PROMOTING REMITTANCE AMONG NEPALI DIASPORA

AN APPRAISAL

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PREFACE

It is growingly understood and acknowledged that foreign labor migration helps promote national economic growth, eases the pressure of unemployment; bring in much-needed foreign exchange through remittances and increases consumption, savings and investment at both the household and macro levels. Moreover, there is always a possibility that investors will direct funds into uses with high yields in productive sectors. When migrants do invest, their emotional attachment to their regions of origin can help compensate for the disadvantages of these regions in the eyes of purely profit-seeking investors.

Though number of migration worker from Nepal is on the rise it is not equally supplemented by remittance sent to Nepal through official channels. Minimizing remitting cost, encouraging the remitters to use official channels and invest in sectors that generates revenue, employment and adds value to the local resource is one of the challenges and opportunities faced by the policy makers. Nepal's future economy may to some extend also depend on how these remittance are encouraged, managed and utilized. The Central Bank of Nepal, Nepal Rastra Bank, has initiated policies for encouraging the transfer of remittances through the official channel. On top of that, permission was granted to manpower agencies, engaged in sending Nepalese nationals to work overseas, to open foreign currency account in the Nepalese commercial banks out of the foreign currency income that they earned through the existing rules. Policy incentives have been introduced to attract remittance at the household level, mostly consumed for subsistence living, Nepal also needs to attract remittance at the national level as financial resources for the development initiative of the nation.

Policies to attract bulk Diaspora remittance and investment should be initiated and introduced. The concept of Commercially Important Person (CIP), recognizing contribution by the nation, introduced by Bangladesh has been very successful in fulfilling this goal and could be implemented by Nepal to attract Diaspora and FDI investment to supplement the initiatives for Nepal Investment Year 2012/13.

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SUMMARY

Migration presents both challenges and opportunities in a globalized world today. At individual and household levels it provides major livelihood strategy for many people who may not find such outlet domestically. For the state, migration provides possible tool to promote development and reduce poverty. As the scale, scope and complexity of the phenomenon has grown, states and other stakeholders have become more aware of the challenges and opportunities with the growing realization that there are economic, social and cultural benefits to be realized and negative consequences are to be minimized. The pace of the foreign employment increased dramatically after 1996 and the consequent of shrinking economic opportunities back home compelled Nepalese youths to look for alternatives elsewhere. The massive unemployment inside the country and the rosy picture of migration presented is the main reason behind this upsurge in venturing out to distant lands.

The demand was so high that Nepal had to open a consulate in Qatar to supplement the efforts of the embassy in Saudi Arabia, where there are over 350,000 Nepalese. Malaysia first opened its domestic job market to Nepalese in 2001, and it is estimated that about 400,000 workers have legally entered the country since then. Around 600,000 more are estimated to work in Saudi Arabia. Large numbers are also illegally employed in the rest of Southeast Asia. On the basis of data provided by the Department of Foreign Employment, the number of workers going abroad for employment increased by 35.4 percent from 217,164 in 2008/09 to 294,094 in 2009/10. With the increase in the number of workers, the inflow of remittances should have taken an upswing. However, this did not happen and the past five yearly average increment of 35.25 % was not met during this period and the annual increment was just 10.51 %. This is a very alarming factor and has raised a lot of questions. Among other factors leading to this drop in remittance use of unofficial channels could be one of them.

More can be done to improve services so that transfer of remittances to the country of origin is achieved quickly and more effectively. Globally, computer networks and telecommunications have merged services in order to improve the money flow internationally. The Central Banks of India, Philippines and Malaysia are implementing projects by relying on these two factors to reduce time and cost involved in money transfers. A general survey of Bangladesh, Sri Lanka, Nepal and Pakistan show that such conditions do also exist in these countries as telephone networks have spread to remote villages. Improving access of smaller remittance service providers such as credit unions and larger microfinance institutions clearing and settling remittance would also help improve competition and reduce costs. Finally, improving the access of undocumented migrants to formal remittance channels, especially banks, would have a significant impact on remittance costs and also on discouraging the use of informal channels.

Remittance services should be recognized as a self-standing industry separate from banking services. That would help efforts to simplify and harmonize regulations relating to remittances, thereby encouraging competition in the remittance market. Empirical evidence shows that an increase in the number of competitors generally decreases the price and improves service quality. It needs to be mentioned that there is not a single price for a “commodity called remittance”, just as there is no single price for cars. Remittances are differentiated by a number of characteristics that make them special: origin and destinations, speed of service, security of the transfer and the general customer experience both when sending and receiving the funds.

When looking at remittances, one must remember that poverty reduction cannot only be linked to individual household cases, since poverty reduction takes place on the uses of remittances by states and individuals. Remittances come in foreign exchange and that foreign exchange is used by the

states in different ways that lead to poverty reduction. And individuals use their remittances that create a multiplier effect that may lead to income generation within the society that may lead to poverty alleviation in some corners and that family particularly may not have migrated. What individuals get are in local currency and what the state keeps is in foreign exchange. As such, among other things, poverty reduction scenario takes place through debt servicing, import substitution, etc., that comes through the availability of foreign exchange, provided that it is through official sources resulting in accretion of foreign exchange reserve of for the development of the country.

Moreover, the generational shift in the use of remittances can have significant policy implication for the receiving countries. Although a late starter in this field, Nepal's experience is noteworthy in this regard. The first generation of migrant laborers used the remittance to buy land and invest money in their place of origin, while the second generation was more prone to invest their money in towns and urban areas close to their homes. The third generation moved further outward and invested their income in big cities and on consumer goods. There is a chance that the next generation will seek permanent residence abroad, or stay there longer, and possibly not remit money as had been done by their predecessors? The generational shift may already be happening in the case of returning British Gurkha soldiers from Nepal who have been offered a chance of residence in the UK.

The policy makers need to take these facts into consideration and design an appropriate policy that best fits Nepal's needs. Policies that attracted remittance for subsistence living must be supplemented by policies that also equally gives importance to attract and encourage bulk remittance as financial resource for development. The policy initiatives of Commercially Important Person (CIP) implement by Bangladesh is very useful and could also be initiated by Nepal. The CIP concept, which is divided into three categories; investment, remittance and import; acknowledges contributors through specific measurement criterion as highlights bellow:

1. Investment:

    1.1. Amount of capital invested in one fiscal year
    1.2. Minimum capital investment of US$ 500,000 or equivalent in foreign currency.

2. Remittance:

    2.1. Amount of non-repatriable foreign currency remitted through official banking channels to a particular account in a given fiscal year.
    2.2. A minimum of non-repatriable remittance of US$ 150,000 or equivalent through official banking channels.

3. Import:

    3.1. Amount of import in one fiscal year.
    3.2. A minimum of US$ 500,000 or equivalent (FOB) in one fiscal year
    3.3. Amount of import through Proceeds Realization Certificate (PRC) is also taken into consideration.
    3.4. Importer of higher value added product is given priority.

INTRODUCTION

Since the end of the 1990s, there has been a renewed interest in the financial resources that migrants send back to their countries of origin. The main reason for the renewed attention is the growing volume of official remittances to low income countries and their potential contribution to the economic development of the receiving regions. Remittance, as a source of development funding, are directly linked to migration. In many instances, particularly in the vulnerable countries, this migration has been forced either by civil conflict, political persecution or economic hardships. For people from the least developed countries (LDCs), migration is often a case of running away from a very difficult situation, rather than a matter of preference. The irony of it is that having escaped their countries, migrants then assist in sustaining the economies of those very countries through remittances.

Officially recorded remittance estimates may significantly underestimate the real magnitude of remittance. Model-based estimates and household surveys suggest that informal flows could add at least 50 percent to the official estimates, with significant regional and country variation. The true size of remittance flows could be even larger, in view of substantial under recording of flows through formal channels. Recorded remittance flows have surged in recent years, driven by a combination of factors – among them better data collection, reflecting greater awareness of the development potentials of remittance, as well as concerns about money laundering and terrorist financing; lower costs and wider networks in the industry that support remittance; and growth in the number of migrants and their incomes.

Remittances not only help to reduce poverty, but also to reduce the depth and severity of poverty in Nepal, and other countries. The money that is available to families improves human development of the country since resources can be used to provide education for children and look after the overall health of the family members. An important issue on use of remittances is: Do migrant workers channel international remittances into productive investments at home, or do they use such capital merely for consumption of consumer goods?

For Nepal, remittances are large enough to have broader macroeconomic implications. By generating a steady stream of foreign-exchange earnings, Nepal can improve creditworthiness for external borrowing, and through innovative financing mechanisms Nepal can expand access to capital and lower borrowing costs. Although the evidence on the effect of remittance on long-term growth remains inconclusive, in economies where financial system is underdeveloped, remittance appear to alleviate credit constraints and stimulate economic growth.

Though significant initiatives have been introduced to attract remittance at the individual or household level Nepal needs to follow examples of other South Asian Association of Regional Cooperation (SAARC) countries in attracting bulk remittance that can be used in the productive sectors to add value to the local resources and generate employment at the local level. The policy initiatives of Commercially Important Person (CIP) implement by Bangladesh is very useful and could also be initiated by Nepal.

SCOPE OF WORK

The Governor of the Central Bank of Nepal had requested the President of NRNA to suggest and highlight on policies and possibilities that could encourage and motivate the Nepali Diaspora to remit through official channels and direct these towards the productive sectors of Nepal that adds value to local resources, supplements imports and generates employment. This report focuses on the following aspects:

(i) Send more remittances through official rather than unofficial channel;

(ii) Increase the levels of remittances by encouraging migrants to hold their savings in financial assets in the country rather than holding them abroad (or spending their savings on consumer goods); or

(ii) Encourage migrants to become investor in productive assets in the country by attracting bulk remittance directed towards investment.

METHODOLOGY AND LIMITATIONS

Both primary and secondary data and information have been used in preparing this report. The primary data and information were obtained from NRNA's National Coordination Councils (NCC) and the Nepali Diaspora.

The secondary information were compiled from publication of the Central Bank of Nepal, publications on remittance and its effects to mirco and macro economy, online information and reports presented by institutions affiliated such as South Asian Centre for Policy Studies (SACEPS), World Bank, Journal of Nepalese Business Studies and other individual writers.

REVIEW OF RELATED LITERATURES

Historical Background:

Remittances are not a new phenomenon in the world, being a normal concomitant to migration which has always been a part of human history. Several European countries, for example Spain, Italy and Ireland were heavily dependent on remittances received from their emigrants during the 19th and 20th centuries. In the case of Spain, remittances amounted to the 21% of all of its current account income in 1946. All of those countries created policies on remittances developed after significant research efforts in the field. For instance, Italy was the first country in the world to enact a law to protect remittances in 1901while Spain was the first country to sign an international treaty (with Argentina in 1960) to lower the cost of the remittances received.

According to 2006 Work Bank report, the global remittance flow has increased phenomenally over the last three and a half decades. From $2 billion in 1970, it increased to $130 billion and by 2000 it had reached $268 billion, out of which $199 billion went to the developing countries. The figures reflect transfers only through the official channels, and econometric analysis and household surveys suggest that unrecorded flow through unofficial channels at the global level may account for additional 50 percent.

Recognizing international migration as one of 'the top global policy agenda', on December 2003, the Secretary General of United Nations encouraged a Core Group of States to establish the Global

Commission on International Migration with the objective of providing a framework for the formulation of a *coherent, comprehensive* and *a global response* to the issue of global migration. The Commission presented its report in 2005, which recognized that while globalization provides millions of women, men and children with better opportunities in life, it has also brought about disparities in the standard of living and level of human security available to people in different parts of the world. However, the Commission concluded that 'the international community has failed to capitalize on opportunities and meet the challenges associated with international migration.'

In the context of Nepal remittances rose from Rs. 65.5 billion in 2004/05 to Rs. 209.70 billion in 2008/09. Moreover, the share of remittances incoming through the official channel has been going up. For instance, while in 2004/05, out of total remittance income, just about 27 percent flowed into the country through the official channel as against 73 percent through the unofficial channel, in 2009/10, on the other hand, almost 90 percent entered through the official channel and the rest through the unofficial channel. The upsurge in remittances had led to a surplus in the current account, thereby strengthening the overall Balance of Payment (BoP) position.

The share of remittances in total current account receipts, for instance, soared from 38.2 percent in 2004/05 to 56.7 percent in 2008/09 (Table 1). This in turn had enabled Nepal to maintain a very comfortable level of foreign exchange reserves.Similarly, the remittances to GDP ratio increased from 11.1 percent in 2004/05 to 21.2 percent in 2008/09. These figures clearly indicate that any significant decline in receipts from remittances could disturb the structure of the economy from the macro level. And this is exactly what happened in 2009/10, thanks to the delayed impact of the global recession that started to bite the Nepalese economy.

Effects of Remittance at the Micro and Macro Level of the National Economy:

Remittances are playing an increasingly large role in the economies of many countries, contributing to economic growth and to the livelihoods of less prosperous people (though generally not the poorest of the poor). According to World Bank estimates, remittances totaled US$414 billion in 2009, of which US$316 billion went to developing countries that involved 192 million migrant workers. For some individual recipient countries, remittances can be as high as a third of their GDP. As remittance receivers often have a higher propensity to own a bank account, remittances promote access to financial services for the sender and recipient, an essential aspect of leveraging remittances to promote economic development.

Studies have compared the importance of remittances to the economy of the receiving countries with foreign aid, private capital flow, foreign direct investment, etc. The findings have been nothing short of startling. It was discovered that remittances by migrants to developing economies (estimated at $150 billion per annum) are three times the amount provided through Official Development Assistance (ODA) and migrants contribute to development and poverty reduction through remittances and investment of their skills. When compared to foreign direct investment (FDI) to these countries, remittance account for over half of total flow. In addition, remittances were found to be more stable than private capital flows, less volatile to changing economic cycles and since they are unilateral transfers they do not create liabilities for the receivers.

In Nepal, there are data that indicate there was substantial reduction in poverty despite the internal conflict. The Demographic and Health Survey (DHS) and the census data show drastic improvement in the socio-economic indicators such as in the areas as infant mortality, life expectancy, maternal mortality, health services, etc. This was happening when the development indicators showed the country at a standstill. One of the factor key responsible for improving the status of the people was remittances coming from abroad.

Other empirical studies on Pakistan indicate that remittances improve the recipients' standard of living. On the average, Pakistani migrant workers received five to eight times higher income abroad than they received in their home country, and remitted on average 78 percent of their earnings. A reduction in the flow of remittances can have dual impact on poverty: it can reduce the impact of trade liberalization by limiting the inflow of imports; and it can reduce the income, as well as consumption of the households.Similarly, studies on savings and investment patterns in Bangladesh show that there is higher saving rates for remittance receiving household than for the non-receiving households. The largest share of their disposable income from remittances is spent on land, home construction and home improvements.

Remittances (Official v. Unofficial figures):

The very high remittance returnsare also difficult to record properly since a significant portion is sent through informal channels. There are many terms used to describe the informal remittance systems such as 'alternative remittance systems', 'underground banking', 'ethnic banking', and 'informal value transfer system'. In different parts of the world, the terms include: *fei-ch'ien* (China), *hundi (*Pakistan, Bangladesh and Nepal), hawala (India and the Middle East), *padala* (Philippines), *huikuan* (Hong Kong), and *phei* kwan (Thailand). In 2006, South Asia received $36 billion out of a world total of $268 billion, which amounts to nearly 13.5 percent. A recent RMMRU study suggests that 40 percent of the remittance to South Asia came through the formal channel, with the *hund i*accounting for another 40 percent. This is followed by hand carrying of remittance by the workers themselves which comes to 8 percent, and those brought over by friends and relatives accounting to another 4 percent. The use of informal channels to send monies by Nepali workers in India is even much higher than the regional average. Out of Rs. 12 billion that come to Nepal from India, 99 percent come through the unofficial channel.

The popularity of the unofficial channel is largely due to the fact that people perceive *hundi* to be an easier means for money transfer. There is also greater cooperation among these informal channels, which is more efficient, cheaper and far ahead of the official channels. The World Bank estimates that at the official level the average cost of transferring remittance is about 13 percent and can sometimes go as high as 20 percent of the amount remitted. In addition to such high transaction costs, recipients often face exchange losses and slow check clearance due to inefficient banking systems.

Although the costs of remittances through the formal financial sector are falling in some areas, studies indicate that household in recipient countries receive more local currency when informal channel are used. It was found that similar rate advantages also exist for Indian rupees sent through *hundi.* The World Bank estimates that reducing the transaction cost of remittances to less than 10 percent would imply an annual saving of $3.5 billion to overseas workers. Money transfers through the *hundi* system continue to remain high despite international efforts to check the informal flow capital after 9/11 attack by Al Queda on New York and Washington, DC.

The Remittance Market:

The biggest players in the remittance markets are traditionally companies that specialize in remittances, as opposed to banks, who offer remittances as one of many products in their portfolio. For the general understanding of the remittance industry, it is necessary to review the different categories of remittance companies. These different types of remittance companies differ in their network, their pricing and marketing strategies, as well as the technology used. All in all, they have different strengths and weaknesses. By asking the following questions, remittance companies can be roughly put into a limited number of categories. This categorization calls for the following first observations:

- All the major players are pure remittance companies and not banks. Only one remittance company (Bancomer Transfer Services) is a subsidiary of a bank.

- Global banks only offer remittances as a side product and, despite their size, never play a significant up-front role in the remittance business. Many remittance companies have to rely on large banks to settle the accounts with the sending and receiving agents, but this is done at a wholesale level, just as any other commercial transaction.

- The only banks to play a significant role in remittances are banks from developing countries where remittances represent a major source of foreign exchange. The most notorious banks are from India (ICICI, State Bank of India), Turkey (Esbank, Disbank, Pamukbank, Isbank and others), the Philippines (Philippines National Bank, Equitable Bank and others) or other countries like Ghana (Ghana Commercial Bank with Fast International Money Transfers). None of these banks have made any effort to service other communities than their own.

Factors determining the market structure:

There are two main schools of thought regarding remittances: first, those countries treating the remittance services as an activity that requires no license or a license purely for remittance, which could be defined as a tailor-made license. Examples of these countries are the United States, Canada, the United Kingdom and Spain. The second category of countries defines the remittance business as being one particular financial service, which requires the license of a financial institution or a bank. In countries like France, Russia and Italy, the license required for operating a remittance service is much broader than what would be required just to perform remittance services.

Role of global commercial banks:
The first observation that needs to be better understood is the fact that banks only play a major role in remittances if the legislation in place limits remittance services to banks and financial institutions, as this is the case in France for instance. In countries like the United States and the United Kingdom, banks play only a minor role in remittances. Banks are then focused on some very specific markets like India or the Philippines, where the legislation in the receiving country and the important banking network prove to be a major asset. Germany has only recently changed the legislation to allow for remittances to be conducted under a financial institution license instead as under a banking regulation. Austria has now regulated the remittance companies in a manner where they need € 36,000 for LLCs and € 72,000 for incorporated companies. Several factors explain why these large banks do not consider remittances to be their core business and hence only offer it as a marginal product, if at all:

- Larger loans and investments are more profitable than small remittances.
- Remittances are mostly sent by the kind of customers the bank does not consider to be prime customers, as these are mostly low net value customers.
- From the remitter's point of view, large banks are often intimidating.
- Remittances are often sent to developing countries and rural areas, while large banks tend to be present in the more affluent countries and areas. So in short, there is a relatively poor match between the commercial banks target customers and target geographies on the one hand and the remittance senders and receiverson the other hand.

Role of global credit unions, micro-finance institutions and pro-poor banks:
Credit unions and micro-finance banks are the kind of banks that do serve the same kind of rural poor customers. The profit objectives of these banks are generally much lower. Credit unions in the United States are non-profit organizations. This category of banks is sometimes found in the role of agents in networks like Western Union and MoneyGram. WOCCU, the World Council of Credit Unions does operate a remittance system for its members and has expanded its network significantly by signing an agreement with VIGO.

Role of regional, ethnic banks:
For developing countries, remittances are an important source of revenues. For example banks from the Philippines, India, Bangladesh, and Turkey are much more interested in offering remittance services than global banks, as their customers see remittances as a key product, in this case a source of revenue and financing in the receiving country. As an example, data published by the Bangladesh Bank in 2004 shows that 18 local banks have an aggregated market share of 96.4% of formal remittances, while the foreign banks only perform 3.6% of remittances. The key factors influencing this distribution are network size and customer focus. It is also worth noting that these 18 banks offer very low prices for their remittance services. Furthermore, banks have several important assets necessary to successfully conduct remittance services:

- Branches in the home country to do payouts even at a large scale
- Trust and awareness of the senders and receivers (in most cases)
- Adequate locations (safety) and enough cash to pay out
- Branch offices in the sending countries to facilitate remittances
- The necessary licenses

These regional, ethnic banks apparently almost never expand their remittance network to include other communities, even if these communities often live in the same neighborhoods overseas. The only case of regional banks cooperating in a remittance network controlled by a bank is the Contact network operated by Russlav Bank in Russia. Contact is a network with about 5500 banks in many countries, covering mainly Eastern and Central Europe, Latin America and Western Europe.

Role of pure remittance companies:
Remittance services are found in virtually any country, either formally or informally organized. Remittance companies play a major role here due to the following factors:

- Most remittance companies focus solely on remittances, so they are tailor-made for these needs. If they offer other products, these are very often geared towards the same customer base (travel services, phone services, parcel services), which then gives the customers more than one reason to visit that remittance company.

- They offer locations in the cities and neighborhoods where the customers need them. These are often poorer suburbs in developed countries where the senders live, as well as cities and rural areas in the receiving countries.

- Their marketing and service is conducted in a language the customers speak.

Many remittance companies in the United States have started at the initiative of an immigrant, who initially offered a remittance service to his or her home country. In 1985 Vigo introduced its remittance service solely to Brazil and has now grown to be amongst the 5 biggest American remittance companies. The remittance market in the United States is characterized by a few dominant players like Western Union and MoneyGram, followed by a few intermediate players like BTS, Vigo and RiaEnvia.

Finally there is a multitude of players that focus on a single or a few corridors and either have no desire or no means of growing into other corridors. Some of these small players offer an excellent service at low costs, and thus are able to compete with the giants of the industry on a particular corridor. One example is First African Remittances of Maryland and Virginia offering services solely to Ghana. Interviews with this kind of single corridor remittance companies have almost every time indicated that obtaining a license is a key concern, together with the challenge of making remittances profitable as an only product, compared to banks offering remittances as a side product and not requiring a special license.

Technologies:

A typical remittance transaction takes place in three steps: (1) initiation of remittances by a migrant sender using a sending agent, (2) exchange of information and settlement of funds, and (3) delivery of remittances to the beneficiary. In step 1, the migrant sender pays the principal amount of remittance to the sending agent using cash, check, money order, credit card, debit card, or a debit instruction sent through email, phone, or internet banking. In step 2, the sending agency – could be a MTO, bank or another financial institution, a money changer, or a merchant (e.g., a gas station, grocery store) then instructs its agent in the recipient country to deliver the remittance to the beneficiary. In step 3, the paying agent makes the payment to the beneficiary. In most cases, there is no real-time fund transfer; instead, the balance owed by the sending agent to the paying agent is settled periodically according to a mutually agreed schedule. The settlement is mostly carried out using commercial banks through the national clearing and settlement systems. A part of informal remittances through hawala channels are sometimes settled through goods trade.

Banks offering remittance services tend to move money between accounts, but a large number of unbanked immigrants prefers or needs to pay cash without the necessity of an account for the sender or the beneficiary. Especially in developing countries, only a minority of people have bank accounts. A report by the South African Reserve Bank states that only 40 % of South Africans were banked in 2001 (28% for black South Africans). Some remittance systems use debit or credit cards. The amount of the remittance is credited to the card, sometimes even stored on the card. The information transferred is treated like any other credit card payment. The settlement can involve several parties, depending on how the credit is spent.

Another method of remitting money is buying a money order, and then mailing it to the beneficiary, who then either deposits it in an account or cashes it at a check cashier, who deposits it for settlement within the bank clearing system. Hawala, a traditional Asian remittance system works yet differently. Generally, the sender pays in cash and the beneficiary also receives cash. The information is relayed by phone, fax or email. Most interesting is the extreme simplicity of communications and settlement. Hawala grew out of trade relationships at times where banking systems were inexistent. Even today, hawala is closely associated with trade and the settlement between two hawaladarsand can either be performed by single bank transfers, even in third countries, or by the shipment of any traded goods.

There are also some technologically very advanced methods of sending money transfers. Remittance systems like ikobo.com essentially use the Internet as a means of transferring remittances. Other services like PayPal do not focus on immigrants to transfer money, but technically move money between virtual accounts. This advanced technology is also being used in the Philippines, where remittances can be sent using a cell phone. Many cell phones are operated by pre-paid cards, which effectively are stored value cards. In the Philippines, it is possible to use the money stored on these card in many stores. This system is very efficient, as it virtually gives beneficiaries access to their money anywhere and around the clock, as well as a multitude of ways of spending the money directly on goods. Unfortunately, in many developing countries, the necessary telecom infrastructure is not in place.

Prices and Costs of Remittance:

First, we shall discuss the pricing to consumers of remittances, followed by a discussion of the true costs of the remittance companies.

Cost to Consumer:
The price a consumer has to pay for a remittance depends on a number of market factors:

- The number of competitors in the market, which also depends on the size of that particularremittance corridor and on legal regulations.
- The cost to remittance providers, which depend on the method and technology used.
- Customer needs and preferences, which may include choices available depending on speed required, the needs at the destination, as well as the sender’s legal status.
- Consumer's awareness of choices.

Nevertheless, the more options a customer is confronted with, the more likely he will be able to find a suitable service at an affordable price. Apart from very large remittance corridors like the United States to Mexico, the United Kingdom or the United States to India, most remittance corridors have just a few remittance providers, so the market conditions mostly resemble oligopolistic conditions, where the remittance providers charge high prices. This lack of competition in medium and small corridors is sometimes due to limitations caused by regulations, and sometimes due to the relatively small size of the corridor. The most efficient way of reducing prices in a corridor is to activate competition. The best example is the United States to Mexico corridor, where price have come down significantly in the past 5 years (Orozco).

Cost to Providers:
One factor influencing the cost to consumers is the cost to the providers of remittance services. In the long run, no provider could subsist at a loss. The following cost components relating to remittances are important: staff, technology/telecom, foreign exchange risk and supply of currency, location costs, administration, antimony laundering, security and marketing. Staff costs for remittance company can represented 40 % of their total costs, the second component being marketing expenditures.

It should be noted that each provider of remittances might view the incurred costs of remittances in very different ways. Especially if remittances are only a side product offered, staff and IT systems are likely to be considered fixed costs to be incurred anyway if resources are available. Companies like courier services are able to offer competitive rates for remittance services, as they view it as additional income with little extra costs and a good opportunity to cross-sell products. For safety reasons, most courier companies will not accept cash to be transported.

Banks also offer remittances as a side product, either to attract ethnic customers, or because they feel that a bank needs to offer a full range of financial services to an ever more demanding customer base. Nevertheless, banks have much higher costs than other categories of remittance companies. Better paid staffs with better benefits, security and often a much more representative building in a better neighborhood, add significantly to costs. Because remittance services are viewed as one product of the portfolio, they get allotted a share of the overhead costs. For that reason, many large banks have offered few remittance products, as they see them as much less profitable as large loans. The only category of banks that are very likely to offer remittance services as a significant product of their portfolio are regional banks with headquarters in a developing country (Indian, Moroccan banks for example).

Marketing costs vary widely between the different remittance companies. Large companies like Western Union and MoneyGram spend significant amounts on nationwide marketing campaigns to be at the forefront of people's mind. Smaller niche players do not have these resources, and often not the same need, as they rely much more on a neighborhood word of mouth. Also, a cheaper service is less likely to have the necessary resources. Banks rarely spend significant amount on remittance advertising, as they often see remittance as one product of an entire portfolio.

The actual technology costs (transfer software, if any, and telecom costs) have certainly decreased over the past years. Depending on the volumes of transfers and the technology used, these costs can represent less than 1 cent or up to an estimated maximum of 1 dollar. There are costs involved with the supply of cash, as well as foreign exchange risks. Although some remittances are paid in the same currency as they were originally sent in, most remittances are paid in the local currency at destination, which makes a conversion necessary. Remittance companies convert the original amount sent into that local currency at a rate that gives them a profit, which is covering the risks involved with the fluctuation of currencies and the cost of providing cash at destination.

This difference in the conversion rates (spread) is often in the range of 1 – 3 % of the amount sent. It must be noted that the risk the remittance company is carrying is limited to the net amount due, as these companies often also perform remittances in the opposite direction, which reduces the total exposure risk. While the remittance fees are openly advertised and known to the public, knowledge about the foreign exchange costs associatedwith the transfers is thought to vary widely.

Location costs are all costs necessary for the maintenance of the locations, where remittances are offered. Locations dedicated solely to remittances are very rare. Companies focusing solely on remittances mostly rely on agent locations, where the agents run other major line of business, from supermarkets to pharmacies. Banks really do the same, by offering a wide variety of financial products next to remittances. The necessary volumes of remittances to cover location costs entirely are relatively high. Essentially, location costs can be considered as fixed, so higher volumes imply lower unit costs.

Security costs can be significant, especially for cash-based remittance systems. In developing countries, the majority of remittance receivers are unbanked, so they generally have to receive their funds in cash. Systems not requiring locations, like account-based systems or on-line systems are generally generating less cost and tend to be cheaper priced as well. Administrative costs including costs for anti-money laundering are typically covered as part of overhead costs. Several interviewed remittance companies have mentioned increased costs due to anti-money laundering measures taken since Sept 11, 2001. It needs to be pointed out that there are significant economies of scale for remittance services, as many of the costs seem to be relatively fixed. An efficient, large-scale remittance system could be operated with the forwarding costs, excluding marketing costs, which are not technically necessary to offer the service.

Remittance Management:

There are also innovative experiences of countries in remittance management that can be shared and learned from each other. A workshop organized by RMMRU with Bank officials on remittance transfer highlighted the fact that the pace at which remittances were increasing in South Asia was not matched by level of offers of investment products for the remitters. Central banks usually meet the need of long-term migrants and relatively better-off short term migrants, but others do not have many choices. The bankers at that workshop felt that diversified products were needed to match the demands of different age groups and small remitters.

Creating better investment opportunities:
One such possibility would be to cater to the local needs of the migrant workers by encouraging them to invest in high profile projects such as bridges, flyovers, and airports dedicated to migrants. This would give a sense of ownership of projects to the migrants and assist in the country's development efforts. Another option would be to consider giving dual/multiple citizenships to its Diaspora in order to attract large-scale investments from them. India has allowed dual/multiple citizenship to 16 countries since 2003, as has Bangladesh since 1977.

Making better use of modern technology:
More can be done to improve services so that transfer of remittances to the country of origin is achieved quickly and more effectively. Globally, computer networks and telecommunications have merged services in order to improve the money flow internationally. The Central Banks of India, Philippines and Malaysia are implementing projects by relying on these two factors to reduce time and cost involved in money transfers. A general survey of Bangladesh, Sri Lanka, Nepal and Pakistan show that such conditions do also exist in these countries as telephone networks have spread to remote villages. Central Banks and telecommunication regulatory authorities need to jointly explore such possibilities, including the need to introduce mechanisms for consumer protection. Currently there are no consumer protection laws in operation in any of the South Asian countries to protect migrants' remittance transfers. Such laws need to be formulated to protect the rights of the sender and receiver by which the service provider is bound to provide all information on all charges, the exchange rates and the reference number to track the transactions until it safely reaches its destination.

Locating bank representatives in receiving countries:
Another innovative method for providing better services to the migrant workers would be for the banks in the sending countries to locate their representative in the receiving countries. The common problem is that banks are usually situated in the capital and/or a few major cities, whereas workers are located in distant parts of the receiving countries. In order to reach out to the migrants the Central Bank of the Philippines has 16 representatives all over Saudi Arabia to encourage worker to use its bank in processing services. Bank of Ceylon has also used the same methods by stationing 8 representatives in that country. The central banks in South Asia need to relax control over sending banks representative in destination countries and ease on the foreign exchange transfer for the salary of these bank representatives.As the World Bank study's recommendation on migrant labor remittances in South Asia suggests, the requisite building blocks for effective remittance industry are already in place, 'high transaction costs, long delays in transferring remittances, foreign currency controls, and overly bureaucratic policies and procedures for simple money transfers have no place in a vibrant and still growing remittance industry.

Re-examining the role of the unofficial remittance channels:
It has also been suggested since there is an immense potential for economic transformation in seriously underdeveloped regions through remittances, urgent steps should be taken to enhance that

potential by removing obstacles which currently inhibit more positive developments. Even the current international efforts to regulate the *hundi* transactions for fear that money might be used to launder by drug-smugglers and terrorist groups should be reexamined for two specific reasons.

First, security of *hundi* operation is guaranteed by relationships of absolute trust, where the people involved in such operations have an unspoken duty of care towards each other. Any person who knowingly enters a deal with a drug-smuggler or terrorist would put himself and his entire family at risk since he might find himself excluded from such operations or most likely to be ostracized from the entire ethnic community as well. There is a danger that the resources which migrants currently plough back to their villages through the informal channel might be diverted to meet the 'salaries of the army of clerks and bureaucrats' needed to operate the formal channels.

This is an argument put forth by Ballard, using both Bhagwati's and Addleton's arguments to support his thesis. According to him, 'in a world where transnational networks—from below no less than above—are becoming ever more salient, it makes far greater sense to develop policies which seek to manage (and hence assist and promote) the entrepreneurial potentialities embedded within these networks than to make vain attempts to corral them within a necessarily hegemonic regime of centralized regulations and control.

Today, even international financial institutions are beginning to make more cautious recommendations regarding regulations of informal remittances by suggesting that international and domestic polices 'should not impose an overly excessive level of regulations.' The Financial Action Task Force of the World Bank has even gone as far to recommend that 'government oversight should be flexible, effective and proportional to the risk of abuse', while efforts should be made to improve the level of transparency in these systems by bringing them close to the formal sector 'without altering their specific nature.' An important component of this policy would be to require the informal sector to register and keep adequate records of their activities that would be subject to some form of government monitoring.

Possible Causes for Less Productive Use of Remittances:

The following are some of the reasons as to why migrant workers do not invest in productive uses:

- Paucity of promotion support in terms of information, advisory, training and other services pertaining to investment in new and potentially successful sectors;
- Less risk involved in the purchase of land and construction of houses;
- Hardly any knowledge on investment opportunities;
- Top priority accorded to household expenditure;
- Lack of expertise in the remittance receiving household for undertaking a business; and
- Lack of investment-friendly climate.

Nepal's Experiences:

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

Today, the process of money transfer to Nepal from abroad through banking channel has become more efficient and easy. It is now possible to measure the amount repatriated by the Nepalese migrant from abroad to Nepal every year through formal channel. However, it is estimated that only around 60 percent of Nepalese migrant workers use formal channel to send their earning back home. The rest still rely on the informal channel like hundi that is believed to be fast and economic. Since 2001, the flow of remittance to the country had grown at an average annual pace of 35.25 percent base year 2004/05 to 2008/09. But surprisingly it dropped down to 10.51 percent for the period 2009/10 (Table 1). This is an alarming factor and must be noted.Remittance is expected to grow more as number of people going abroad is increasing day by day. Remittance market study shows that around 40 percent of the total inward remittance volume to Nepal is paid within Kathmandu valley.

An increasingly larger share of remittances now comes from countries other than India, reflecting changing migration patterns and higher earnings in these locations. Moreover, the composition of skills of the labor flows is different among destinations. While migrants to the Middle East are employed mostly as security personnel, chauffeurs, and construction workers, the demand from South East Asian countries is more for employment in industrial enterprises. Because of the potential positive effect of remittances generally, Nepal has been giving due priority in promoting overseas employment and mobilizing remittances so as to maximize the benefits from these transfers. In this respect, effective March 29, 2002, the Nepal Rastra Bank (NRB) had begun granting licenses to private sector organizations interested in remittance-transfer business. Currently, more than 50 firms, excluding the commercial banks, are undertaking money transfer businesses.

Some other policy initiatives have also been initiated for encouraging the transfer of remittances through the official channel. For instance, the NRB made a provision to provide 15 paisa per US dollar as commission to licensed private firms in addition to the prevailing buying rate. On top of that, permission was granted to manpower agencies, engaged in sending Nepalese nationals to work overseas, to open foreign currency account in the Nepalese commercial banks out of the foreign currency income that they earned through the existing rules.

A policy arrangement was also introduced whereby if a Nepal-based licensed agent/representative of a money transfer company situated overseas required bank guarantee for receiving advance payment from the principal company, such facility, within the stipulated limits, would be made available directly from the commercial banks. Again, with an objective to utilize remittances of Nepaleseworking abroad and bring in the money through the banking channel, in July 2010 the NRB issued a five-year Foreign Employment Bond with an interest of 9.5 percent. The issuance of the bond is expected to facilitate the overseas workers to invest their money in the bond that would be utilized for the government's development programs.

As a result, in 2009/10, remittances aggregated Rs. 231.73 billion, a rise by just 10.51 percent compared to its significant growth of 46.97 percent(Table 1) in the previous year. While both in 2007/08 and 2008/09 the upsurge in remittances was responsible for the surplus in the current account and BoP, in 2009/10, the deceleration in the growth of remittances led to a current account deficit of Rs. 32.35 billion, thereby weakening the overall BoP which also registered a deficit of Rs. 2.62 billion. Analogously, the gross foreign exchange reserves were adequate for financing merchandize imports of only 8.6 months and merchandize and service imports of 10.3 months as at mid-July 2010 compared to 12.3 months and 10.0 months respectively in mid-July 2009. The remittances to GDP ratio fell by 1.6 percentage points to 19.6 percent in 2009/10.

On the basis of data provided by the Department of Foreign Employment, the number of workers going abroad for employment increased by 35.4 percent to 294,094 people in 2009/10 compared to 217,164 people in 2008/09.9. With the increase in the number of workers, the inflow of remittances should have taken an upswing. However, this did happen. Major factors could include the lagged impact of sending remittances, the lack of awareness for sending money through the official channel and/or using unofficial channels. Moreover, a large number of manpower agencies hold workers' money for overseas agents that assist them in securing job orders.

While remittances shielded the economy during difficult situations in the past, the current global economic crisis has brought a new challenge to the role of remittances. Weak global demand for goods and services and slower economic growth, along with consequent rise in unemployment in host countries, has put the demand for Nepali workers and their remittance transfers at risk. With the decline in remittances, there would be a reduction in household consumption and cutbacks in public spending.Spending on basic necessities such as food, electricity, medicine and schools' fees would decline. In terms of uses, however, it has been revealed that remittances in Nepal have been used very little for productive purposes. A small study undertaken by the NRB (2002), covering 10 districts and 160 sample households, showed that the remittance earnings were primarily invested for household purposes, purchase of real estate and house, paying off the loan, purchase ofjewellery and as bank deposits.

Moreover, the generational shift in the use of remittances can have significant policy implication for the receiving countries. Although a late starter in this field, Nepal's experience is noteworthy in this regard. The first generation of migrant laborers used the remittance to buy land and invest money in their place of origin, while the second generation was more prone to invest their money in towns and urban areas close to their homes. The third generation moved further outward and invested their income in big cities and on consumer goods. There is a chance that the next generation will seek permanent residence abroad, or stay there longer, and possibly not remit money as had been done by their predecessors?The generational shift may already be happening in the case of returning British Gurkha soldiers from Nepal who have been offered a chance of residence in the UK. The policy makers need to take these facts into consideration and design an appropriate policy that best fits Nepal's needs and encourages remittance not only at the household level but directed towards investment.

FINDINGS

Migrant workers' remittance is a strong source of foreign exchange earnings for Nepal. In 2010 Rs 231.73 billion were remitted to Nepal officially by migrant workers. This figure would be much higher as it does not account for unofficial channels. The average annual growth rate (base year 2004/05) up to 2008/09 was 35.25 percent with 2008/09 have a recorded growth rate of 46.97 percent as compared to the previous year. Though according to the data of the Department of Foreign Employment there was an increase of 35.4 percent in 2009/10 in the number of migrant workers as compared to the previous year but remittance just only increased by 10.51 percent which brought down the average growth rate by 5 percent (Table 1).

Since last few years remittance income is playing a vital role for the foreign currency earnings and favorable impact on balance of payment situation, to reduce the number of people in the country below poverty line and ultimately to the economic growth of the nation. The upsurge in remittances had led to a surplus in the current account, thereby strengthening the overall BoP position. The share of remittances in total current account receipts, for instance, soared from 38.2 percent in 2004/05 to

59.3 percent in 2009/10 (Table 1). This in turn had enabled Nepal to maintain a very comfortable level of foreign exchange reserves.

In this appraisal also includes the findings from discussions with some major remittance service providers and remitters themselves on the factors that influence the price of and attract remittances to developing countries. The topics included the number of competitors in a given market, the size of remittances in a given corridor, the costs to providers, regulations, consumer alternatives and awareness. The main findings are the following:

- Though household level remittance is mostly consumed in unproductive activities its tickle to the national economy could be very nominal. Bulk remittance should be sought for, encouraged and attracted for a greater impact on the national economy.

- Remittance services need to be recognized as a self-standing industry separate from banking services. The regulations governing remittances should be harmonized within countries, between countries, between banks and remittance companies providing the same service, as well as for sending and receiving countries.

- In a number of markets, prices to consumers are high due to lack of competition and restricted access of some consumer categories to existing remittance services.

- Credit unions and smaller financial institutions could play useful role in channeling remittances, but they do not typically have access to national clearing and settlement systems.

SUGGESTIONS

Migration has a multiplier effect on the economies of the countries of origin and if bulk remittance more than just for household consumptions were to be achieved the economic benefits would be exponential. The belief that remittances are transitory and windfall income are also not accurate. Remittances are becoming more and more stable than FDIs and ODAs. The global economic structure has changed substantially and the assumption behind the Keynesian theory is wrong.Globalization is a two way process in which migration and emigration are part and parcel of the same thing. When one expects others to open their door to your laborers, one must also be willing to open your own door to others. The notion of a global village with greater interdependence is real, especially where migration is concerned.

In the public sector lot of employment has been generated to better manage migration. This includes generation of new jobs for promoting government’s awareness campaigns, including pre-departure briefings. In addition, new ministries have either been created or the existing ones expanded, thus employing more human resources to manage activities linked with migration. Such expansion can be seen in civil aviation, customs, immigration, and in all other agencies that are linked to managing and governing migration. In the non-governmental sectors, private recruiting agencies, their agents and sub-agents, travel agencies, banks, medical centres have made money in processing migration, as jobs have been created in NGOs and media in dealing with the issue.Thus, migration is much more than just remittance.

Hence, better management of migration is of utmost importance to countries whose population is migrating for better opportunities and income. It is up to the nation to facilitate migration through better management of remittance and is in the interest of the remitter and the nation. Hence, these are some suggestion presented to the Central Bank of Nepal:

1. ***Encourage and acknowledge people who make bulk contribution to remittance***

To encourage and motivate bulk contribution of remittance for more than the household level authorities should initiate, design and implement policies that encourages and acknowledges people who make such contributions. Recognition of their contribution by the nation is a very important motivator for attracting remittance targeted beyond households.

2. ***Recognize remittance as a self-standing industry different from banking and thus broaden the number of players in most corridors***

The remittance industry is a different industry from banking. This is recognized in a number of countries like the United States, Canada, the United Kingdom and Sweden, but not in other countries like Germany or France. This mostly depends on the effects of migration to the national economy. However, these entities are subject to the very same anti-money laundering rules that banks are subject to. Certainly there are similarities, as both industries deal with money in one form or another, but the differences are significant:

- Banks target audiences are usually high net worth citizens, whereas remittances are sent by low net worth immigrants.
- Most banks offer most of their business locally (checks, loans, mortgages), while remittances are mostly international.
- Banks tend to make money on deposits or the float of transfers, i.e. by holding the money, while remittance companies make money on the fast payment to the beneficiary.
- Banks go for long term, high value financial services, remittances are low value and often one- time activities.
- Banks offer a variety of more or less complex products, remittances are a single and relatively simple product.

3. ***Harmonize regulations governing remittance within a country***

Within a country, collateral and other licensing requirements as well as operational requirements like reporting should be identical. Like the United States, Germany is also a federal state. The German regulations on financial services are federal regulations valid identically in any German state. Ideally, conditions for remittance companies should be identical in all countries. This is not realistic, as economic conditions and legal traditions vary greatly from country to country. Money transmitters are regulated under the Money Transmitter Act, while banks operate under the Banking Act. Past studies have indicated these differences in regulations for the same service as a significant source of confusion, especially in the case where a bank is paying out a remittance as an agent of a remittance provider.The current regulations sometimes discriminate between senders, when some remittance systems require the sender to have a legal residency permit. This is often the case of banks, which make a bank account a prerequisite for sending money.

4. ***Improve remittance channels***

Some countries give access to the automated clearing houses (ACH) only to full banks. This technology would be very helpful and inexpensive also for credit unions, which potentially would be much more interested in offering remittance services, but now are excluded from them. Another possibility of improving the remittance channels would be to include the post offices in these ACH networks. In most countries, post offices have an extensive network covering even remote areas. Also, poor customers might feel a lot more at ease in a post office than in a commercial bank. Another example is the use of telecommunication in the transfer of remittance.

The World Bank could also facilitate remittances generally by providing loans for projects supporting the development and installation of technologies used for the payment of remittances in developing countries. Quite often, the level of technical equipment in rural areas is very basic, which limits the possibilities of paying remittances in these areas.

5. ***Improve customer awareness***

Consumers are only likely to use a specific remittance if they are aware of it. It can be assumed that the consumer will choose between the available whichever option is best, taking into account the price and the service provided. While the consumer generally is informed of the transfer fee, the awareness of the cost of the foreign exchange is unknown. Some service indicate that cost very clearly while others do not. At the best, some consumers inform themselves of that cost, while most others are unaware of it. Mexico is an excellent example of a remittance corridor where prices have decreased significantly over the years.

6. ***Promote formal remittance***

Rewarding and recognizing outstanding remitters will definitely encourage people and subsidizing the cost of remittance is also an equally a tempting scheme which some countries have adopted. By making a bank account a mandatory while migrating for work and allowing the remitters to hold account in both local and/or convertible will definitely motivate and encourage migrant worker to remit officially.

CONCLUSION

Remittances should not only be viewed at the household or individual level but also in the context of bulk remittance for investment. Some policy initiatives have also been initiated for encouraging the transfer of remittances through the official channel. For instance, the NRB made a provision to provide 15 paisa per US dollar as commission to licensed private firms in addition to the prevailing buying rate. On top of that, permission was granted to manpower agencies, engaged in sending Nepalese nationals to work overseas, to open foreign currency account in the Nepalese commercial banks out of the foreign currency income that they earned through the existing rules. Policy incentives have been introduced to attract remittance at the household level, mostly consumed for subsistence living, Nepal also needs to attract remittance at the national level as financial resources for the development initiative of the nation.

Lately Nepal seems to be giving attention to its Diaspora but as compared to other SAARC nations it lags behind and not only can learn from their experiences but set new examples. Pakistan for example subsidizes the cost on remittance sent. India is operationalizing the electronic remittance facility for overseas Indians that combine the qualities of economy, speed and conveniences.Bangladesh offers special reorganization, known as Commercially Important Persons (CIP); for people who send significant amount of remittance or invest in the country. This policy has been very successful in attracting Diaspora investment and Nepal could also initiate and introduce such concepts and policies to attract Diaspora and FDI investment to supplement the initiatives for Nepal Investment Year 2012/13.

Remittance flows are a crucial policy concern since they are very large in size, are relatively stable and provide a cushion for economic shocks, and are unique in providing direct benefits at both individual households and the nation level. However, remittances do not automatically contribute to national developmentthe utilization aspect of remittances has been grossly ignored by the government authorities.To carry out effective and efficient public policies to channel remittances into productive projects, the government has to look at what motivate Nepalese to send money home particularly beyond individual family remittances, and craft its policies to take advantage of it. While the policies and initiatives undertaken so far to augment the impact of remittances are primarily aimed at encouraging remittances at the household level; it is equally important to encourage bulk remittance at the national level. Hence, attracting and directing remittances, targeted beyond individual households, towards productive investments is a challenge and opportunity for the government.

RECOMMENDATIONS

The remittances sent by Nepalese immigrants continue to constitute a valuable economic aid for their families, but for greater socio-economic stabilization and investment for the country as a whole remittance at the national level targeted beyond the individual household must be encouraged and promoted. The following measures are recommended to encourage remittance both in the household and the national level through formal channels:

1. Applying stimulating policies aiming at increasing bulk remittances flow to thehomeland such as the concept of Commercially Important Person (CIP).

2. Specialized institutions paying more attention to remittances and remitters should be developed.

3. Applying efficacious policies in order to encourage Nepalese immigrants on the usage of the Banking System for remittances.

4. Opening an account could be made mandatory before going abroad.

5. Nepal Rastra Bank and telecommunication regulatory authorities to jointly explore the possibility of using its network for remitting.

6. Separate ministry to address migrant issues

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TABLE 1

COMPARISIONOF TOTAL REMITTANCE RECEIVED AND ITS EFFECTS PERIOD 2004 TO 2010

S.N.	Particulars	2004/05	2005/06	2006/07	2007/08	2008/09	Average 2004 - 09	2009/10	Average 2004 - 10
1	Remittance (in Rs. Billion)	65.54	97.69	100.14	142.68	209.7	123.15	231.73	141.25
1.1	% increment per year	0	49.05	2.51	42.48	46.97	35.25	10.51	30.30
2	Share of remittance to current a/c receipts excluding grants (in %)	38.2	46.7	45.3	51.11	56.7	47.602	59.3	49.55
2.1	% increment per year	0	22.25	-3.00	12.83	10.94	10.75	4.59	9.52
3	Ration of remittance to GDP (in%)	11.1	14.9	13.8	17.5	21.2	15.7	19.6	16.35
3.1	% increment per year	0	34.23	-7.38	26.81	21.14	18.70	-7.55	13.45

Source: Nepal Rastra Bank.

APPENDIX I

Remittance at a Glance:

- Remittance flows to developing countries are estimated to total $351 billion in 2011, an increase of 8% over the previous year, according to figures contained in the latest issue of the World Bank's Migration and Development Brief.

- Global remittance flows, including those to high-income countries, were an estimated $483 billion in 2011.

- The top recipients of officially recorded remittances in 2011 were India ($58 billion), China ($57 billion), Mexico ($24 billion), and the Philippines ($23 billion). Other large recipients included Pakistan, Bangladesh, Nigeria, Vietnam, Egypt and Lebanon. However, as a share of GDP, remittances were larger in smaller and lower income countries; top recipients relative to GDP were Tajikistan, Lesotho, Nepal, Samoa and Tonga.

- Remittance sent home by migrants to developing countries are three times the size of official development assistance and represent a lifeline for the poor.

- Despite the current global economic weakness, remittance flows are expected to continue growing, with global remittances expected to exceed $593 billion by 2014, of which $441 billion will flow to developing countries.

- Although remittance costs have fallen steadily in recent years, they remain high, especially in Africa and in small nations where remittances provide a lifeline to the poor. Reducing the cost of remittance transfers produces significant benefits not only to the migrants and their families, but also to receiving countries, as the steady stream of foreign currency improves a country's creditworthiness for external borrowing.

- The World Bank has made considerable strides in developing financing instruments for leveraging migration and remittances for national development purposes. Diaspora bonds can be a powerful financial instrument for mobilizing diaspora savings to finance specific public and private sector projects, as well as to help improve the debt profile of the destination country. The World Bank has established the Task Force on the Implementation of Diaspora Bonds to facilitate the provision of technical assistance to developing country governments. The Task Force is providing technical assistance to several countries.

APPENDIX II

A Brief Review of Policies of Some South Asia Countries:

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

- maintenance of bank accounts in both foreign and local currencies without tax implications,
- investments in securities/shares, and deposits with local firms/companies,
- investments in immovable properties in the respective countries.

Again, most of the South Asian Governments have established special institutions such as migrant workers welfare funds and have appointed community welfare officers/attaché in embassies in the receiving countries to promote and protect the interest of migrant workers.

India has witnessed an upsurge in returns and investments of its Diaspora population especially after 2006 when it introduced registration certificates called Overseas Citizens of India for persons of Indian origin. They are analogous to green cards, and allow nonresident Indians (NRIs) most of the benefits of citizenship while maintaining their foreign passports. Many programs have also been launched to attract NRI intellectuals and professors to Indian universities. India has a wide-ranging package of activities and incentives that accords top priority on building stronger links with its Diaspora communities.

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

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

Because of these and other facilities provided to its non-resident citizens, India has been able to attract enormous remittances from their respective non-resident citizens and has been the world's top remittance earner for more than a decade. It was the largest recipient in 2009 with US$ 55.0 billion. The 2009 figure of US$ 55.0 billion was up seven percent from US$ 51.6 billion in 2008, and it was just two billion dollars a year in the late 1980s. The Government of India eased regulations and controls, and eliminated the black-market premium on the rupee and created convenient remittances services. The Indian and international banks have systematically shifted some remittances from the informal “hawala” channels to formal channels. Indians abroad have also responded to several attractive deposit schemes and bonds offered at home. Again, the Indian Investment centre has devised mechanisms that assist Indian companies to collaborate with NRIs.

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

- A migrant can open a non-resident foreign currency deposit (NFCD) account in any branch of Bangladeshi and foreign banks that possess an authorized dealership license. The account can be opened for different periods and are renewable and can be maintained for an indefinite period even after the return of the wage earner.

- The remittances of Bangladeshi migrants abroad can be invested in Bangladeshicurrency in a five-year wage-earner's development bond which is also renewable. The profits are investable in Bangladesh and principal is freely transferable abroad in foreign currency.

- US Dollar Premium Bond and US Dollar Investment Bond are also available atattractive interest rates.

- The non-resident Bangladeshis are granted permission to invest in 'IndustrialDevelopment Bond' scheme of the Agrani Bank, one of the nationalized banks ofBangladesh.

- A non-resident Bangladeshi can purchase shares in both primary and secondarymarkets including the debentures of Bangladeshi companies. A 10 percent reservequota has been fixed for a non-resident Bangladeshi in initial public offering (IPO) of the local companies.

- Foreign investors including the non-resident Bangladeshi do not require any approval to set up a new industrial unit, but only have to be registered with the Board of Investment. They receive priority in obtaining industrial facilities like procurement of land, electricity, gas and sewerage connections, import of capital machinery and raw material and tax rebate, among others.

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

- Provision of hostel-cum briefing centre for the prospective migrants;
- Provision of orientation briefing;
- Welfare desk at Dhaka Airport;
- Burial of dead bodies and providing help to the familyof the deceased;
- Providing assistance and treatment to the handicapped laborers; and
- Establishment of clubs in destination countries.

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

- Pre-departure briefings for migrant workers by the government's Bureau ofManpower Employment and Training (BMET).

- Migrant worker briefings in social events and meetings in host countries, supported by the labor wings of embassies of Bangladesh.

- Press releases/advertisements in print and electronic media channels popular with the migrant worker Diasporas in host countries and also in Bangladesh for information of families/beneficiaries of migrant workers.

- Information booklets/brochures/pamphlets in hard copy made available throughbanks in Bangladesh and their clearing arrangement counterparts abroad.

- Websites of the government, central banks, commercial banks and embassies abroad.

There are five government ministries dealing with international labor migration in Bangladesh, the Ministry of Expatriates' Welfare and Overseas Employment being the principal one. The others include the Ministries of Home Affairs, Foreign Affairs, Finance and Civil Aviation, and Tourism. The Bureau of Manpower, Employment and Training (BMET) is the executing agency of the Ministry of Expatriates' Welfare and Overseas Employment in charge of processing labor migration. In particular, the BMET is responsible for a wide range of functions, including control and regulation of recruiting agents, collection and analysis of labor market information, registration of job seekers for local and foreign employment, development and implementation of training programs in response to specific labor needs for national and international labor markets, and resolving legal disputes among key stakeholders.The government enacted an Overseas Employment Policy in 2006 with the main objectives to:

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

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

Pakistan registered a high level of remittance inflows equivalent to US$ 7.81 billion in 2009, a rise by 21.1 percent compared to their inflows of US$ 6.45 billion a year earlier. A number of factors were responsible for this state of affairs including the return of some of the expatriates, diversion of remittances partially from informal to formal channels and increased outreach of the banking sector. In Pakistan, a number of incentives were announced in 2001 reflecting the significance that the government placed on remittances as an instrument for economic development. Linked to a minimum remitted amount (US$ 2,500 to 10,000), overseas Pakistanis were provided privileged access to higher education, public housing and share offerings as well as free renewal of passports and import duty exemption for US$ 700 per year.

Pakistan introduced a "non-repatriable investment scheme" under which overseas Pakistanis are permitted to import machinery and equipment at concessionary rates of duty to establish manufacturing enterprises. The rate of duty rebate varies, that is, projects in relatively underdeveloped areas are granted a higher rate of rebate. The Investment Advisory Service of Pakistan conducts pre-feasibility studies to facilitate the choice of investment projects. Pakistani migrant workers are also permitted to invest in export processing zones which enjoy complete duty exemptions on machinery and raw material imports.

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

Sri Lanka, on the other hand experienced an increase in remittance by 14 percent to US$ 3.3 billion in 2009 compared to 2008. This increase in remittances can be ascribed to the information and financial education provided to them by the Sri Lanka Bureau of Foreign Employment. Sri Lanka was the first labor-exporting country in Asia to introduce an entrepreneurship development program for return migrants. The main objective of the program, launched in 1982 by the Sri Lankan Ministry of Labor in collaboration with the Merchant Bank of Sri Lanka, was guiding returning migrants in business creation. Many lessons were learnt from this initiative.

First of all, return migrants belonging to higher occupational categories were suitable for an orientation program of this type. Secondly, the possibilities for guiding candidates into business were limited unless accompanied by steps to facilitate the access to capital. Three, the ability to identify and develop a project, together with managerial skills needed to run a business, cannot be imparted just through a program of class instruction. The government also made it mandatory for those going abroad for employment to open non-residential foreign currency accounts. Again, Sri Lankan domestic aides working in West Asian countries were sent for employment only after signing a legal employment agreement. Moreover, the efforts of the government authorities to hold talks with the labor authorities abroad had made it possible to get salary increments for domestic aides in the respective countries.

In Sri Lanka, the Government has attempted to encourage investment and long-term financial planning by return migrant workers by offering different types of credit schemes. The credit schemes do not focus solely on investment but also cater to other identified needs of migrant workers, making them more realistic in application.

APPLICATION FOR SELECTION OF CIP

The Government of Bangladesh has decided to nominate CIP (Non-Resident Bangladeshi) for the year 2009 from the Bangladeshi expatriates in three categories (Investment, Import and Remittance). Applications along with necessary documents must reach the High Commission by 3rd December, 2008 for onward transmission to Ministry of Expatriate Welfare, Dhaka. Application forms and details are available in the websites www.probashi.gov.bd and www.bmet.org.bd and Commercial Wing of Bangladesh High Commission, London.

Criteria for Selection of CIP

2. **Investment:**

(i) Amount of investment by the applicant in financial year 2007-08.

(ii) Minimum Capital investment of US$ 500,000 or equivalent in foreign currency.

2. **Remittance:**

(i) Amount of non-repatriable foreign currency remitted to Bangladesh through legal banking channel in a particular account during the financial year 2007-08.

(ii) A minimum non-repatriable remittance of US$ 150,000 or equivalent to Bangladesh through banking channel.

3. **Import :**

(i) Amount of import from Bangladesh by the applicant during the financial year 2007-08.

(ii) A minimum import of US$ 500,000 or equivalent (FOB) worth of products by the applicant during the financial year 2007-08.

(iii) Amount of import through PRC (Proceeds Realization Certificate) will be taken into consideration.

(iv) Importer of higher value added product will be given priority.

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Text-Based Remittance System by Smart Communications in the Philippines

The largest mobile phone company of the Philippines, Smart Communications has developed an innovative remittance system based on cell phones and text messaging. In the Philippines, cell phones are widespread, as at least 30 percent of the 84 million Filipinos own one. Frequently, cell phones are used not to make calls, but to send text messages, as it is cheaper -the average Filipino only has a modest income.

Smart Communications recognized the opportunity to build a remittance product based on text messaging. A standard remittance with Smart works the following way: a Filipino, for example in Hong Kong, deposits the money to be remitted with one of Smart's remittance partners. This partner then sends a text message to the beneficiary in the Philippines, informing him or her of the transfer. The remittance is credited into the Smart Money electronic wallet account. Any Smart cell phone holder can obtain such Smart Money account.

Smart remittance partner exist in several countries already: Travelex Money Transfer, Forex International Hong Kong, Dollar America Exchange in California, CBN Grupo in Greece, the United Kingdom, Spain, Ireland and Japan, New York Bay Remittance, Banco de Oro Bank in Hong Kong. The money can be withdrawn from an ATM using the Smart Money as cash card. It is also possible to use the Smart Card directly for purchases, in which case the card functions as a debit card. Cell phone users can also walk into stores of Smart's partners in the Philippines to pick up cash directly. Some of the Smart partners are McDonald's, SM malls, Sea Oil gas stations, 7-Eleven and Tambunting pawn shops.

The simplicity of the system allows low charges. The fees at origination vary from country to countries. In Hong Kong, the fee is about $2. In the Philippines, the charge is 1 percent plus the cost of the text notification of 2.50 pesos (4-5 cents). The Smart remittance system not only fast, inexpensive, but also secure. The different PIN numbers for the cell phone and the Smart account make it extremely difficult for a thief to access the funds. An ID is required to pick up money in cash. In sum, Smart Communications has created an innovative product based on the customers' needs, habits and possibilities. The use of state of the art technology has reduced costs and increased the potential reach of the service to even the more remote areas.

APPENDIX V

ESTIMATED NUMBER OF NEPALI DIASPORA

SN	Countries	Numbers
1	Australia	70,000
2	Austria	1092
3	Bahrain	60,000
4	Belarus	100
5	Belgium	5,000
6	Brazil	100
7	Brunei	10,000
8	Burma (Myanmar)	250,000
9	Cambodia	4000
10	Canada	15,000
11	China (Beijing, Shanghai, Tibet)	20,000
	China (Guangzhou)	3,500
	China (Hong Kong)	32,584
	China (Macau)	5,000
	China (Taiwan)	5,000
12	Congo	25
13	Cyprus	1,500
14	Denmark	1500
15	Fiji Islands	10,000
16	Finland	1300
17	France	2,500
18	Germany	5,500
19	Greece	122
20	Hungary	100
21	Indonesia	200
22	Iraq	20,000
23	Ireland	300
24	Israel	12,000
25	Italy	860
26	Japan	25,000
27	Jordan	500
28	Kenya	60
29	Kuwait	70,000
30	Lebanon	12,000
31	Lesotho	20
32	Libya	3064
33	Luxemburg	1,000
34	Malaysia	401,000
35	Mauritius	500
36	Mozambique	25
37	Netherlands	1325

38	New Zealand	2200
39	Nigeria	100
40	Norway	500
41	Oman	45,000
42	Philippines	1,200
43	Poland	600
44	Portugal	4,600
45	Qatar	350,000
46	Romania	250
47	Russia	435
48	Saudi Arabia	600,000
49	Singapore	3,500
50	Slovenia	100
51	South Africa	3000
52	South Korea	16500
53	Spain	4,000
54	Sweden	1050
55	Switzerland	425
56	Thailand	100,000
57	Uganda	2,000
58	Ukraine	40
59	United Arab Emirates	160,000
60	United Kingdom	65,000
61	USA	500,000
62	Yemen	5,000
63	Zambia	20
	Total	**2,917,297**

Source: National Coordination Councils, Non Resident Nepali Association.