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## **International migration and remittances in Nepal**

Revisiting some "facts", and role of economic diplomacy

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# International migration and remittances in Nepal Revisiting some "facts", and role of economic diplomacy

#### Paras Kharel

#### **Abstract**

This paper presents cases where numbers and facts used in the discourse on international outmigration and remittances in Nepal mislead, identifies data gaps, and highlights avenues through which the nation's foreign affairs apparatus can contribute to maximizing the net benefits of international outmigration and remittances.

Key words: International migration, remittances, data gaps, employment, foreign policy, savings JEL classification: F22, F24, F50, O15, D14.

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#### Introduction

- 1. Remittances sent home by Nepalis working abroad have kept the Nepali economy afloat. They are crucial to everything from macroeconomic stability to household-level welfare. Not surprisingly, there is a voluminous literature studying different dimensions of international migration and associated remittances in the country, including their causes and consequences. Surprisingly, some of the numbers and "facts" that are taken for granted in the field are not capturing what they are purported to represent.
- 2. The Benthamite principle, despite some limitations, is attractive for its simplicity: aim for the greatest happiness of the greatest number. In the absence of a well-thought-out, confidence-inspiring plan to create jobs for Nepali youths on Nepali soil, making foreign employment safe and decently remunerative would still earn the government the joys and blessings of millions of Nepali households, which would satisfy the said principle. Foreign employment looks set to continue to be important for the Nepali economy in the foreseeable future. Thus, international migration and remittances ought to figure high on the agenda of our economic diplomacy, although the subject, at an individual level, may not be as exciting and appealing as that of attracting foreign direct investment and promoting exports, or participating in the summit in Davos.
- 3. This paper presents cases where numbers and "facts" used in the discourse on international outmigration and remittances in Nepal mislead, identifies data gaps, and highlights avenues through which the nation's foreign affairs apparatus can contribute to maximizing the net benefits of international outmigration and remittances.

#### Get the facts right; interpret the data correctly

4. Is it job creation or something else? Labour permits issued (new permits and permits for legalized workers) in the first 10 months of FY2018/19 fell by 39 percent compared to the same period in the previous fiscal year. Even after accounting for the 5.8 percent increase in the issuance of renewed permits, the total permits issued fell by 20.4 percent—or by 108,922 people. Was it because of a

<sup>&</sup>lt;sup>1</sup> Data from Department of Foreign Employment, reported in Nepal Rastra Bank's Current Macroeconomic Situation, First 10 months of FY2018/19.

spectacular creation of decently remunerative jobs on Nepali soil that these people chose not to go overseas? To test the government's assertion that job creation is the explanation (GoN 2019a, pp. 8-9) would require a labour market or employment survey conducted over the two periods being compared. Available evidence points to other factors. The 94.6 percent plunge in the labour permits for Malaysia explains a substantial portion of the fall in permits issued. This in turn is likely explained by a government-imposed restriction on work-related migration to Malaysia, in place for about a year, as it sought to check malpractices in the recruitment process in order to reduce the monetary cost of migration for Malaysia-bound workers. The number of permits issued (new and those for legalized workers) for countries other than Malaysia fell by a more modest 13 percent (i.e., 27,719 fewer permits). Was this due to job creation? A question that again points to the need for labour market/employment surveys of higher frequency, say, half-yearly or yearly.

More broadly, an analysis seeking to credibly explain the fall in the number of people going overseas for work should cover not just the fall seen in FY2018/19 but the fall recorded since 2013/14. After peaking at 519,638 in 2013/14, the number had fallen continuously, reaching 354,082 in 2017/18 (new permits)<sup>2</sup>. Even before the 2018/19 fall, the biggest decline had been with respect to Malaysia. Various explanations have been posited for the fall since 2013/14: the devastating earthquake of 2014/15 that compelled foreign employment aspirers to stay back to rebuild their homes, the increased availability of jobs in Nepal during the subsequent reconstruction boom and, with regard to Malaysia, a relatively high cost of migration dissuading people from going there (GoN 2018; NRB 2018). NRB (2018) rules out the 2015 introduction of the free-ticket-and-free-visa requirement as a factor on the grounds that, barring demand from Malaysia, the actual demand for workers received by Nepal in the two years after the requirement was introduced rose by 4.7 percent as compared to the demand received in the two years before the rule was put in place. There is therefore a strong possibility that the fall in the number of permits issued in the first 10 months of 2018/19 is, at its core, a continuation of the falling trend observed since 2013/14. We will probably never be able to test the explanations for what happened. Data from frequent labour force/employment surveys would be a more neutral arbiter of future claims and counterclaims of job creation or otherwise.

<sup>&</sup>lt;sup>2</sup> Data from GoN (Ministry of Labour and Employment), 2018, Labour migration for employment – A status report for Nepal: 2015/16-2016/17.

- 5. It is quite common to assert, when the subject is remittances from abroad, that 56 percent of households receive remittances (e.g., NRB 2018). Actually, that's the percentage of households receiving *any* remittances, whether from within Nepal or without, as reported in a report of the Nepal Living Standards Survey (NLSS) (Box 15.1, page 80, Volume II of CBS 2011a). The percentage of households that receive remittances from any person (not necessarily household member) abroad is about 30 percent and the percentage of households that receive remittances from absentee members abroad is 24.7 percent. Both numbers are a far cry from the 56 percent figure bandied about. About 33 percent of households have at least one absentee member abroad, as compared to 52.8 percent of households that have at least one absentee member, whether in Nepal or abroad. In short, one must carefully look at the headline figures in NLSS reports and determine whether they pertain to remittances from any source or remittances from abroad before using them.
- 6. The number of Nepalis working abroad is anybody's guess. An oft-pedalled number, including in government documents, is in excess of four million. The Economic Survey 2018/19 (GoN 2019b) refers to 4.37 million Nepalis having gone abroad for work as of FY2017/18. One may add to that the 193,411 people who went abroad in the first ten months of 2018/19. This number, however, cannot be taken as an estimate of the stock of Nepalis working abroad. It is likely based on the summation of labour permits (new entrants and legalized) issued in the 8 to 10 years to 2017/18, as reported by the Department of Foreign Employment (DoFE). This does not account for the length of a migration spell. Although detailed data on migration spell is hard to come by, available evidence suggests that the median migrant from Nepal spends, per migration episode, 9 months if the destination is India and 2.3 years if the destination is West Asia and Malaysia (Shrestha 2017). If we assume that that the average migration spell is 3 years and thereby sum the fresh labour permits (new entrants and legalized) issued in the last three years (FY2015/16 to FY2017/18) as well as the labour permits renewed during the same period (in turn assuming that those with renewed permits also stay abroad for three years on average), the estimated stock of migrants abroad would be 1.8 million. Yes, this does not include Nepalis working in India. But even if we assume that one million Nepalis are working in India—although World Bank estimates in its bilateral migration matrix dataset<sup>3</sup> point to half that number—the total stock would be 2.8 million.

<sup>&</sup>lt;sup>3</sup> Available at <a href="https://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data">https://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data</a>

Another concern with DoFE data is that it does not factor in informal outmigration, i.e., those who go abroad for work without obtaining labour permits from DoFE. From this perspective, an estimate based on the latest national population census (2011) would be more reliable. Households are asked about absentee members residing abroad, and it seems reasonable to assume that they will provide the limited information asked about such members irrespective of whether the latter have obtained labour permits from DoFE or not. Moreover, data from this source can be expected to capture work-related migration to India, too. As per Census 2011 (CBS 2011b), absentees abroad numbered about 7.43 percent of the resident population of Nepal. Applying this proportion to 30 million—arguably higher than the current population—we would get 2.23 million. This, again, is much lower than the 4.3 million figure arrived at by brute summation of labour permits issued in the last ten years. This, however, is close to the estimated stock of Nepal migrants abroad reported in the World Bank's bilateral migration matrix database, where the estimate for 2017 is 2.005 million. The similarity in the two numbers is likely due to the national census being the main basis for the World Bank estimate. In short, the 4.3 million-plus figure is likely an overestimate, unless one can produce it with a convincing method.

A possible concern with the Census data is that it may not fully capture seasonal migration to India of six months or less since absentees are defined as those who have been away for more than six months. A way to get a handle on this problem is to explore the raw data from the "migration" section of NLSS (Section 4), where households are asked about members who had been away from their "location" (i.e., to another village or country) for more than two continuous months in the last five years. Some 98 percent of those who had gone to India under these conditions had returned by the interview date. Those who had not returned had gone to India six or fewer months before the interview date—which is not surprising because had they been away, or intended to be away, for more than six months they would have been counted as absentees and been reported in NLSS section on "absentees" (Section 16). The interviews of households were spread fairly evenly over an entire year to capture the seasonality of information being sought. Using sample weights, the number of people who had gone to India in the year to the survey date is 282,477, or 1 percent of the total national population inferred from the survey.<sup>4</sup> Among them, those who had been away for, or were expected to be away for, six or fewer months numbered 260,035 (i.e., 0.93 percent of the national population).<sup>5</sup> Only 15,784 of

<sup>&</sup>lt;sup>4</sup> Estimated using sample weights.

<sup>&</sup>lt;sup>5</sup> Estimated using sample weights.

them were still away, and, strictly speaking, only they would constitute the stock of seasonal migrants in India at a given point in time. To address possible concerns that 15,784 is too small a number—although one estimated from a nationally representative survey with interviews spread across the year—let's take a more liberal approach and apply 0.93 percent (capturing flow and stock of seasonal migrants in the 2010/11 survey) to 30 million, yielding 279,000 as the number of seasonal migrants from Nepal to India at present. Combining this with the earlier estimate of absentees abroad from the Census data, we would get 2.5 million as an estimate of Nepalis currently abroad. This, again, is much less than 4.37 million.

Note that the estimate obtained from Census and NLSS data considers all Nepalis abroad as workers. If one only counts those who have gone abroad with the primary purpose of working—information on which is available in these datasets—the number would be lower still. But it seems reasonable to assume that many of those who do not report employment as the main purpose of going abroad would also be working and remitting money home.

The importance of international outmigration and remittances for the Nepali economy warrants setting up a credible, frequently updated, database on the stock of migrants by destination. Key to creating such a database is keeping a record of returnees. Nepali diplomatic missions can contribute to the databank.

7. Work-related migration and remittances are a two-way street between Nepal and India. As per the World Bank's bilateral migration and remittances matrix database<sup>7</sup>, in 2017 there were 537,517 Nepalis working in India and 440,198 Indians working in Nepal. The same database also has it that Indians remit home thrice the amount Nepalis remit: US\$3 billion versus US\$1 billion. Nepal was India's eight most important source of remittances. These estimates are obviously based on assumptions.<sup>8</sup> But in the absence of credible alternative estimates, they are worth noting and can form a basis for further investigation. They also indicate the importance of Nepal for a section of the Indian economy, a point—together with the fact that Nepal has consistently ranked among the top 10 destinations for India's merchandise exports—that could be used in the exercise of diplomacy.

<sup>&</sup>lt;sup>6</sup> Estimated using sample weights.

<sup>&</sup>lt;sup>7</sup> https://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data

<sup>&</sup>lt;sup>8</sup> For example, the incomes of migrants abroad and the costs of living are both proxied by per capita incomes in purchasing power parity terms, which is a rough proxy, as admitted in a note to the database.

Domestic job creation policy and programme must be informed by knowledge of the number of foreigners working in Nepal, the sectors they work in, their role in the Nepali economy and the amounts they remit out. A study in this area would be academically interesting as well as policy relevant. But one must be prepared for the reactions it might trigger, like those drawn by the 1983 Harka Gurung Migration Report. The seriousness with which the government is ready to pursue the faint steps it has taken to make work permits mandatory for foreigners working in Nepal is anybody's guess. The last time a serious attempt was made to introduce work permits for foreigners was in 1987, in Kathmandu valley.

8. There is a widely cited figure regarding the uses to which remittances are put. It comes straight off the summary report of the Nepal Living Standards Survey 2010/11 (CBS 2011a, Vol. 2, Table 15.7, page 86). The numbers in the report seem to tell us that 78.9 percent of remittances are used for consumption, 7.1 percent for repayment of loan, 3.5 percent for education and 4.5 percent for household property, with only 2.4 spent on capital formation, 0.6 percent saved and 0.5 percent invested in business. However, a closer scrutiny of the underlying questionnaire that generated these numbers reveals that the survey provides information on the primary uses of remittances, not what portion of remittances actually went to different uses (see Kharel, et al. (2019)). Indeed, the survey's summary report mentions "primary uses" when presenting the distribution of remittances, an aspect that is often ignored when quoting it. Kharel, et al. (2019) raise this point when discussing the results of an econometric analysis of the impact of remittances on entrepreneurship.

NRB (2016), in a survey conducted among 320 remittance-receiving households, specifically asks households about the percentages of their remittances that they spend on different activities. It finds that two thirds of the households saved some of their remittances, and that the households saved 28 percent of their remittances on average (where the calculation of the savings rate likely includes households that do not save). It also finds that about 80 percent of the households used other sources of income to meet, fully or partially, basic household expenses. This is a pointer to the underappreciated reality that remittances as monetary resources are fungible, and receiving households are likely to make spending, saving and investment decisions taking into account their entire income, of which remittances are but a part. This warrants caution in making statements about how remittances are used, based on descriptive statistics.

Arguing whether the savings rate is high or low is meaningful if it is made with respect to some benchmarks. Future studies on the use of remittances by receiving households should compare the findings for Nepal with those from other country studies to make the analysis meaningful. NRB (2016) does not do that.

Still, if one wants an estimate of the fraction of remittances saved, the NRB (2016) figures should be quoted rather than Table 15.7 of NLSS Volume II (CBS 2011a). The latter is measuring something else.

- 9. Gross national savings (GNS), which is the sum of gross domestic savings (GDS), net factor income from abroad and net current transfers from abroad, amounted to 47.09 percent of GDP in 2017/18. GDS was 17.81 percent of GDP in 2017/18. The difference between GNS and GDS is largely accounted for by remittance inflows (part of net current transfers). It is tempting to compare GNS-GDP ratio to the 28 percent of remittances being saved on average by recipient households as reported in NRB (2016), and then be perplexed by the difference and possibly cast doubt on the former. A fundamental problem with such a comparison is that GNS-GDP ratio excludes transfers (and hence remittances) in the denominator while including them in the numerator. That is, the numerator is not a subset of the denominator, as one would expect when talking about the fraction of earnings saved. One way to make the two measures reasonably comparable is to calculate GNS as a fraction of gross national disposable income (which is GDP plus net factor income plus net current transfers). This yields 35.3 percent for 2017/18. The rate for 2015/16, around the time the NRB (2016) survey was conducted, is 29.5 percent. Hence, the difference in the savings rate obtained from macro data (national accounts prepared by CBS) and from household survey results (NRB 2016) is not as stark when meaningful comparisons are made.
- 10. Thus, the savings rate is not as low as it appears at first blush. Much of the savings are in the financial system, which can channelize them into sustainable employment-generating economic activities or into construction of apartments. Even the bulk of remittances going into consumption would not be as bad as it is made out to be—over and above the fact that they have lifted living standards—if it could be vigorously met by domestic production and associated employment generation instead of by imports. Arguably, remittances, by raising effective demand, must already be contributing to

<sup>&</sup>lt;sup>9</sup> National accounts data are collected by Central Bureau of Statistics (CBS), and are also reported in Nepal Rastra Bank's Current Macroeconomic Situation updates (based on annual data).

domestic production, albeit less than the desired extent. Research on this issue is sorely lacking. In this context, policies and regulations that effectively prod the financial system to fund the "productive sector" are as important as policies that aim to induce remittance recipients to use remittances more "productively".

- 11. Most of the remittances come from temporary migrants. In fact, 70-75 percent of remittances come from six countries in West Asia and Malaysia (NRB 2018). These workers are not the NRNs of popular discourse. NRNs—basically permanent residents abroad—are potentially a source of investment in Nepal and some of them have already invested here. Their investment must neither be discounted nor overblown. How much money is actually being invested by NRNs in Nepal? The answer is far from clear and credible. The government can help build a credible databank.
- 12. None of these detracts from the importance of remittances for Nepal. But getting the facts straight is the first step in getting the policy right. Where there are data gaps, they must be filled with credible data-collection exercises. Diplomatic missions abroad can contribute to these.

#### Tasks for foreign affairs apparatus

13. Department of Foreign Employment issues labour permits for Nepalis to work in about 108 countries (as of 2016/17). Nepalis are working in as many as 172 countries. Signing bilateral labour pacts with major destinations is important, but equally important is ensuring that competent hands staff diplomatic missions abroad. A good understanding of economic issues should be a key criterion in the envoy appointment process in general, given that economic relations are at the centre of international political relations. Embassy officials must be adept at monitoring and analysing economic developments, and identifying economic opportunities in the host countries—as an export market, a source of investment, tourists and aid, and a destination for job seekers. Constant communication and effective coordination between the foreign affairs ministry and other specialized ministries is of utmost importance. An effective crash course of sorts on international economic relations and Nepal's major economic interests should be provided to those in the diplomatic service early on in their career. Insofar as it is already being provided, the results are not visible. An ambassador can then expect to have competent support from those serving in the diplomatic mission abroad as well as from foreign affairs mandarins back home. It is anybody's guess how many of the ambassadors, labour attaches and key officials staffing Nepal's embassies in key foreign employment destinations would

have read the two major studies on international outmigration and remittances conducted by Nepal Rastra Bank since 2016 (NRB 2016, 2018), which are available on its website.

- 14. At least 7,469 Nepalis workers lost their lives in the 11 years to 2017/18 (NHRC 2019). 10 Nearly 56 percent of migrant workers, as per a survey conducted by the National Human Rights Commission, suffer contract violations (NHRC 2019). Nepal must conduct diplomacy at all possible layers with the major foreign employment destinations, constantly putting forth its cases and advancing its interests. Nepali diplomatic missions need to take proactive measures to ensure the protection of Nepali workers' rights, including the right to return home alive and to get the salaries and benefits as stipulated in their job contracts. They are our eyes and earns abroad. They must explore avenues to secure labour demand directly from employers, avoiding agents in the host country. This could lower the migration cost borne by workers, and facilitate the implementation of the free ticket and free visa regime. About two thirds of workers going to the free-ticket-free-visa-designated countries still pay more than the maximum amount set by the government (NRB 2018). Besides monitoring labour market conditions and other economic developments in the host countries, embassies should learn from the experiences of other labour-supplying countries, including those in South Asia. For example, they can investigate why the cost of remitting money from Qatar and the UAE to Nepal is higher than to some other SAARC countries, although the cost of remitting money from Malaysia and Saudi Arabia is lower for Nepal (NRB 2018, citing World Bank's remittance prices database).
- 15. Nepal's generally positive experience with the government-managed Employment Permit System under which Nepalis go to work in South Korea has led to calls for exploring such arrangements with other countries, too. Diplomatic missions naturally have a crucial role in exploring such possibilities.
- 16. That most Nepalis working abroad are in the unskilled occupation (74.5 percent) is a frequently raised issue in the discourse on foreign employment. Diplomatic missions abroad can help identify skilled or semiskilled occupations, or simply occupations with above-average earnings, where there is demand for foreign workers and Nepal has a potential supply.

<sup>&</sup>lt;sup>10</sup> NHRC (2019) quoted in Nawaraj Mainali, "Unsafe foreign employment", Naya Patrika daily, p 10, 20 July 2019.

17. Malaysia, Qatar, Saudi Arabia and the UAE account for some 90 percent of Nepalis working overseas, and Oman, Kuwait and Bharain absorb another 3.4 percent<sup>11</sup>. Remittances from these countries made up 70-75 percent of remittances received by Nepal in 2015 (World Bank, cited in NRB 2018). While all countries where Nepal has an embassy deserve able envoys, the competence and character of those at the helm of diplomatic missions in these seven countries matters even more because Nepal's macroeconomic stability and household-level welfare is strongly tied to the transfers made by its sons and daughters toiling in these lands, which are also the destinations for which the government in 2015 introduced the "free ticket and free visa" requirement.

Without comment: NRB (2018, pp. 40-41) refers to complaints about some government employees in diplomatic missions abroad "diverting" demand for workers coming from companies there to their "relatives' manpower agencies" back home, and about embassies being lackadaisical in taking diplomatic initiatives to address the problems faced by Nepali workers in the host countries.

- 18. India, Bangladesh, Pakistan, the Philippines and Sri Lanka are reported to be Nepal's major competitors in the aforementioned seven destinations (NRB 2018). Closely monitoring labour market and foreign employment policies in these countries and the labour agreements they may have with these and other destinations will be valuable for devising and updating our own foreign employment policy and strategy.
- 19. Nepal Rastra Bank has issued foreign employment savings certificates since 2009/10 [2066/67 Bikram Sambat] to mobilize remittances for productive purposes. However, the subscription rate is dismal: in the six years to 2014/15 [2071/72 Bikram Sambat], only 210.5 million rupees were mobilized (NRB 2016). Lack of information about the scheme among workers and their families has been identified as a chief factor behind the low subscription (NRB 2016). NRB's Foreign Employment Savings Certificates Work Procedure recognizes the role that Nepali diplomatic missions can potentially play in addressing the information asymmetry by raising awareness about the scheme and the benefits of subscribing to it among Nepalis working in the host countries (NRB 2016).

<sup>&</sup>lt;sup>11</sup> Based on labour permits issued during 2012/13 through 2016/17 (NRB 2018, in turn based on Department of Foreign Employment statistics).

- 20. While there exists policy attention to utilizing remittances as well as returnee migrants' resources, precious little attention has been accorded to the distinct potential of utilizing returnee migrants' skills and capabilities acquired while working in competitive manufacturing industries abroad, as part of broader attempts to revive Nepal's moribund manufacturing sector and by, extension, its comatose manufacturing exports. This is surprising given that the bulk of Nepalis working in the Republic of Korea, which has emerged over the last one decade as a dream destination for Nepali youths seeking foreign employment, work in manufacturing firms, especially small and medium-sized ones. And Nepali manufacturing firms complain of a shortage of skilled workers. Some of these firms represent pockets of competitiveness. Since 2007, over 44,000 Nepalis have received work permits to work in Korea under the government-managed Employment Permit System (GoN 2018). Most are obliged to return after a maximum stint of 4 years and 10 months. Besides possessing knowledge of the Korean language, these returnees could have significant tacit knowledge of production processes. Nepal's diplomatic mission in South Korea can contribute by exploring the possibilities of combining South Korean capital and technology with South Korea returnees in manufacturing firms in Nepal—for example, by persistent discussions with policymakers and firms there.
- 21. Immature diplomacy can cost the nation's standing in the global arena and its economic interests dear, although the consequences may not be apparent immediately. A case in point is Nepal's failed bid for United Nations General Assembly presidency in which it fielded a former UN official as its candidate at the last moment in 2011. Nepal's wishy-washy candidacy failed to impress the Asian group in the UN whose turn it was to nominate a person to lead the General Assembly. The loss to Qatar did not surprise independent analysts in Nepal, who had recommended that in view of Nepal's poor preparations and a steady fall in its diplomatic standing in the world stage, it should reach a deal with the oil-rich country that not only wields more global clout than Nepal but also happens to be a major foreign employment destination for Nepalis. The defeat, however, seemed to surprise foreign ministry officials, who were quoted as saying that "those who had promised did not vote for us" and insisted that the secret ballot was a neck-to-neck race<sup>13</sup>.

<sup>&</sup>lt;sup>12</sup> This paragraph draws heavily on an unpublished analysis done by the research department at South Asia Watch on Trade, Economics and Environment (SAWTEE), Kathmandu.

 $<sup>^{13}\,</sup> See \, \underline{\text{http://kathmandupost.ekantipur.com/printedition/news/2011-02-25/unga-presidency-nepal-loses-the-hot-seat-bid-to-qatar.html}$ 

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