

Cost of Foreign Employment and Sources of Financing: A Case of Western Nepal

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Abstract—This paper investigates the cost of migration for foreign employment and the sources of financing. The literature on the cost of foreign employment, however, is exceptional, in context of Nepal. To examine the cost of foreign employment and sources of financing, primary data was collected from the field survey of three main villages of Gulmi district of western Nepal. The methodology used for the study, is regression model. The results show that the majority of migrants paid foreign employment cost between Rs.50,000/- to Rs.125,000/-. The cost of foreign employment is determined by country of destination, nature of job and monthly salary earned in the country of destination. It also shows that the majority migrants and their families managed the required cost from local money lenders. 68.29 per cent of total cost of foreign employment was borrowed from local money lenders who were said to have charged prohibitively high interest rates.

Keywords: remittance, foreign employment, migration, cost, financing etc.

1. INTRODUCTION

Remittance income in developing countries has become a lifeline for economic development. By remittance we mean sending income in terms of money or goods in home by the migrants or workers who have their earnings outside their home country. Now-a days, this source of foreign income has been growing rapidly in each year in developing countries.

The flow of international migrant remittances has increased more rapidly than the number of international migrants. Remittances have played a pivotal role in most of the developing economies lately and Nepal is no exception to this general trend. Nepal has a long history of labor migration. For around 200 years, Nepali men and women have been leaving their homes to seek employment and living abroad. The wave of globalization and liberalization has induced the Nepali youths for better living standard, which is the important pull factor for international migration. Beyond this, high population growth, unemployment, food scarcity, political instability are also the strong pull factors (Singh, 2006).

Nepal is one of the world's least developed countries, in South Asia. More than 70 per cent of the population depends on subsistence agriculture in rural areas, coping with great

disparities of caste, gender, and geography. The reasons behind migration are almost the same in Nepal as in other parts of the world. The reasons can be broadly classified into two parts i.e. pull factors and push factors. The push factors are poverty, limited employment opportunities, deteriorating agricultural productivity, and armed conflict in the source country. The pull factors are high wage rate, sophisticated modern life, new place and new people and culture in destination countries are some of the motives behind international labor migration. The influences of friends, relatives and well-wishers have also played a prominent role in the promotion of international labor migration.

For a developing country like Nepal, remittance has become a major form of transfer of resources from industrialized countries. Remittances have helped to boost individual household consumption, reduce poverty and provide temporary financial relief at household and community level (Pant, 2006). The number of Nepalese households receiving remittances has increased from 23 to 32 per cent between 1995 and 2004 (Singh, 2006). In Nepal's case, the impact of remittances on poverty has been positive as revealed by the *Nepal Living Standards Survey (2010/11)* which showed that the poverty level, defined in terms of absolute head counts, had declined from 41.8 per cent in 1995/96 to 30.8 per cent in 2003/04 and 25.2 per cent in 2010/11. The growing remittance has led to a surplus in the current account, thereby strengthening the overall balance of payments position.

According to World Bank report 2016, the top three recipients of remittances—India, China, and Philippines—each received 72.2, 63.9 and 29.7 \$ billion respectively in 2015. But smaller and poorer countries tend to receive relatively larger remittances when the size of the economy is taken into account. Expressing remittances as a share of GDP, the top recipients were Tajikistan (41.7%), Kyrgyz Republic (30.3%), Nepal (29.2%), Tonga (27.9%) and Moldova (26.2%). Remittances are thus more evenly distributed across developing countries than private capital flows. Nepal comes in the third rank in the world in remittance recipient of its GDP in 2014. When we compare the remittance recipients

among South Asian countries, Nepal comes in the fifth rank. It received 6.6 billion US \$ in 2015.

According to World Bank Report 2016, Nepal is the first among the South Asian countries to receive remittance. The contribution of remittance income in GDP of Nepal is about 30 per cent, which is the highest contribution in South Asia. So, remittance income in Nepal plays an important role in its economic development.

2. OBJECTIVE OF THE STUDY

The general objective of the study is to assess the impact of foreign employment and cost of migration on the households of migrants'. The specific objectives are:

1. To examine the cost of foreign employment and its sources of financing

3. LITERATURE REVIEW

The literature review is broadly grouped into theoretical framework which includes international or global information and literature and national context which includes all Nepalese information and literature relating to impact of labor migration and remittance on the households of migrants. For the purpose of literature review, various theories, principles, models of foreign employment and remittance are examined.

4. INTERNATIONAL EXPERIENCE OF FOREIGN EMPLOYMENT AND REMITTANCE

Globalization and advances in communication and transportation have greatly contributed to people migrating temporarily outside of their home country in search of a better life; also termed as the new era of mobility (United Nations, 2006), natural persons move to foreign countries as exports of service labor. Although the migration for work is more recent for women than for men, female migrants constitute nearly half of all migrants worldwide; in developed countries, they outnumber male migrants (SAARC, 2006). This new characteristic of feminization of foreign labor migration is more distinct in Asia, with women constituting more than 50 per cent of the migrants. In countries such as the Philippines, Indonesia and Sri Lanka, the numbers of women migrant workers exceed the numbers of male migrant workers (D. Cunha, 2005).

At the same time, financial and opportunity costs of migration can be substantial. Difficulties in financing initial costs may present an effective barrier to movement, so that the extent of mobility may remain limited even in the face of significant potential gains (Lucas, 2005).

This leads to the widely accepted argument of the 'migration hump', according to which at low levels of development there is little migration, but as income and wealth rises, so too does migration. Migration continues up to a threshold level, after which migration starts to decrease and the domestic economy

begins to offer people opportunities at home (Stark, 1991). At a micro level, this entails that the poorest people in rural areas often lack the resources to migrate, and those who migrate are members of better off households, in terms of land ownership, assets, productivity and social networks (Lipton, 1980; Breman, 1996).

Flows of remittances can be also seen as a function of migrants' family status or their relationships with other people. One can reasonably expect that migrants with a spouse and children left behind are likely to remit more because of their families' immediate consumption needs. Several studies found that the number of children at home had a positive effect on both the propensity to remit and the amount of remittances (Johnson and Whitelaw 1974; Lucas and Stark 1985; Massey and Basem 1992). Household headship is also a strong predictor of remittance flows (Lucas and Stark 1985; Massey and Parrado 1994); it is likely that being the head of a household of origin carries a greater obligation to provide for the needs of the family left behind.

Migrant remittances to households of origin usually continue over a considerable time (Oberai and Singh 1983). However, there are mixed results in studies of the association between the duration of migration and the size of remittances (Johnson and Whitelaw 1974; Lucas and Stark 1985).

5. IMPORTANCE OF REMITTANCES TO HOUSEHOLD OF ORIGIN

Remittances have contributed a substantial proportion of private capital flows in recent years. Because migration is often seen as a household sustenance strategy in developing countries, much of the research interest centers on how remittances affect the wellbeing of households left behind. Past studies have shown that remittances constitute a large portion of the recipient household's income, and that they may indeed ensure the very survival of some households (Oberai et al. 1989).

Another frequently raised question in the migration literature is whether remittances contribute to an eventual equalization of income among households in the community of origin. Some researchers argue that migrant remittances tend to reduce income inequality (Oberai et al. 1989; Taylor and Wyatt 1996; Guest 1998), others that remittances increase inequality (Barham and Boucher 1998). Evidence remains contradictory, and the answer is likely to depend on the economic circumstances of households from which migrants come, the types of migration and different phases in a community's migration history (Stark, Taylor and Yitzhaki 1988; Russell 1992; Taylor 1999).

While an increase in household income is one direct and immediate outcome of remittances, the precise effect of remittances also depends on how the money is spent. A World Bank study on the use of remittances in Bangladesh, the Philippines, Turkey, Pakistan and India shows that "purchase

of residential plots, house construction and house improvement are expenditures that receive priority" (Swamy, 1984: 44). Conclusions drawn from available remittance-use studies have been surprisingly consistent: remittances were seen to be mostly used to satisfy recipient households' consumption needs and investment did not usually have high priority (Oberai and Singh 1983; Massey and Parrado 1994).

6. NATIONAL CONTEXT OF FOREIGN EMPLOYMENT AND REMITTANCES

Recruitment of the so-called "Gurkha" soldiers into the (British) India army was institutionalized in 1816 after Nepal had lost the war with the British East India Company. Prior to that, some Nepalese had sought employment in the army of the Sikh ruler Ranjit Singh in Lahore and others joined them after the defeat of the Nepalese army by the British. This tradition, until today, is reflected in the name "Lahure" for soldiers of Nepali origin.

Kshetry (2004), in his article "Emigrating Workers in National Perspectives", identified the causes of Nepalese emigration as limited employment opportunities in the government and private sector. Underdeveloped state of industries and rudimentary service sector provide limited number of jobs to an ever-increasing labor force. The farm sector, which conventionally used to absorb almost all the work force, failed to do so because of low motivation for farm sector work. The entrepreneurs in this sector are not enthused at investing more either due to low returns or risks involved in this sector. Such backdrop and the lure of making quick money at least through legal means by going overseas for menial work prompted the exit of a large number of workers from rural Nepal.

Kunwar's (1993) concluded that foreign migration was due to low productivity and insufficient land that is leaving the place of origin with the hope of having better access to physical facilities and infrastructure at the destination.

7. RESEARCH DESIGN

This study is based on primary data collected through reconnaissance household and institutional surveys, focus group discussion (FGD) and observations. It is a micro-level study. This is an analytical type of research design. The source of information is households of migrants and elite group of the community and the type of data collection for the study area cross-sectional. The analytical type of research design is used to make the analyzed facts more meaningful and useful for the purpose.

Household Sampling and Sample Size

A purposive sampling method was adopted to select households for questionnaire survey. Therefore, a list of migrants' household heads in all selected wards was systematically numbered from 1 to n. Two hundred and two households were chosen as total sample size. Out of the total

sample size of 202, about 59 per cent of the households were chosen from Arjai VDC, about 27 per cent from Chhapahile VDC and 14 per cent from Isma Rajasthal VDC. The households which were selected as sample lie in northwest belt of Gulmi District and residence of different ethnic groups, different economic status. So, the researcher had selected different households from different VDCs.

Prior to the household survey, the questionnaire was translated into Nepali and it was tested among some villagers in Pokharabari Tole of Arje VDC. Based on the feedback from the pre-test, the questionnaire was revised with some necessary corrections. Two local graduates were recruited and trained for the household survey. A household list of selected wards was given to them. The survey work of the enumerators was regularly monitored until its completion. The household survey was conducted from the first week of October 2016 to 1st week of November 2016. Hence, the survey covered the vacation of Dashain and Tihar. People are free from their busy schedule during this festival season. All household members and some of the migrants were also at leisure from agricultural, teaching and office works. Therefore, the household heads were interviewed during their leisure, which was more convenient than the other busy seasons.

8. DATA PROCESSING AND ANALYSIS

The information collected from the field survey was processed and analyzed using SPSS. The qualitative variables were summarized in Likert type summated scale. It is a method of combining several qualitative variables that measures the same concept in an attempt to increase the reliability of the measurements (Hair et. al, 1998; Miller; 1983, Likert 1987). The variables were converted into indices and their average score were used for analysis.

Simple statistics like relative frequency, mean, median and standard deviation are used for descriptive analysis.

Descriptive statistical analysis

In order to describe socio-economic characteristics of the household and remittance effects on the society, descriptive statistical methods like the measures of central tendency (arithmetic mean and median), the measures of dispersion (standard deviation, quartile deviation and range), and the measures skewness and kurtosis were used.

9. FINDINGS OF THE EMPIRICAL STUDY

Cost of Foreign Employment and Country of Destination

A sizable amount of money needs to be invested as a cost of foreign employment. The costs starts from obtaining a passport, medical checkup, manpower agency commission, visa fees, air fare, cost of internal travel and hotel charge in Kathmandu at the time of processing the foreign employment. Cost of foreign employment differs according to the destination country. The cost of foreign employment discussed

here involved only medical checkup, manpower agency commission, visa fees, and airfare.

Table: 1 Cost of Foreign Employment and Country of Destination

Cost of Foreign Employment	Country of Destination								Total
	Qatar	UAE	Saudi Arabia	Malaysia	Dubai	Israel	Lebanon	Others	
24000-50000	3	4	0	1	0	0	0	0	8
50001-75000	10	10	3	9	4	1	0	3	40
75001-100000	32	32	17	9	12	4	1	3	110
10000-125000	15	7	5	4	5	0	1	0	37
125001-150000	1	1	0	0	0	0	0	0	2
150001-175000	0	0	1	0	0	1	0	0	2
175001-200000	0	0	0	1	1	0	0	0	2
200001-500000	2	1	2	0	0	0	0	1	6
500001-800000	0	3	0	0	0	0	0	1	4
Total	63	58	28	24	22	6	2	8	211

Source: Field Survey 2016

The above table shows that the minimum cost for foreign employment was Rs.24,000/- and maximum cost for it was Rs. 800,000/-. Out of 211 migrants, 110 made expenditure between Rs.75,000/- and Rs.100,000/- to get foreign employment. It shows that the majority of migrants paid foreign employment cost between Rs.50,000/- to Rs.125,000/-. There was not significant variation in country wise cost of foreign employment.

Sources of Financing for Foreign Employment

Most of the rural people of Nepal who want to go for foreign employment use several sources of financing the cost involved. They are loans, sales of property including land, internal savings as well as funds mobilized through friends, relatives and local money lenders.

Table: 2 Source of Financing for Foreign Employment

Source of Financing	Maximum Rs.	Minimum Rs.	Frequency	Total Amount Rs.	% of total cost of foreign employment
Own Saving	300,000	1,000	93	4,908,000	20.63
Relatives	200,000	5,000	46	2,170,000	9.12

Local Money Lenders	800,000	20,000	157	16,247,000	68.29
Selling Land	105,000	82,000	3	287,000	1.21
Selling Cattle	20,000	2,000	11	93,000	0.39
Selling Ornaments	1000	1,000	1	1,000	0.004
Land Mortgage	25000	25,000	1	25,000	0.10
Bank Loan	40,000	10,000	3	61,000	0.26

Source: Field Survey 2016

Table 5.6 shows that while migrants and their families managed the required financing in a number of ways, the majority took loans from local money lenders. 68.29 per cent of total cost of foreign employment was borrowed from local money lenders who were said to have charged prohibitively high interest rates. The minimum rate of interest for such loan was 24% per annum. Another 9.12 per cent borrowed from their relatives and friends. Only 20.63 per cent of the cost came from their own savings. They used less than 1 per cent of cost from land mortgage, selling ornaments, their cattle and land.

Remittances have played a significant role in the poverty reduction in most of the developing countries and it is true about Nepal as well. However, the impact of remittances is not only positive. There was negative impact of remittance and migration in the source village. Increase in alcoholic consumption, meat consumption and decrease in labor force in the village are to be considered as negative impact. During cultivation and harvesting period, there was shortage of manpower to work in the field. There were only old, women and children in the village. The migrant who were returned from foreign employment, do nothing and do not want to work. They roam, eat and enjoy till they have the money brought from abroad. When they spent all, they again borrowed from the village money lenders and go back to the foreign countries.

10. CONCLUSIONS

The cost for foreign employment ranges between 24 thousand minimum and Rs.800 thousand maximum and about 52% of the migrants paid 75 thousand to 100 thousand. The source of financing for foreign employment for 68.29 percent of the migrant workers was borrowing from village moneylenders. The majority of the foreign employees managed their cost for foreign employment from loan taken from local money lenders (68.29%) who were said to have charged prohibitively high interest rate. Most of the respondents of rural areas came from lower income groups and based on agricultural occupation. So they cannot easily afford foreign employment.

If they go to the foreign countries for employment, they have to borrow money or take loans at high cost.

The biggest contribution of remittances has been found to the welfare and improved livelihood of the receiving households in terms of basic needs, better health and education and to a smaller extent in terms of savings. Though these are useful goods and safe investment, but in macro-economic terms, non-productive assets with no lasting impact on country's real income. Hence it is essential to understand that only meaningful utilization of remittance money can pave the way to the better prospects of the nation. Mere collection of remittances in banks and financial institutions does not bring the desired outcome in the economy. Such funds should be kept in proper channels in different layers of the economy to meet twin goals: poverty alleviation and sustainable development of Nepal. The real GDP of the nation could be magnified in the long run with the better use of remittance.

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