad or in Nepal. The central bank (also the government) can inspire migrants to open saving account before migration or in the destination countries. With these findings, I argue that the government should implement progressive taxes and set limits on housing and land plot purchase. Based on case study result, the government should make storage facilities for agricultural products and pesticides and medicines should be distributed

on time in all districts. The government should establish a separate agricultural bank to secure farmers' products and investments. Returnees view power shortages and frequent strikes as the major barriers for investment in Nepal. Existing unclear investment policy and insecurity are other barriers. Political instability and an inefficient bureaucratic system are also important hindrances to investment and employment creation in Nepal.

CHAPTER 7

CONCLUSION AND POLICY RECOMMENDATION

International migration and remittance is an important feature of globalization in the twenty-first century. Scale level migration and remittance flow towards developing countries are attracting attention among researchers but there is limited research on this area. Global migration helps development but there are policy issues regarding cross-border migration. As a result, migration-remittance and development linkage analysis is now an important issue. Data shows that remittance income is the backbone of the Nepalese economy. However, to the best of my knowledge, there is no empirical study that examines the impact of remittance on poverty and inequality changes using the latest data. Moreover, whether remittance is used for consumption or business investment, what determines entrepreneurship among return migrants and how return entrepreneurs create jobs are open questions in Nepal. This dissertation is a contribution to these issues from several perspectives.

Chapter 1 gave a general overview of the whole study. Chapter 2 analyzed the significance of migration and remittance for development. In this chapter I analyzed migration theories and empirical literature to analyze how migration and remittance helps developing countries' development.

Classical migration theory claims that migrants know the wage rates of different countries, so they migrate from low income areas to the high income region. Most of the empirical findings and leading international organizations (particularly the UN and World Bank) are also optimistic that migration can play a key role for development, especially for developing countries. Increase in remittance decreases the poverty level by increasing income and smoothening consumption. This also helps to improve health- and education-related indicators and the empowerment of women in the remittance receiving countries. The

migrants' diaspora can also be an important resource for developing countries' development. Hence migration and remittance is to the benefit of developing countries' development. However, pessimistic thought argues that large -scale out migration, including highly educated and skilled people from developing to developed countries, and the inflow of remittance to developing countries increases dependency on destination countries. Inflation and exchange rate appreciation are other possible negative effects for the remittance-receiving economies.

I agree that migration and remittance can play an important role for developing countries' development. As a policy recommendation, I argue that the migration-development agenda should bring in the post-2015 millennium development framework.

Chapter 3 reviewed the importance and issues of the labor migration under the GATS Mode 4 commitment in the WTO. I specifically examined what the temporary labor movement barriers are under GATS Mode 4.

One widely accepted comparative theory claims that liberalization increases world output. Recent empirical findings also indicate that easier labor movement or migration processes contribute to increased economic gain for both developing and developed countries. Developing countries have surplus labor, but developed nations are facing demographic decline and have capital as well as technology. The combination of surplus labor and capital plus technology will increase world output. Short-term labor migration is a positive point to improve world's living conditions. Developed countries also incur some costs because of immigrants, such as wage rate decline and social problems (immigrants also share receive social benefits with immigration) but on average, through reaping scale effect and increasing competitiveness in the labor market, international migration may be one of the most effective means of shrinking the income gap between rich and poor countries. In spite of the

importance of temporary labor movement from developing to developed countries, there is a policy barrier in the existing WTO commitment. Existing GATS Mode 4 commitment is not clear as the goods sector trade commitment. Developed countries are more open to skilled and highly qualified than less skilled and less qualified immigrants. Widespread migration of qualified migrants from small island countries to developed countries can produce negative effects in the long-run development.

Low income regions such as Africa and South Asia have a surplus labor force, so labor outflow can be one of the income generating or poverty reducing methods in those regions. I emphasize that an increase in productive efficiency is possible in some sectors in developed countries by easing temporary labor movement. At this point my policy recommendation is that there needs to be further negotiations in the GATS Mode 4 commitment. In addition, immigration should not include only talented graduates.

Chapter 4 showed migration and remittance flow over the decades. This chapter's objective was to analyze migration and remittance trends in the global, regional and the Nepalese economy. I observed is remittance a stable income source for developing countries including Nepal? In addition, I also analyzed the macroeconomic situation of Nepal.

World Bank data from 2010 showed that about three million people in the world are taking part in cross-border migration. South to north migration was the major migration practice in the previous century, but now the number of migrants is larger in the south-to-south migration corridor. In the recent years, about one billion US dollars of remittance flows per day towards developing countries. The global level of remittance has been increasing gradually from the start of the twenty first century to date. It is noteworthy that the remittance flow trend in between 1995 and 2010 was more stable than FDI and other ODA. In South

Asia, India is receiving the largest amount of remittance, but in terms of GDP contribution Nepal is in the highest position.

The latest data shows that there are about 3 million international migrants from Nepal. A lack of job opportunities due to a weak industrial base, wage differences between Nepal and destination countries, internal conflict, prolonged political instability, and food insecurity are push factors, while the Gulf States' boom, cheap labor demand, migrant networks, decreasing transportation costs, and globalization are pull factors for Nepalese migrants. Qualified and skilled migrants such as doctors, nurses, accountants and IT specialists go to developed countries. Unskilled or semi-skilled Nepalese migrate to the Gulf States and Malaysia. The poorest Nepalese migrants still go to India for seasonal work. Less educated rural people do not know detail about migration process and costs. Such people are cheated by migration agents. Though Nepal has potential in the tourism, hydroelectricity and agriculture sectors, the year-to-year increase in remittance reveals that remittance is a stable income source and contributes the biggest share to the total GDP. High remittance flow is supporting foreign exchange reserve. Remittance is also helping to smooth household consumption. Moreover, it is also supporting to improve health and education indicators-meet Millennium Development Goals.

However, some migrants still practice informal money transfer from abroad to Nepal. We can see some social problems because of the rapid increase in migration from Nepal. Some children of migrants left behind must allocate more time for household work, some drop out of school at an early age, and some are more likely to use drugs. Elderly parents are redundant in the society. Wives left behind by their husbands suffer from mental illness, and the divorce rate is also increasing. The death toll of Nepalese migrant workers is also increasing every year.

At this point first, I recommend that migration and remittance data should be updated. Detailed information about migrations or returned migrants should be gathered in the forthcoming survey data and census data. This leads to in depth econometric analysis. Migration record is also necessary between Nepal and India due to security purpose. Second, I emphasize that the Government (also Central Bank) should implement strict policy in migration process and remittance transactions. That is, migrants should pay migration cost through banks (to migration broker) while remittance should send by formal sector. Third, Non-Governmental Organizations (NGOs) can play important role to minimize migration related social issues.

Chapter 5 was a micro quantitative analysis. In this chapter I calculated the impact of migrants' remittances on poverty and inequality in Nepal. I used the latest Nepal Living Standard Survey data from 2011 (NLSS III) to calculate the impact of migrants' remittances on poverty and inequality at the household level (5,977 sample size). Two hypotheses were set in this chapter. First, remittances decrease poverty. Second, poorer households do not receive as much remittance as richer households. I used the counterfactual method to predict the effect of remittance on poverty types and inequality level in different scenarios. I also used the Probit model to calculate the households' remittance receiving probability.

Result showed that remittance plays a significant role in reducing poverty levels through consumption in the short-run. If there were no remittances, the poverty headcount level would be 31.08 percent. In the total remittances verses no remittance scenario, the poverty headcount comes down from 31.08 percent to 22.27 percent. This means total remittances contribute to 28.34 percent of the total poverty reduction in Nepal. The role of international remittances is greater (21.13 percent) than internal remittance (8.49 percent) in decreasing poverty. Remittance is also important in decreasing the poverty gap and squared

poverty gap. Total remittances decrease both the poverty gap and the squared poverty gap. However, remittance increases inequality in Nepal. Moreover, relatively more remittance is received by more qualified and richer households than those who are less educated and from lower quintile households.

First, I respect all the hard working Nepalese working abroad that helped to reduce the proportion of people living below the poverty line. Second, because currently all people cannot get job in Nepal unemployed or surplus labor can undertake work-related international migration. Third, the government should allocate higher quotas for low castes, the lowest quintile households (through inclusive policy) to go to the high-wage migration destinations (such as South Korea) to accelerate poverty reduction and to establish a more egalitarian society in Nepal. Fourth and most important, the government should increase public investment in critical infrastructures (hydroelectricity and road) so that private investment (including remittance) increases in the key sectors namely agriculture, industry and the tourism.

In Chapter 6, I did both qualitative and quantitative analysis. I used original data in this chapter. A survey was conducted in three districts of Nepal. In total 275 return migrants were interviewed from rural and urban areas.

Descriptive statistics indicated that migration costs and wage rates in foreign countries are positively correlated. Work sector changes significantly during migration. Most of the migrants were engaged in the agriculture sector or were students in Nepal but they worked in the manufacturing, construction and hotel-restaurant sectors during migration. Almost all migrants sent money by formal means but some migrants in India still practice informal remittance. Most of the returned migrants from the Gulf countries experienced hard work, high temperatures, and some religious issues. Language was the main issue in Japan, while

highly qualified Nepalese worked in the lowest pay jobs in the developed countries. Regarding the use of remittance, most remittance is not used in the productive sector. The largest percentage is used for land-plots purchase, followed by daily consumption, loan repayment and house construction. Only 4.44 percent of total remittances is used in business investment (entrepreneurship).

First objective in Chapter 6 was to examine the factors that increase the probability of return migrants becoming entrepreneurs in Nepal. Probit model result showed that the probability of being an entrepreneur depends upon education level, abroad savings and how long ago the returnee came back to Nepal. More educated people are more likely to be entrepreneurs in comparison to less educated return migrants due to better earnings in the destination countries, ability to maintain networks in the place of birth and better managerial ability. Abroad savings seemed to be another important factor for the likelihood of entrepreneurship. Remittance contributes capital for investment. More investment was found among old returnees (who had returned more than two years prior to the interview) than fresh returnees. It takes at least one year to select an appropriate business niche or suitable sector in the market. Large family size was also significant for business investment. I argued that division of labor is possible with larger household size than in smaller families. The destination countries also affected entrepreneurship. Results showed that return migrants from developed countries were more likely to invest than those from the Gulf countries. Skills learned abroad were not likely to contribute to business startup in Nepal. This is possible because the technology level as well as institutional set-up is more advanced in the destination countries than in Nepal. In addition to the Probit model, social structure, family members' age structure, geographic location, road networks, market access, and the migrant's work sector before migration also influenced entrepreneurship after return.

Based on these findings, I assert that first; the government should impose progressive tax (through fiscal policy) for citizens with more than one house or land-plots holding. Savings and higher education level plays positive role to be an entrepreneur among return entrepreneurs. Some migrants have no even bank account, most of the migrants have just deposit account and a few have saving account in banks. Second, the Central Bank (also the government) can inspire migrants to open saving account in Nepal (before migration) or abroad (during migration). Current savings also plays positive role in higher education (returnees' son/daughter education) in the future.

The second objective of Chapter 6 was to analyze how return entrepreneurs are contributing to reduce poverty from a long-run perspective. Some successful entrepreneurs stated that remittance helped as investment capital in their business.

62 returned migrants among 275 individuals were entrepreneurs, and case studies show that business investment is playing a positive role to use local resources, create jobs, increase income and consequently reduce poverty. The first case study (tomato production) showed that new return migrants are using local materials and providing temporary jobs to low-income people. At least 20 people get temporary employment (one month) in the tomato planting period, and 30 people again get work (two months) in the tomato harvesting season. Household members and college students are also benefiting from this business. Tomato production creates more jobs through forward and backward linkage. However, there is no storage facility. The second case study (a poultry farm) indicates that local people who want to work in their own community and could not manage money to go to abroad are getting jobs from this farm. The main issues of this farm are medicine and power shortages. Fifteen people have jobs in his business, including family members, throughout the year. In the third case study (a cyber café), a return migrant started an innovative technology-related business in a

semi-urban area which provides communication services and basic computer training courses to school children. Two computer instructors are employed part time. Fifteen students are learning basic computer and internet courses, which is positive for their future careers. Computer knowledge makes it easier to find new jobs or high-income jobs in comparison to people without computer knowledge. Such a business plays an important role in poverty reduction in the long run. This business is also facing the load shedding problem. Other case studies also revealed that remittances helped to start new businesses in Nepal. In addition, investment practices after return also lead to the empowerment of women and increased well-being.

Based on these case studies, I emphasize that electricity shortages badly affect all business. Hence, first, the current problem of power shortages should be minimized, even if by importing from India, so that return migrants (like the case of the poultry farm and cyber café) will start new businesses or expand their existing investments. Second, the Ministry of Agriculture should construct cold storage for perishable products in areas such as the tomato production locality to reduce post-harvest losses. Regional policy can address this issue. Third, agricultural medicines should be distributed on time in all districts. Finally, I also recommend that the government must establish a separate agriculture bank to secure farmers' investment and production.

Recent data shows that increases in road networks, the literacy rate and telecommunication services, and a decrease in the rate of death in maternal and child birth are some positive development indicators of Nepal. However, I argue that Nepal's development policy looks good on paper but the implementation part is very weak. Economic policy should be strictly implemented. Development expenditures must be expensed for on time but not all developmental works should depend on foreign aid. Government offices and bureaucracy

should be transparent and should work without bribes. Inclusive institutions increase economic activities and create incentives for innovation. The inheritance tax should increase to decrease inequality in Nepal. Now Nepalese politicians should write a new constitution as soon as possible and maintain political stability to stimulate domestic and foreign investment. Every Nepalese should work hard to build the nation.

Finally, different factors contribute to growth and development, but their importance alters over time. Migration and remittance is not the panacea for low-income countries but neither should we underestimate its importance. Remittance is playing significant and positive role in improving Nepal's poverty level. Inclusive policy can decrease inequality. Some return migrants are practicing entrepreneurship and creating jobs in the local community. Government should support their work. This helps to reduce poverty in the long-run. Nepal must create jobs in its territory. Every Nepalese should work hard to build the nation. Impact of migrants' remittance on household health and education sector will be a suitable research area in Nepal for future study.

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APPENDIX 1 QUESTIONNAIRE (SURVEYED ON OCTOBER-NOVEMBER, 2013)

SECTION A. SITUATION BEFORE MIGRATION

1. Please specify your gender

1. Male
2. Female

2. What is your marital status?

1. Unmarried
2. Married
3. Other

3. Can you tell your age?

4. How many family members are in your family?

5. What is your qualification? (In the completed schooling year)

6. In which of the following sectors were you engaged or worked in Nepal? (Choose one)

1. Agriculture
2. Mining and quarrying
3. Manufacturing industry
4. Building/road construction
5. Wholesale and retail store
6. Transport
7. Information and Communication Technology (ICT)
8. Hotel and restaurant
9. Financial service sector

10. Business services/real estate

11. Education/health services

12. Social services

13. Student/some part time job

14. Other (Please specify in the following box)

7. How many hours did you work per week in Nepal?

8. How much was your monthly income? (All in Nepalese rupees)

9. What is the main reason of international migration from Nepal?

1. Difficult to find a job

2. Less income to maintain living expenses

3. Family reasons

4. Conflict

5. Further study

6. To earn and learn more

7. Other (Please specify in the following box.

10. Who helped to migrate abroad?

1. Nobody helped

2. Friends and relatives

3. Manpower agency

11. How much was the cost of international migration? (Total of Passport + Airfare + Middleman + Manpower Agency)

SECTION B. OVERALL SITUATION IN ABROAD

12. In which country did you migrate?

13. In which of the following sectors did you work abroad?

1. Agriculture
2. Mining and quarrying
3. Manufacturing industry
4. Building/road construction
5. Wholesale and retail store
6. Transport
7. Information and Communication Technology (ICT)
8. Hotel and restaurant
9. Financial service sector
10. Business services
11. Education/health services
12. Social services
13. Student/some part time job
14. Other (Please specify in the following box)

14. How many hours per week did you work? (Excluding study hour)

15. What was your monthly salary?

16. About how much money did you saved abroad and sent to Nepal from abroad (Total amount)?

17. How did you send money to Nepal?

1. Formal way (IME/Banks)

2. Informal way (*Hundi*/ Friends/Relatives/Self)

18. How are the remittances often used for in Nepal? (Based on question 16)

Expenditure headings	Total remittance (in %) (2004-2013)
1. Land plots purchase	
2. Food/Drinks/Clothing	
3. Loan repayment	
4. House construction	
5. Saving	
6. Education	
7. Business investment	
8. Health	
9. Furniture/Electronics	
10. Jewelry	
11. Vehicles	
12. Others	

19. What was the length of stay abroad?

Year	Month

20. In general, how satisfied were you with your work and livings in the destination country?

1. Very satisfied

2. Somewhat satisfied

3. Neither satisfied nor dissatisfied

4. Somewhat dissatisfied

5. Very dissatisfied

21. What was the primary reason that you returned to Nepal?

1. Work contract/visa finished
2. Company closed/got bankrupt
3. Family reasons in Nepal
4. Now in vacation-return again abroad
5. Don't want to say
6. Others (Please specify in the following box)

22. Which of the following issues did you face in the destination country?

1. Language
2. Culture/religion
3. Government policy
4. Discrimination to foreign workers
5. Other (Please specify in the following box)

23. Did you learn some new skills abroad?

1. Yes
2. No

24. If yes, what specific skill?

SECTION C. SITUATION AFTER RETURNING IN NEPAL

25. When did you return to Nepal?

Year	Month

26. Did you or your family practiced internal migration in Nepal?

1. Yes
2. No

27. If yes, which area did you migrate?

1. Rural to semi-urban
2. Rural to urban
3. Semi-urban to urban
4. Others (Please specify if any)

28. What is your primary work now?

1. Household work
2. Full-time job
3. Full-time own work
4. Leisure
5. Others (Please specify if any)

29. Now how many hours do you work per week?

30. Did you allocate remittance to start a business or industry?

1. Yes
2. No

31. If yes, what types of business investment did you practice? (If No, skip questions 31-36 and start from questionnaire 37)

1. Significantly improved or new business (innovation)
2. Normal business (start-up)
3. Existed business (expansion)

32. In which sector does it lie?

1. Agriculture sector
2. Non-agriculture sector
3. Service sector

33. Where does it locate?

1. Rural area
2. Semi-urban area
3. Urban area

34. Are you using domestic labor and raw material in your business/firm?

1. Yes
2. No
3. Both (Domestic and foreign)

35. How many people are getting full-time work from your business?

36. Did the skill learnt abroad helped to run your current business?

1. Yes
2. No

37. Political stability is very important to expand investment and employment creation in Nepal. Which one of the following best characterizes our country's current political condition?

1. Going in the right direction
2. Going in the wrong direction
3. Uncertain

38. In your view what are the barriers for business investment (entrepreneurship) in Nepal?

(Multiple choice possible)

1. No major problem
2. Power shortage (electricity)
3. Frequent strike
4. Technology
5. Lack of skilled and educated man power
6. Trade unions
7. Raw material
8. Access to finance/lack of money
9. Insecurity
10. Transportation
11. Government policy
12. Difficult to compete with foreign products
13. Others (Please specify if any)

39. What's your suggestion for Nepalese youth who are planning to go abroad or are already abroad?

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40. Please tell us anything else you think might be important for the proper use of remittances in Nepal.

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