



## Migration Macroeconomic Survey; Prioritisation of Sectors

November 2018



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## Acronyms

CBS	Central Bureau of Statistics
CP	Colombo Process
CSR	Corporate Social Responsibility
CTEVT	Council for Technical Education and Vocational Training
DAO	District Administration Office
DAG	Disadvantaged groups
DFID	Department for International Development
DoFE	Department of Foreign Employment
EPS	Employment Permit System
EWHA	Ewha Woman's University
FEA	Foreign Employment Act
FEP	Foreign Employment Policy
FET	Foreign Employment Tribunal
FEPB	Foreign Employment Promotion Board
GAMCA	Gulf Cooperation Council Approved Medical Centres Association
GCC	Gulf Cooperation Council (including Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates)
GDP	Gross Domestic Product
GoN	Government of Nepal
G2G	Government to government
HORECA	Hotel Restaurant Café sectors
IASCI	International Agency for Source Country Information
ICC	Information and Counselling Centres
IIDS	Institute for Integrated Development Studies
ILO	International Labour Organization
INGO	International Nongovernmental Organization
IOM	International Organization for Migration
JITCO	Japan International Training Cooperation Organization
KOIKA	Korea International Cooperation Agency
LTM	Long term migrant
M4P	Making Markets Work for the Poor
MoFA	Ministry of Foreign Affairs
MoLESS	Ministry of Labour, Employment and Social Security
MoU	Memorandum of Understanding
MRC	Migrant Resource Centre
NLSS	Nepal Living Standard Survey
NRB	Nepal Rastra Bank (central bank of Nepal)
NRNA	Non- resident Nepali Association
NAFEA	Nepal Association of Foreign Employment agencies
NPR	Nepalese Rupee
PDO	Pre-departure Orientation
PNCC	Pravasi Nepali Coordination Committee
RAs	Recruitment Agencies
SAARC	South Asian Association for Regional Cooperation
SDG	Sustainable Development Goals
<b>सीप</b>	<b>Skills for Employment Program</b>
UN	United Nations
VDC	Village Development Committee
VET	Vocational education and training
MWWF	Migrant Workers' Welfare Fund

## Executive Summary

DFID has designed the Nepal Skills for Employment Programme (शीप) and has competitively selected Louis Berger, Inc., a global consulting firm, to deliver the £17 million technical assistance project to better train and place Nepalese in both domestic and international jobs. By primarily using a Challenge Fund mechanism, शीप will partner with the private sector to bring in innovative training models to address market failures and key skill gaps while also leveraging private sector resources. Models will focus on solutions for training and job placement in the ICT, tourism, commercial agriculture, light manufacturing, and hydropower sectors, all of which are key economic drivers for Nepal.

The migration piece of शीप will focus on harnessing the benefits of migration for Nepal’s workforce and economic development. शीप will demonstrate a number of cost-effective models to increase migrants’ skills and incomes; lower financing and other costs of travelling abroad; and, increase savings and investment of remittances. Cross-cutting will be financial literacy. शीप will work in tandem with efforts by the International Labour Organization (ILO) and other key counterparts in Nepal and Asia, which depends heavily on Nepali migrants.

As a result, the project will help reduce the skills mismatch, reaching over 90,000 (45,000 from the Skills Strengthening Component and 45,000 from the Migration Component) Nepalese with an increase in income attributed to the project (see figure 1). Through more productive and equitable vocational skills and functional migration systems, the project’s recipients should be gainfully employed abroad or in Nepal, with higher wages, improved working conditions and higher living standards. Persons with disability (PWD) will also be covered though as we write, their access to foreign employment is totally precluded.

Figure1. Migration Component Beneficiaries

Beneficiaries	Women	Men
45,000	33.33%	66.66%
	15,000	30,000
Of which 40%DAG	6,000	12,000
Total DAG	18,000	

Source: शीप ToR migration component reworked by MEL

In an earlier report (Stakeholder Mapping), UKaid शीप found several gaps and inefficiencies while mapping the various stakeholders intervening in the migration process which lead to market failure. These have a direct negative contribution to the overall cost a Nepali migrant has to pay when looking for an employment abroad.

Following a “Making Markets Work for the Poor” (M4P) approach, this report has undertaken a closer look at the market failures negatively affecting migration and to what extent these failures are part of the push factors of Nepal’s migration. Through this work, we have endeavoured to locate geographically शीप’s recipients, describe and understand their socio-economical background, their needs and to what extent the latter are not satisfied. We have described how Nepali workers have been using foreign employment as one solution in addressing the issues they have confronted with and give some depth to our analysis by comparing first-time migrants’ experience with medium to long term migrants’. Returnees are also confronted with difficulties when they want to reintegrate into Nepal’s economy. The lack of managerial knowhow, access to credit, conducive economic environment affects their willingness to invest their savings in productive ways. Finally, we have looked look at the new migration corridors, the new migration destinations promoted through MOUs, G2G agreements and the recruitment agencies. This report understands targeted beneficiaries needs, how market failures have been affecting them and which solutions we can recommend within a M4P framework.

## 1. Market Failures and Migration

In the earlier report where we mapped the migration market stakeholders, we described some of the market failures present throughout the whole migration process (Figure 2). In this report, we will have a closer look at the socio-economic background of the सीप recipients to better define सीप intervention points.

Free markets fail when they do not reach an efficient allocation of goods and services and /or an equitable outcome from society’s point of view.<sup>1</sup> Some of the market failures are amongst the push factors influencing the decision to migrate, whether this decision is individually taken or decided within the household as a strategy to improve its socio-economic situation. Poverty and low incomes, illiteracy, unemployment and/or underemployment lack of prospects for livelihood improvement, limited access to productive resources, and shrinking opportunities to engage in economic activities are among the factors pushing women and men into migration.

Figure 2. Migration Process Market Failures

Market Failures	Migration context	Negative externalities	Outcomes
<b>Monopoly power</b> Cost of monopoly are high prices, less choices, restricted output, net welfare loss.	Recruitment agencies occupy a monopolistic position on the migration market and determine unilaterally the price/cost to migrate. Their monopolistic position allows their category to resist government regulations.	Migrants pay unjustified excessive cost to migrate (overbilling). They are forced to borrow more money than they should. They are pushed to migrate through non-regulated channels	Migrants have less resources to save or invest. Migrants fall into illegal migration because of RAs malpractices.
<b>Information Failure (information asymmetry)</b>	Recruitment agencies are the sole providers of information related to foreign employment. At time of writing, there is a lack of factual information from an alternative source (MoLESS or DoFE) that is shared at the provincial level	Migrants take uninformed decisions. Migrants are not in a position to evaluate the costs and benefits of their migration.	The decision to migrate is more a leap of faith rather than a rationale decision based on hard facts regarding the pros and cons of the migration process.
<b>Missing markets</b> failure to produce some goods and services despite them being needed or wanted	The formal financial sector may decide (rationally) not to lend to aspiring migrants because the default risk is too high or profit margins are too low.	Migrants have to resort to the informal financial sector, (moneylenders), and pay exorbitant interest rates that could jeopardise the expected positive outcomes of migration. Basic financial products are not accessible to migrants	The loan principal plus high interest may result in inability to pay, thereby pushing migrants into bonded labour or into poverty.
<b>Labour market failure</b> existence of skill gaps, skill poaching, labour immobility and inequality, discrimination	The majority of Nepali migrants are unskilled. Skills mismatch exists for better paying jobs available abroad. Loss of acquired skills and motivations for returnee migrants due to mismatch between acquired skills and jobs available at home.	Workers are not aware of the possible wage improvement achievable through training and skilling  Migrants are not convinced that their effort in getting new skills will be rewarded by higher wages and better work conditions	The majority of Nepali migrants are hired to do dirty, dangerous and demanding/demeaning jobs with lower wages

<sup>1</sup> Government failure vs. Market Failure: Principles of regulation- Joseph Stiglitz

## 2. Macroeconomic survey

### 2.1 Poverty

Poverty in Nepal is measured by a monetary indicator, its estimation follows the Cost of Basic Needs (CBN) approach<sup>2</sup>. The method estimates the costs of acquiring enough food for adequate nutrition (2100 Calories per person) and then adds the costs of essential items such as clothing and shelter. In Nepal the Centre Bureau of Statistics (CBS) has estimated the poverty line for Nepal at NPR 19,261<sup>3</sup> at 2010/11 average prices. In 2011 about 25. % (6.6 million) of the population in Nepal lived below this poverty line (less than a dollar a day in 2011 exchange rate)<sup>4</sup>.

Province 6 and 7 are the poorest (Figure 3) with respectively 38.6 and 45.6% of the population living below the national poverty line. As we'll see, the majority of the migrants of these two provinces migrate to India or internally within Nepal.

### 2.2 Poverty and Gender

Article 43 of Nepal's Constitution covers the rights of women. These include the rights to lineage, right to safe maternity and reproduction, right against all forms of exploitation, and equal rights in family matters and property. Since 2007/2008, the GoN has also introduced a Gender Responsive Budget system to promote women empowerment, gender equality mainstreaming and inclusion.<sup>5</sup> Despite these measures, women remain underprivileged as supported by the data collected by the Nepal Living Standards Survey (2010/11) and Nepal's National Census (2011).

As described in Figure 3, women access to ownership is still extremely low throughout all the seven Provinces, with provinces 5, 6 and 7 showing the lowest rate, nationwide only 21% of women in 2011 were the owner of both house and land.

Figure 3. Women ownership and Provincial poverty headcount

Nepal / Provinces	Women ownership of neither house nor land	Provincial poverty headcount in %NLSS 2010/11
Nepal	79%	25%
P1	73%	16.7%
P2	78%	26.7%
P3	79%	20.0%
P4	78%	21.0%
P5	81%	25.3%
P6	92%	38.6%
P7	92%	45.6%

<sup>2</sup> [http://siteresources.worldbank.org/INTPA/Resources/429966-1259774805724/Poverty\\_Inequality\\_Handbook\\_Ch03.pdf](http://siteresources.worldbank.org/INTPA/Resources/429966-1259774805724/Poverty_Inequality_Handbook_Ch03.pdf)

<sup>3</sup> Poverty in Nepal 2010/2011-CBS Nepal

<sup>4</sup> Exchange rate December 2011 1 USD=NPR84.75, 19,261/365= NPR 52.77 equivalent to USD 0.622)

<sup>5</sup> <https://www.unescap.org/sites/default/files/11.%20Nepal.pdf>

### 2.3 Domestic and foreign employment wages and economic sectors

In July 2018, MoLESS has decided to increase the national monthly minimum wage from NPR 9,700 (USD 83.14) to NPR 13,450 (USD 115.29)<sup>6</sup> corresponding to USD 3.84 per day<sup>7</sup>. The ministry also said that under the new Social Security Act, workers will receive social security benefits of around Rs 2,500. Tea estate workers minimum monthly salary has also been raised and set at NPR 10,781<sup>8</sup> from NPR 7,075.

Despite these recent wage increases and provided that they will be implemented<sup>9</sup>, Nepali workers will still be attracted by the higher wages offered by foreign employment. As we can see in Figure 4, Nepali unskilled migrants can more than double their revenue in Malaysia and KSA, and almost double it in all the other destinations reported. Migration to South Korea has not been included into the graph because Nepali migrants going to Korea through the G2G Employment Permit System (EPS) are semi-skilled to skilled, and receive a minimum wage of KRW 1,745,150 (NPR 182,101) per month.

Figure 4. Average Wage earned by unskilled workers.

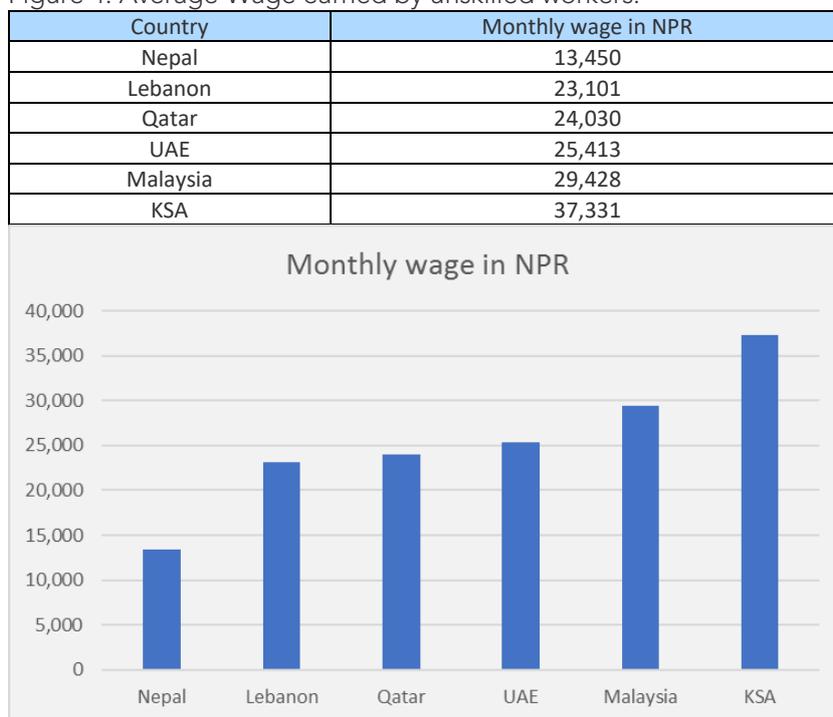


Figure 5 and 6 show the wages range that were paid in 2011/2012 in two of Nepal's manufacturing sector.<sup>10</sup> Only the best paid jobs reach the newly agreed minimum wage whereas all the intermediate categories could triple their revenues by migrating as unskilled workers. For the complete report on wages per manufacturing sub-sector, please refer to Annex II. The data reported highlights how influential the wage differential between Nepal and the destination countries is in motivating a Nepali to migrate, indeed when migrants were asked about their motivations to leave and work abroad 85% of them mentioned the low wage level in Nepal as the main factor, the other was the impossibility to find a job in Nepal.<sup>11</sup>

<sup>6</sup> Exchange rate 1 USD =NPR 116.66)

<sup>7</sup> For an average of 30 days in a month.

<sup>8</sup> <http://www.pioneerlaw.com/news/minimum-wage-remuneration-2018-2075>

<sup>9</sup> <https://myrepublica.nagariknetwork.com/news/tea-factories-not-paying-minimum-wage-to-laborers/>

<sup>10</sup> Statistical pocketbook of Nepal 2016

<http://cbs.gov.np/image/data/Publication/Statistical%20Pocket%20Book%202014.pdf>

<sup>11</sup> Maximising the development impact of migration in Nepal -© 2017 International Organization for Migration (IOM) and International Agency for Source Country Information (IASCI)

To put the wage differential into context we calculated an indicative breakeven level (box 1) to try to determine to which level domestic wages should increase to discourage people to migrate. We used only a quantitative approach and left the importance of the social cost of migration out.

**Box 1. Illustration on what level domestic wages should increase to discourage migration**

- 1) Aspiring Nepali migrants who receive skilling and training will migrate as long as the domestic employment market doesn't pay an equivalent wage that unskilled or semi-skilled workers can earn abroad, minus the cost incurred to migrate.

Concept of breakeven = total expected NET salary earned abroad – total expected salary in Nepal for the same duration.

- 2) The domestic wage must be predictable to a certain degree (please refer to underemployment or informal labour market sector issues).

As an example, let us assume that a semiskilled worker could earn NPR 25,000 a month for a contractual period of 2 years abroad. His/her total expected gross wage would then be NPR 600,000. Let us also assume that the total cost for financing his/her migration, principal plus interests, is NPR 204,000 leaving a total expected net earnings of NPR 396,000.

All Nepali workers earning less than NPR 396,000 over a period of 2 years (or earning less than NPR 16,500 a month) may be tempted to migrate provided that they can afford the borrowing and other costs. We could arbitrarily decide that Nepali workers will only leave if they can double their expected revenues, this would mean that all workers earning NPR 8,250 or less will migrate ((396,000/2)/24 months).

According to Nepal's annual household survey (2015/16),<sup>12</sup>, the annual consumption of the richest households' quintile is NPR 613,725 which is 4.2 times higher than that of the poorest households' quintile which stands at NPR 146,395 or NPR 12,199 per month. The second household quintile annual consumption is NPR 192,652 or NPR 16,054 per month, the majority of skilled or semiskilled migrants is comprised in the first two quintiles. If we look again at figure 5 and 6, we could fairly state that 75% of the job categories reported include potential migrants.

Figure 5. Food manufacturing wages

Food manufacturing sector	Monthly wage in NPR
Manufacture of sugar	4,982
Manufacture of other food products	5,891
Manufacture of bakery products	7,643
Processing and preserving of meat	8,179
Manufacture of grain mill products	8,198
Processing and preserving of fruit and vegetables	8,878
Manufacture of vegetable and animal oils and fats	9,507
Manufacture of macaroni, noodles, couscous and similar farinaceous products	10,358
Manufacture of cocoa, chocolate and sugar confectionery	10,754
Manufacture of prepared animal feeds	13,261
Manufacture of dairy products	13,622

Figure 6. Construction material wages

Construction Materials	Monthly wage in NPR
Manufacture of refractory products	3,691
Manufacture of clay building materials	5,245
Manufacture of other porcelain and ceramic products	6,412
Manufacture of cutlery, hand tools and general hardware	7,114

<sup>12</sup> Annual household survey 2015/2016 major findings Nepal CBS-UNDP-  
[https://reliefweb.int/sites/reliefweb.int/files/resources/Annual%20Household%20Survey%202015\\_16\\_Major%20findings.pdf](https://reliefweb.int/sites/reliefweb.int/files/resources/Annual%20Household%20Survey%202015_16_Major%20findings.pdf)

Construction Materials	Monthly wage in NPR
Manufacture of articles of concrete, cement and plaster	7,882
Manufacture of other fabricated metal products	8,395
Cutting, shaping and finishing of stone	8,808
Casting of iron and steel	9,706
Manufacture of structural metal products	10,123
Manufacture of basic precious and other non-ferrous metals	10,437
Forging, pressing, stamping and roll-forming of metal; powder metallurgy	10,704
Manufacture of basic iron and steel	11,164
Manufacture of tanks, reservoirs and containers of metal	13,316
Manufacture of cement, lime and plaster	15,012

Therefore, when considering skilling workers for the domestic market, श्रीप will have to take the breakeven concept into consideration. Otherwise, it could generate negative externalities, wherein the migration component could be seen as poaching skilled workers meant for national employment.

## 2.4 Disadvantaged groups (DAG)

The Janajati ethnic group with a population of 7,348,446 is the largest disadvantaged group of the country and is also the largest group to migrate for employment abroad. They represent nearly 40% of the long-term migrant population<sup>13</sup>. The most disadvantaged and marginalized group, the Dalits, comprise only 9% of the total migrants; majority of whom migrate to India because they can't afford the higher costs of foreign employment. The open border policy existing between the two countries and the absence of work permit or visa requirements makes India an affordable destination for the poorest category of migrants. Province 2 has the highest concentration of the disadvantaged group category corresponding to 84% of its population and with 11.6% it has the highest proportion of Muslims considered to be a religious minority (Figure 7).

Figure 7. DAG population distribution by Province.

Population category	P1	P2	P3	P4	P5	P6	P7
Non-Dag Population	1,757,672	849,250	3,220,578	1,294,540	1,532,325	1,001,323	1,557,390
DAG Terai caste	277,766	2,423,991	59,589	8,358	576,777	2,810	35,960
Dalits	412,862	787,893	311,348	414,530	635,676	362,366	437,041
Janjati	1,923,376	716,299	1,887,148	662,251	1,441,972	201,177	516,223
Minority	775	1,001	13,995	6,507	194	0	11
Muslims	162,492	625,711	36,794	17,571	312,328	2,742	5,892
Total	4,534,943	5,404,145	5,529,452	2,403,757	4,499,272	1,570,418	2,552,517
Non-DAG	39%	16%	58%	54%	34%	64%	61%
Dag	61%	84%	42%	46%	66%	36%	39%

## 2.5 Literacy, poverty, skill mismatch and migration.

In 2011 the literacy rate for both sex in Nepal was 65.94%<sup>14</sup> and compared with 92.5% in Sri Lanka, 99.3% in the Maldives, 74.04% in India, 72.76% for Bangladesh 59.5% in Bhutan, 58% in Pakistan, 31% in Afghanistan.

Only 10.6% of both men and women obtained the School Leaving Certificate (the equivalent to the General Certificate of Secondary Education (GCSE) academic qualification in the UK).

Women's literacy level is very low, only 44.50% of women above the age of 15 years are literate compared to 71.6% for men pointing to the huge disparity between the two genders (Figure 8). Women result being the poorest, less educated and most discriminated part of the Nepali population and as it shall be discussed further, the most vulnerable migrant category. Migrants with a low literacy level and

<sup>13</sup> Maximising the development impact of migration in Nepal -© 2017 International Organization for Migration (IOM) and International Agency for Source Country Information (IASCI)

<sup>14</sup> Nepal Living standard Survey 2010/2011

without the appropriate skills requested for the jobs offered abroad have limited options to compete for higher paid occupations.

Figure 8. Literacy and poverty figures for Nepalese women and men.

Nepal / Provinces	Women ownership of neither house nor land	Women literacy rate 5years and above	Men literacy rate 5 years and above	Women literacy rate 15years and above	Men literacy rate 15 years and above	S.L.C. & equiv. women	S.L.C. & equiv. men	Youth population (>15<40)	Provincial poverty headcount in %NLSS 2010/11
Nepal	79%	57%	75.14%	44.50%	71.60%	9.68%	10.50%	40.4	25%
P1	73%	69.34%	72.97%	53.77%	69.53%	12.00%	11.00%	40.4	16.7%
P2	78%	38.88%	60.09%	30.15%	57.26%	8.00%	10.00%	37.80%	26.7%
P3	79%	67.04%	82.82%	51.98%	78.92%	11.90%	12.70%	45.40%	20.0%
P4	78%	67.72%	83.54%	52.51%	79.60%	10.10%	11.40%	39.10%	21.0%
P5	81%	58.33%	75.50%	45.23%	71.94%	8.10%	8.50%	39.90%	25.3%
P6	92%	53.21%	72.88%	41.26%	69.45%	5.60%	8.00%	38.00%	38.6%
P7	92%	51.93%	76.37%	40.27%	72.77%	5.60%	7.50%	38.70%	45.6%

As mentioned previously a high proportion of Nepal's population is illiterate and poor. Its revenues are on average lower than the official minimum wage and, in the manufacturing sector, some occupation pay less than or just USD 1.9 a day, the international poverty line threshold. There is an existing mismatch between Nepal's domestic labour market demand and the lack of skills on offer being the outcome of the educational system. Most Nepali migrant workers migrate because they are underemployed or unemployed. The underemployment situation in the country<sup>15</sup> where 54% of the population (in 2011) worked less than 40 hours per week highlights the precarity of job occupation in the country and the irregularity of work revenues. Uncertainty about one's expected flow of revenue prevent all long-term socio-economic planning.

## 2.6 The absence of a favourable investment environment.

Among the push factors of migration, we find poverty, low income, high unemployment rate, and lack of prospect for livelihood improvement. Nepal GDP per capita in 2016 was USD 732, the lowest in South Asia<sup>16</sup>, and as we mentioned before though the unemployment rate is low (3% in 2011)<sup>17</sup> the underemployment situation in the country combined with the corresponding irregularity of income are also major push factors for the migration of young Nepali.

Moreover, the absence of a favourable investment environment and the lack of prospect for livelihood improvement are the consequence of the low level of capital spending witnessed over the last 10 years and the persistent low GDP growth measured for the same period. The low level of capital expenditure<sup>18</sup> as a percentage GDP and the inability of spending the allocated budget by the GoN (figure 9) best describe this situation.

In Nepal the allocated budget for capital expenditures remained very low from 2012 until 2015 (around an average of 4.5% of GDP). Furthermore, since 2009 the GoN was unable to spend the entire allocated budget, and though the budget execution has improved in 2015/16, it still doesn't reach 100% of the allocated budget. The implications are that bridges, roads, schools are not built or at best their construction is delayed. Migrants who were interviewed for the IOM/IASCI survey said that they were

<sup>15</sup> Nepal Living Standard Survey 2010/11 vol 1 pg. 12 "Underemployment is defined as a person who works less than 40 hours per week."

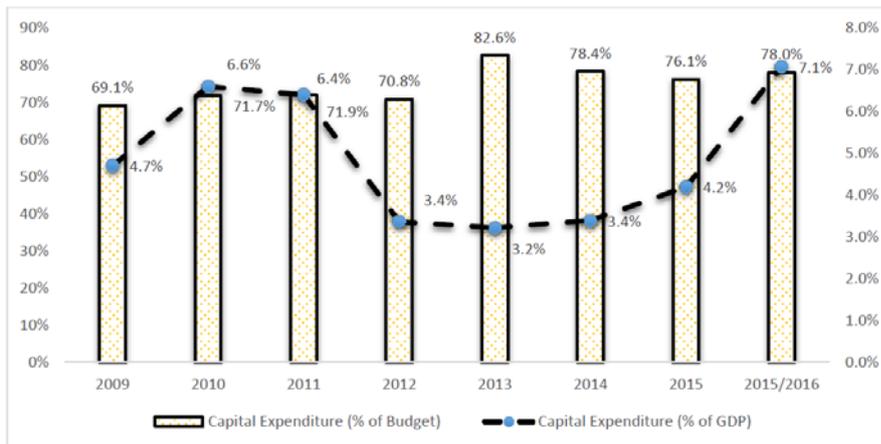
<sup>16</sup> World Bank data 2016

<sup>17</sup> Nepal living Standard Report 2010/11 vol 2 table 12:3

<sup>18</sup> Capital Expenditures or fixed capital formation (or government investment) - government spending on goods and services intended to create future benefits, such as infrastructure investment in transport (roads, rail airports), health (water collection and distribution, sewage systems, communication (telephone, radio and tv) and research spending (defence, space, genetics).

willing to invest in projects brought by the GoN or the private sector but had issues with government reliability. Clearly, there is a lack of a conducive investment environment in Nepal; and which partially explains why remittances are spent on daily consumption rather than productive investments.

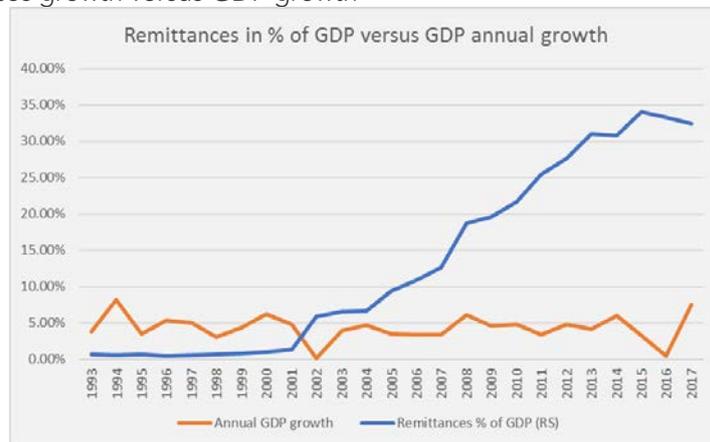
Figure 9 <sup>19</sup>Actual capital expenditure against allocation as a percentage of budgeted expenditures (l\$) and as a percentage of GDP (Rs)



Source (Ministry of Finance , 2016), Author's calculations (2015-2016 is a revised estimate of government)

The lack of economic perspective is also reflected by the low GDP growth rate that hovered about 4% for the past 10 years (figure 10), the difference between the GDP growth and the remittances growth highlights the extent to which migrants' needs are not met by the domestic economy.

Figure 10. Remittances growth versus GDP growth



Finally, the current account balance has deteriorated in 2017 and the World Bank forecasts are not optimistic.<sup>20</sup> Nepal exports value as percentage of GDP has fallen since 2013 and the forecasts don't see a substantial increase in the coming years. To see the ratio export/import increase, Nepal's economy will have to transform itself from a relatively closed agrarian economy into an export oriented one. To date most of the imports are funded by the remittances. (Figure 11) which increases Nepal's economy exposure to any exogenous event affecting migration such as a conflict in the Middle East, or hostile domestic policies impacting migrations and remittances.

<sup>19</sup> [https://www.npc.gov.np/images/category/National\\_Study\\_-\\_Final\\_-\\_20170301\\_-\\_NPC.pdf](https://www.npc.gov.np/images/category/National_Study_-_Final_-_20170301_-_NPC.pdf)

<sup>20</sup> World Bank Group-Nepal Systemic Country Diagnostic-February 2018

Figure 11. Balance of Payments

Balance of payments (as percentage of GDP, unless otherwise indicated)								
	FY13	FY14	FY15	FY16	FY17(e)	FY18 (f)	FY19 (f)	FY20(f)
Current account balance	3.4	4.6	5.1	6.2	-0.4	-2.0	-2.8	-3.2
Exports of goods and services	10.7	11.5	11.6	9.5	9.2	9.8	9.7	9.6
Imports of goods and services	37.5	40.8	41.5	39.4	43.6	43.9	44.0	44.2
Remittances (as percentage of GDP)	25.6	27.7	29.0	29.6	26.8	26.3	26.5	26.6
Gross reserves (in months of imports)	7.9	8.4	10.1	10.9	9.8	8.6	7.3	6.0

Source: World Bank

## 2.7 Governmental actions to support investment

On the 24<sup>th</sup> of September 2018, the GoN announced measures to facilitate skilled returnee's reintegration into Nepal's economy. A soft loan of up to NPR one million<sup>21</sup> will be made available for a period of five years to those migrants who have acquired skills while abroad, that will be rated and validated by the National Skill Testing Board (NSTB) operating under the Council for Technical Education and Vocational Training (CTEVT).<sup>22</sup>

Moreover the GoN has included in its budget for the fiscal year 2018/2019 the Integrated Procedures For Concessional Loan Grant (2018) policy, announcing the procurement of concessional loans to young entrepreneurs willing to own their own business and are interested in venture capital.

Six sectors of activity will have priority. Youth and Small Entrepreneur, Self-Employment Fund, Rural Self Reliance Fund, Economic Rehabilitation Fund, and Women Entrepreneurship Development Fund. The new Federal budget has also set as priority the tourism and energy sector, infrastructure building such as roads, rail, tunnels irrigation and aviation infrastructure.<sup>23</sup>The new budget is forward-looking and its proper implementation may be indicative of a more supportive environment for small businesses.

## 2.8 The economic importance of migration and remittances

Nepal Central Bureau of Statistics (CBS) reported that the percentage of households receiving remittances increased from 23 per cent in 1995/96 to 56 per cent in 2010/11 and the share of remittance in household income increased from 27 per cent to 31 per cent in the same period (CBS 2011). According to the IOM/IASCI (2016) survey, remittance represented more than half of household income for 58% of households, with 8 per cent of households having no source of income beyond remittances. Before migration, migrant households had an average monthly income of USD 137; after migration and including remittances, the monthly income increased to USD 285.<sup>24</sup>

More than half of all households in Nepal receive remittances and the positive impact of remittances at the micro level, i.e. the level of recipient household family in Nepal has been notable, the literacy rate has increased from 48 to 65%, life expectancy from 63 to 69 years, the GINI index has improved from 0.44 to 0.32, the HDI has improved from 0.44 to 0.55 and the percentage of the population living under the domestic poverty line has fallen from 40% to 25.16%.

At the time of writing of this report, neither the DoFE nor the NRB could provide us with the amount of remittances received by province. We had to make some assumptions and compare their validity with other sources, (in our case the IOM/EWHA/KOICA/GON/IIDS survey conducted in 2015/16).<sup>25</sup> To estimate the yearly value of remittances per migrant in 2017, we assumed that all migrants were earning a monthly wage of NPR 25,876 equivalent to the average revenue of a construction Nepali migrant

<sup>21</sup> <http://therisingnepal.org.np/news/26057>

<sup>22</sup> <http://kathmandupost.ekantipur.com/news/2018-11-25/government-bid-to-use-migrant-workers-skills.html>

<sup>23</sup> <https://thehimalayantimes.com/nepal/finance-minister-unveils-first-federal-budget-of-rs1-31-trillion/>

<sup>24</sup> The Role of Remittances as Effective Development Finance for Sustainable Development in Nepal 2016-IOM/EWHA/KOICA/GON/IIDS.

<sup>25</sup> The Role of Remittances as Effective Development Finance for Sustainable Development in Nepal 2016-IOM/EWHA/KOICA/GON/IIDS.

worker in the GCC. We then assumed that around 75% of the annual amount earned was remitted and obtained an estimate of USD 1,981 annual remittance per migrant, the final result is reported in figure 12.<sup>26</sup> When we compare the remittances inflow to the budget by Province, we can see that remittances are several times higher than the respective Provincial budget. Provinces 1 and 5 receive most of the remittances followed by province 3 and 5.

Figure 12. Estimate of the amount of remittances per province.

Remittances per Provinces (estimate) 2017					
Provinces	Work permits per province in % of total permits (DoFE)	Work permits released since 2008	Remittances in USD (2017)	Remittances in NPR (2017)	Provinces budget 2018 (Himalayan Times)
P1	25.51%	895,307	1,767,366,986	205,014,570,429	35,936,000,000
P2	24.10%	845,822	1,669,680,297	193,682,914,439	29,783,800,000
P3	16.07%	563,998	1,113,351,136	129,148,731,744	35,610,000,000
P4	13.01%	456,603	901,350,235	104,556,627,255	24,000,000,000
P5	16.26%	570,666	1,126,514,590	130,675,692,481	29,900,000,000
P6	3.41%	119,678	236,249,370	27,404,926,898	28,282,000,000
P7	1.64%	57,558	113,621,398	13,180,082,144	26,600,000,000
	<b>Totals</b>	<b>3,509,633</b>	<b>6,928,134,012</b>	<b>803,663,545,392</b>	<b>210,111,800,000</b>

Source: DoFE, MoLESS, World Bank reworked by author.

## 2.9 Productive use of remittances

The NLSS (2010/11) reported migrants households remittances allocation as shown in figure 13. Since then many other reports have been referring to this survey complaining that migrants should be spending their remittances in more productive investments. These comments make abstraction of the initial state of poverty of the migrants' households that justifies this pattern of consumption. The reasonable spending priorities are food security, home ownership, health and repaying debts. Capital formation can happen only after these priorities have been covered and if there is some disposable income and savings left. The lack of available credit (lack of financing) and a non-conducive environment justify prudence when envisaging productive activities.

Figure 13. Productive Use of Remittances

NLSS 2010/2011	
Remittances Allocation	Percentages
Daily consumption	78.95%
repaying loans	7.20%
Household /property	4.60%
education	3.60%
other purpose	2.55%
capital formation	2.45%
savings	0.65%

The IOM/IASCI survey conducted in (2016) provides us with a different pattern of remittances allocation<sup>27</sup>. The survey was conducted with the support of the CBS and screened 22,997 households and found out that long-term Nepali migrants, had left Nepal for more than a year. The survey found that on average, only 39 per cent of remittances is spent on daily consumption, and it is consistent across all destinations (figure 14), saving rates are also much higher than reported by the NLSS and the

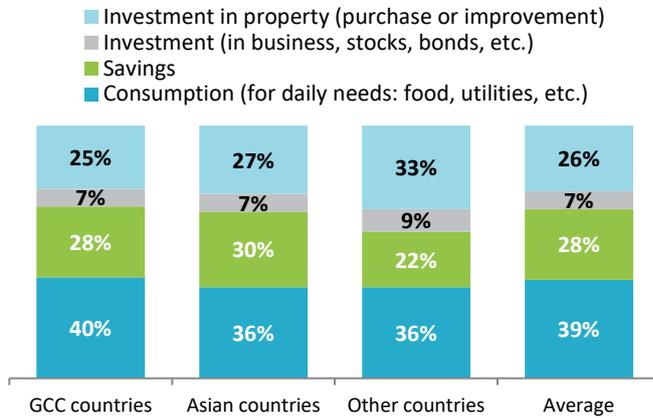
<sup>26</sup> (25,876\*12\*0.74) =NPR 229,780 equivalent to USD 1,981 at a FX of 1USD=NPR 116

<sup>27</sup> Maximising the development impact of migration in Nepal -© 2017 International Organization for Migration (IOM) and International Agency for Source Country Information (IASCI)

share spent on real estate is confirmed by the booming real estate market in the Valley of Kathmandu which accounts for 42% of the organised real estate sector.<sup>28</sup>

These data support the supposition that for most long-term migrant HHs the accumulation of wealth is a major objective of migration.

Figure 14. Savings Use



Nepali migrants have a strong investment and entrepreneurial spirit. When asked if they planned to start a new business or expand an existing one on average, 52% answered positively, (figure 15) and the preferred activities they planned to invest in were retail or trade, tourism and hospitality, agriculture etc. (figure 16)

Figure 15. Response to Starting a Business

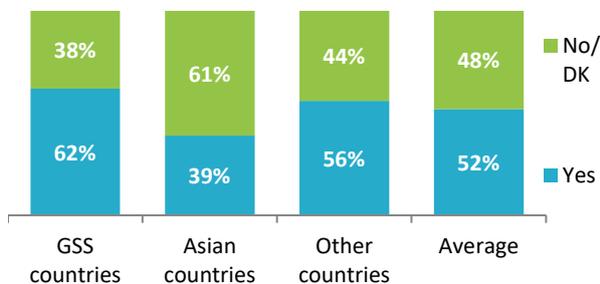
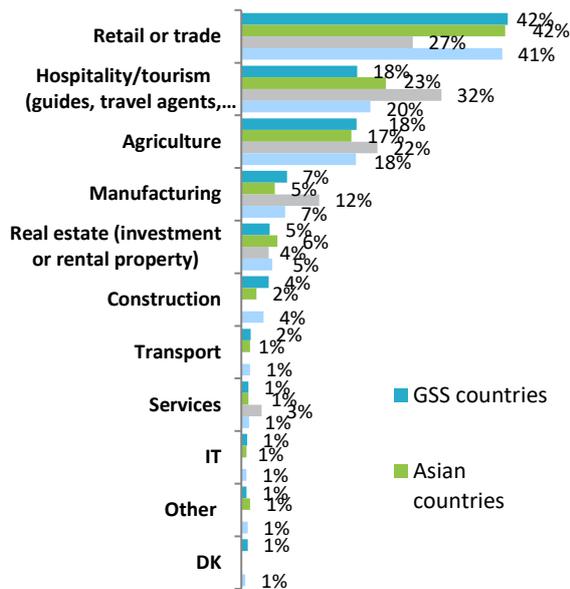


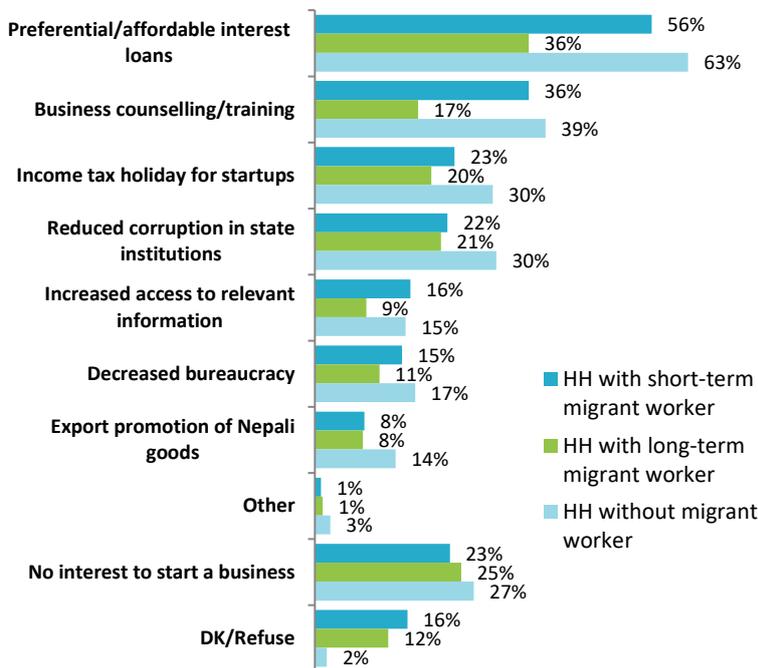
Figure 16 – Where would they want to invest?

<sup>28</sup> <http://kathmandupost.ekantipur.com/news/2018-05-23/7th-property-expo-to-kick-off-on-june-15.html>



Many migrants wished that the GoN would do more to support them in their investment intentions and they explained in which fields the GoN should step in to do so. For the purpose of सीप, the demand for business counselling and access to relevant factual information comes second after affordable interest rates. (figure 17)

Figure 17 Services in demand



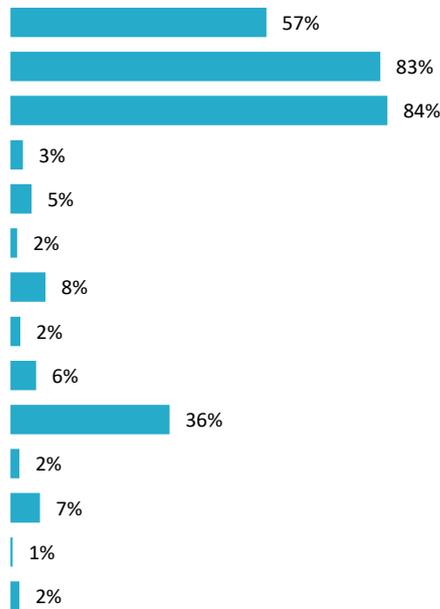
On the 24<sup>th</sup> of September 2018, the GoN announced measures to facilitate skilled returnee's reintegration into Nepal's economy. A soft loan of up to NPR one million<sup>29</sup> will be made available for a period of five years to those migrants who have acquired skills while abroad, that will be rated and validated by the National Skill Testing Board (NSTB) operating under the Council for Technical Education and Vocational Training (CTEVT).<sup>30</sup>

<sup>29</sup> <http://therisingnepal.org.np/news/26057>

<sup>30</sup> <http://kathmandupost.ekantipur.com/news/2018-11-25/government-bid-to-use-migrant-workers-skills.html>

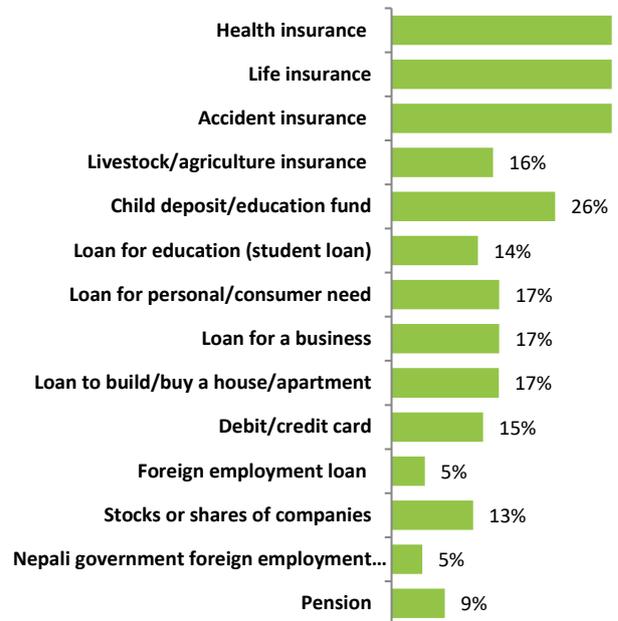
One of the market failures affecting migration is the “Missing Market” that happens when the market doesn’t provide a service that is in demand. Figure 18 shows a clear demand for a wide range of financial products which is not met by the banks and financial institutions.

Figure 18



“Which of the following financial products in Nepal does any HH member have?”

Source: Migrant survey



“If no, would your HH consider purchasing these products in Nepal?”

Source: Migrant survey

### 3. Nepal Migration characteristics and Corridors

In Nepal, the year 2000 marked the beginning of the exponential growth of both remittances (figure 10) and international labour migration (figure 19). Over a nine years period starting in 2008 and ending in 2017, over 3.5 million foreign labour permits were issued by the Department of Foreign Employment (DoFE)<sup>31</sup>. The remittances in 2016 represented 29.7% of the country's GDP<sup>32</sup>, compared to 2.4% in 2001 (Figure 9), ranking Nepal amongst the top five remittances recipient as a share of gross domestic product. Remittance income constituted a significant part of total income for migrant households. Remittances represented more than half of household income for 58 per cent of households, with 8 per cent of households having no source of income beyond remittances.<sup>33</sup> It is worth noting that only the remittances sent through formal remitting channels are recorded leaving out the India/Nepal corridor for instance where the majority of Nepali migrate to and for which there are no available data due to the existing open border policy. Also 20% of the migrants we surveyed stated that they used Hundi to remit or carried their remittances in cash when they returned home.

#### 3.1 Destination countries, most frequent migration corridors.

95% of the Nepali migrants are men and since 2008, 56.9 % of them migrated to the GCC countries. Malaysia remains the most popular country of destination receiving almost 30% of the Nepali migrants. While only 14.4 % of male migrate without using the services of recruitment agencies (individually), 44% of the 5% female migrants migrated individually using sponsors in the destination countries.

Figure 19 Number of work permits released since 2008 by the DoFE

Total permits delivered per destination country	Number of migrants	In %
Malaysia	1,048,678	29.88%
Qatar	757,028	21.57%
Saudi Arabia	714,912	20.37%
UAE	372,723	10.62%
Kuwait	89,145	2.54%
Republic of Korea	46,327	1.32%
Bahrain	30,183	0.86%
Oman	22,111	0.63%
Lebanon	7,370	0.21%
Japan	12,284	0.35%
Jordan		
Afghanistan		
Cyprus		
Remaining Countries (tot 142 destination)	408,872	11.65%
Total permits delivered since 2008/09-2016/17	3,509,633	100.00%

Source: DoFE reworked by the author.

#### 3.2 Destination countries and women migration

The participation of women in foreign employment has been a highly regulated by the GoN since the promulgation of the first Foreign Employment Act in 1985. Nepal has introduced specific regulations and migration bans on women with the intent to protect them from long working hours, sexual violence, physical abuse and economic exploitation<sup>34</sup>. This explains the important variation in women work permits as shown in figure 20.

<sup>31</sup> Labour Migration for Employment - A Status Report for Nepal: 2015/16 – 2016/17

<sup>32</sup> Migration and Remittances: Recent Developments and Outlook Special Topic: Global Compact on Migration April 2017

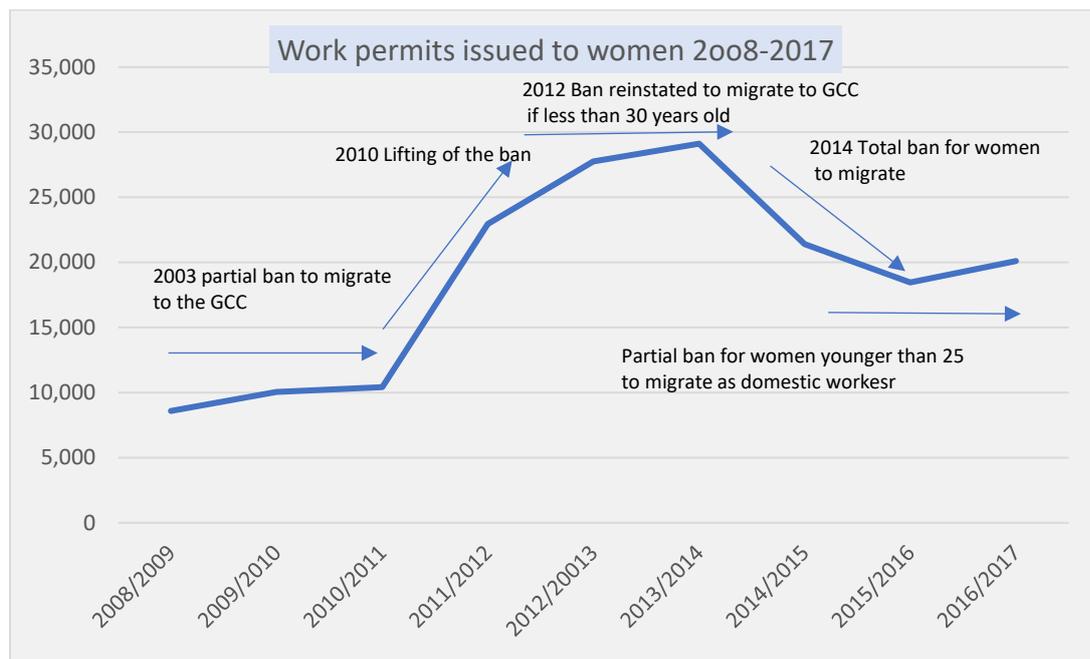
<sup>33</sup> The Role of Remittances as Effective Development Finance for Sustainable Development in Nepal 2016- IOM/EWHA/KOICA/GON/IDS.

<sup>34</sup> <http://www.hrpub.org/download/20180730/SA3-19611136.pdf>

After the 2003 partial ban was lifted in 2010 there was a 120 per cent increase in the number of work permits issued to women in 2011/12 along with a considerable increase in the proportion of women among all migrants, from 2.9 per cent to 6 per cent, when a partial ban was re-imposed in 2012, the rate of increase in absolute terms dropped and when a total ban was reinstated in 2014 the number of work permits released dropped considerably.

Though the GoN of Nepal doesn't record the cross-border migration with India, the Census of India (2001) <sup>35</sup>estimated of Nepali population to 640,862 of which 299,232 men and 341,630 women the only country with more Nepali women migrants than men. Though nothing is said about the Provinces of origin of the Nepali women migrants, one can infer that they are from Province 7, 6 and 5 because they contain the highest rate of illiterate women, the highest rate of women who don't own neither home nor land and the highest poverty head count. The cheapest destination to migrate to for these women (and men) remains India.

Figure 20. Work Permits Issued



Source Labour migration for employment 204/15 reworked by author

### 3.3 Migration by skills and sectors<sup>36</sup>

The records at the Department of Foreign Employment for the year 2013/14<sup>37</sup> reported that nearly 75 % of the migrant workers were unskilled, low level of skills is often associated with low paying occupations and bad working conditions.

<sup>35</sup> Source: Census of India 2001: Table D1\_India

<sup>36</sup> The Role of Remittances as Effective Development Finance for Sustainable Development in Nepal 2016-IOM/EWHA/KOICA/GON/IIDS.

<sup>37</sup> The DoFE data on skill classification after FY 2013/14 is not available.

Figure 21

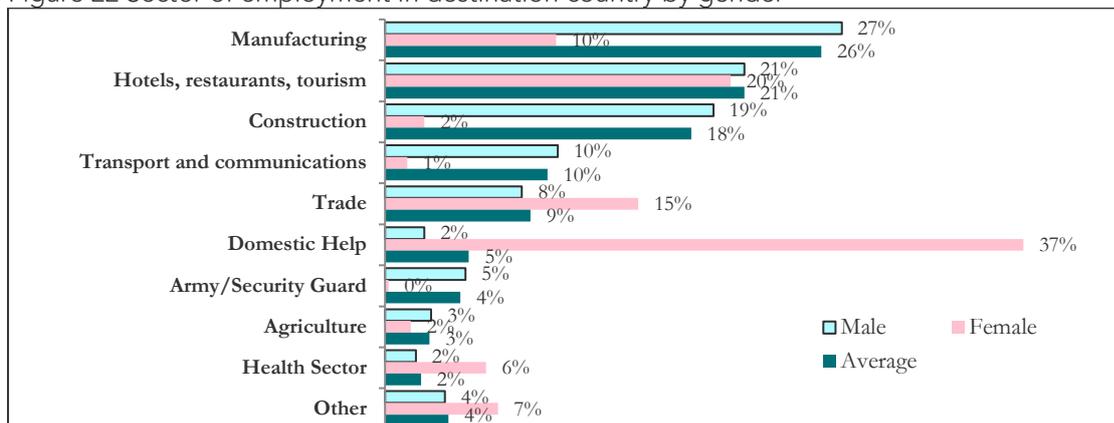


*Level of employment in destination country*  
Source: Migrant survey

The survey conducted by the IOM in 2015<sup>38</sup> brings some granularity to the previous statement. While 74% of the migrants are unskilled<sup>39</sup> and over 60% of migrant workers have either no education or a low level of education, only 31 per cent of those interviewed were engaged in unskilled work (figure 21). This indicates that many Nepali migrants manage to raise their qualifications while working abroad starting as unskilled workers. A closer analysis shows that women are more likely to be engaged in unskilled activities.

When we examine the division of labour between men and women (Figure 22) we see that men are employed predominantly in manufacturing (27% men compared to 10% women), construction (19% to 2%), transport & communication (10% to 1%) and army (5% to no woman). On the other hand, 37 per cent of women are employed in domestic care (2% of men), 15 per cent in trade (8% of men) and health sector (6% to 2%). Construction work, together with manufacturing are more prevalent among migrant workers with low levels of education, while those with higher level of education are more engaged in hospitality industry and trade.

Figure 22 Sector of employment in destination country by gender



Source : IASCI/IOM Migrant Survey

SSEP wants to reach 15,000 migrant women and wants to improve their salaries through skill training. The sectors where more women could be employed are, according to what was described in the previous paragraph, manufacturing, transport and communication and security for performing body searches of women in checkpoints. Diversifying from the domestic help (work) towards other sectors is also a possibility provided that the new sectors offer higher remunerations.

<sup>38</sup> The Role of Remittances as Effective Development Finance for Sustainable Development in Nepal 2016- IOM/EWHA/KOICA/GON/IIDS.

<sup>39</sup> Labour migration status report 2016-2017

### 3.4 Migration by province

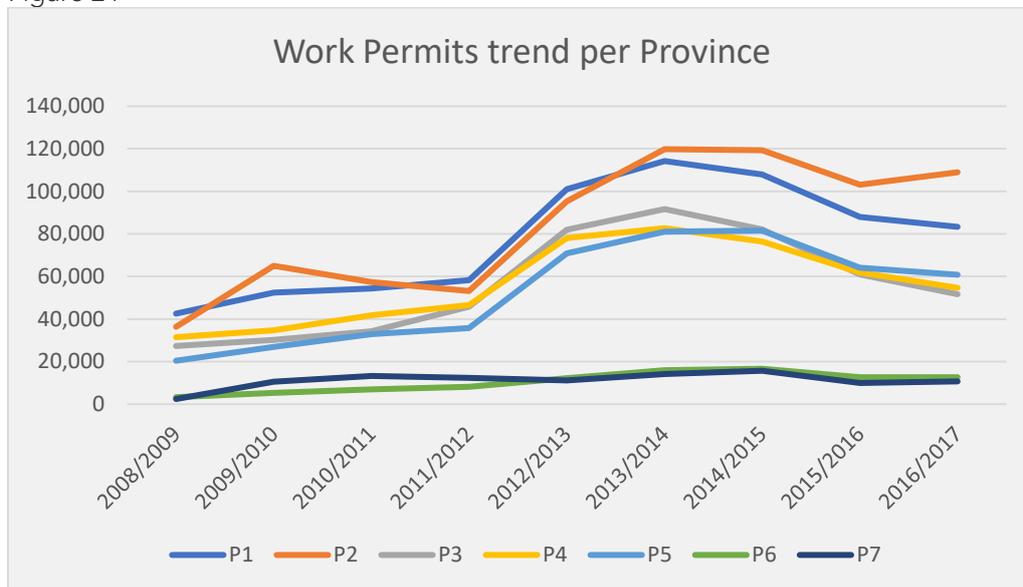
The majority of Nepali migrants are from province 2 and 1 with respectively 24.12% and 22.33% of the total migrant population (figure 23). While the ever-increasing migration trend seems to have peaked for most of the provinces, migration out of Province 2 seems to be increasing again (Figure 24).

The Janajati ethnic group is predominant among long-term migrants (40%), while the Dalit group is the smallest (9%). This caste profile resulting from the IOM/IASCI migrant survey is consistent with data from Nepal's CBS household survey.

Figure 23. Population Category

Population category	P1	P2	P3	P4	P5	P6	P7
Non-Dag Population	1,757,672	849,250	3,220,578	1,294,540	1,532,325	1,001,323	1,557,390
DAG Terai caste	277,766	2,423,991	59,589	8,358	576,777	2,810	35,960
Dalits	412,862	787,893	311,348	414,530	635,676	362,366	437,041
Janjati	1,923,376	716,299	1,887,148	662,251	1,441,972	201,177	516,223
Minority	775	1,001	13,995	6,507	194	0	11
Muslims	162,492	625,711	36,794	17,571	312,328	2,742	5,892
Total population	4,534,943	5,404,145	5,529,452	2,403,757	4,499,272	1,570,418	2,552,517
Non-DAG	39%	16%	58%	54%	34%	64%	61%
Dag	61%	84%	42%	46%	66%	36%	39%
Work permits issued since 2008	701,892	758,339	505,976	508,448	474,343	94,082	100,524
	22.33%	24.12%	16.10%	16.17%	15.09%	2.99%	3.20%

Figure 24



### 3.5 New migration corridors, G2G strategy

The GoN is well aware of the economy's dependence on remittances but the Government is even more concerned by the geographical concentration of its migrant population, 56.9 % in the GCC and 30% in Malaysia. A repeat of the invasion of Kuwait in 1990 with its consequences would leave Nepal facing a humanitarian crisis of incredible dimensions. There are about 700,000 Nepali migrants working in Qatar. This is why the GoN is trying to diversify the migration corridors in promoting new destination countries<sup>40</sup> through G2G agreements and MoUs (figure 25), and to improve the way Nepali migrants are recruited and treated and to guaranty their rights and security.

<sup>40</sup> <https://www.nepalisansar.com/news/task-force-suggests-new-destinations-for-nepali-migrants/>

Figure 25 G2G agreements and MoUs signed by the GoN since 2005 regarding migration

Destination Country	Year of Agreement	Nature of Agreement	Skills required	Capped fees and costs	Salary	quota
Qatar	2005 new proposal for a G2G 2018	General Agreement on recruitment procedures,	None (housemaids high in demand)	N/a	N/a	none
UAE	2007	MOU				
Republic of Korea	2007	MOU EPS (employment Permit System)	TOPIK Korean language proficiency exam	USD 1,000	USD 1,500	7,000migrants a year (2019)
Bahrain	2008	MOU				
Japan	2009	Directive (technical internship)	2-year experience	USD 500 (NPR 50,000)	USD 1,100-1,500	
Israel	2015	Joint Pilot Program	10 year of schooling proficiency in English	USD 1,000	USD 1,270	According to specific needs
Jordan	2017	General Agreement employer pays costs				
Malaysia	2018	MOU	No details to date			None

The Minister for Labour and Employment Gokarna Bista met with the Qatari ambassador Yousef Bin Mohamed Al-Hail and discussed the possibility of a G2G agreement between the two countries. Bista said during the meeting “we are ready to send workers of your choice but there should not be any sort of cheating while sending them to Qatar. They should not be exploited during their stay there,” adding, “That’s why we all should adopt G2G agreement so that anomalies will be checked.”<sup>41</sup> Nepal is also proposing a regional policy within the Colombo process and at the SAARC aiming at the streamlining of recruitment procedures and migrants’ rights protection.

The ILO is also actively promoting fair recruitment agreements and procedures, namely between Nepal and Jordan, involving apparel skill training programme, collaboration with recruitment agencies that have a proven model of fair recruitment, foreign employers and the destination country’s government.<sup>42</sup>

Finally, new migration trends are emerging and new corridors are being opened particularly by women. In Nepal men seeking migration permits fell by 5.83% in 2016/17, confirming an existing trend, while women’s permit demand grew by 8.95%<sup>43</sup>after the dramatic fall seen in 2014.

The multiple ban imposed by the GoN on women migration are partially responsible for this evolution, and so we can see that corridors (destination countries) such as Lebanon, Jordan, Cyprus are exclusively used by women (figure 26). Men in new destination countries are Afghanistan with 6,681 permits released, Poland which delivered 7,000 work permits to Nepalese in 2017,<sup>44</sup>Sri Lanka where 2,500 Nepalese have migrated to work in the construction sector, China where 16,000 Nepali migrants were working as per China’s 2006 census.

Figure 26. Destination Countries for Migrants

<sup>41</sup> <https://myrepublica.nagariknetwork.com/news/nepal-proposes-g2g-deal-with-qatar-for-sending-workers/>

<sup>42</sup> [https://www.ilo.org/wcmsp5/groups/public/---ed\\_protect/---protrav/---migrant/documents/meetingdocument/wcms\\_464656.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---migrant/documents/meetingdocument/wcms_464656.pdf)

<sup>43</sup> Labour migration status report 2016/17

<sup>44</sup> <https://visegradpost.com/en/2018/08/24/lacking-manpower-poland-relies-on-asian-immigration-besides-ukrainians-and-belorrussians/>

Top ten destination countries for Men	Work permits	In %	Top ten destination countries for Women	Work permits	In %
Malaysia	1,020,595	30.55%	Malaysia	26,550	15.72%
Qatar	745,987	22.33%	Qatar	9,982	5.91%
Saudi Arabia	708,904	21.22%	Saudi Arabia	5,236	3.10%
UAE	331,401	9.92%	UAE	40,721	24.11%
Kuwait	69,821	2.09%	Kuwait	18,933	11.21%
Republic of Korea	46,770	1.40%	Republic of Korea	3,040	1.80%
Bahrain	27,728	0.83%	Bahrain	0	
Oman	18,374	0.55%	Oman	3,783	2.24%
Lebanon	0		Lebanon	4,307	2.55%
Japan	11,693	0.35%	Japan	0	
Jordan	0		Jordan	4,020	2.38%
Afghanistan	6,681	0.20%	Afghanistan	0	
Cyprus	0		Cyprus	5,455	3.23%
Remaining Countries (tot 142 destinations)	352,787	10.56%	Remaining Countries (tot 142 dest)	46,869	27.75%
<b>Total permits delivered since 2008/09-2016/17</b>	<b>3,340,742</b>	<b>3,340,737</b>	<b>Total permits delivered since 2008/09-2016/17</b>	<b>168,896</b>	<b>168,896</b>

According to a recent survey conducted by a task force laid by Nepal's MoLESS the following new countries of destination offer a real potential for Nepali migrants particularly in the agriculture and manufacturing sectors:

Sweden, Denmark, Malta Czech Republic, Russia, Romania, Portugal, India China, Sri Lanka, Maldives Fiji and the Seychelles<sup>45</sup>.

The task force also mentioned that Nepali migrant workers could find ample job opportunities in around 19 countries offering high potential in the ship cruise industry and namely in services. The average cruise ship passenger capacity is around 3,000 guests for ocean liners and operates with a number of staffs ranging from 600 to 900. The jobs available on a cruise ship are in the sectors of service and hospitality, SPA, office occupations, and deck jobs. To date the FEPB and the DoFE haven't set up the recruitment modalities and the administrative procedures related to the visa requirement issues, demand letter etc., but clearly ship cruises offer jobs that satisfy the unskilled, semi-skilled and skilled categories.

The task force further reported that Portugal and two Indian Ocean island nations, Seychelles and Mauritius, are keen on welcoming Nepali workers and have already sent draft MoUs to recruit Nepalis under the Government-to-Government modality. For a more detailed description of the sectors and job categories where there is demand for foreign employment, please refer to Annex I.

Looking at the countries mentioned by the task force, we can broadly separate them in three groups. The first including the European countries looking for a mix of unskilled, semiskilled and highly skilled workers to tend to an ageing population, work in the service and production and the private sectors. The majority of the second group of countries is looking for cheap labour in sectors such as construction, janitorial, domestic workers where wages are too low for their domestic workers and the third group is looking for employees for the tourist and HORECA sector.

The Migration Component conducted a firm survey with the RAs (Deliverable A2.2.2) and here are some of the findings regarding existing and potential new corridors that should be explored and the sectors and job descriptions where demand is the highest (figure 27). The findings are in line with the findings of the MoLESS task force.

Figure 27 Summary of new destination and new occupation and monthly salary

Emerging country and occupation	Sector/Job description	Salary
Qatar	Oil and gas: welding	n/a
KSA	Oil and gas: welding	n/a
UAE	Hospitality	NRS 50,000 to 100,000.
Malaysia	Electronics	

<sup>45</sup> <https://www.nepalisansar.com/news/task-force-suggests-new-destinations-for-nepali-migrants/>

Emerging country and occupation	Sector/Job description	Salary
Japan	Agriculture: farmer, Services: caregiver Construction Manufacturing: factory worker	NRS 150,000 for factory worker
Poland	Construction: welder General labour Agriculture: Slaughter house	NRS 50,000 for general labour NRS 80,000 for welding
Malta	General labour	NRS 100,000
Europe	Hospitality	NRS 100,000
Portugal	Manufacturing: factory worker Agriculture: labour	n/a
Chez Republic	Services: care giver	n/a
Fiji	Hospitality	n/a
Brunei	Security	n/a

Source: सीप Migration Component Recruitment Agencies Survey 2018

The GoN and specifically the MoLESS have laid out their new strategy regarding migration that involves an important investment in skilling aspiring migrants. The available wages that could be earned after receiving an appropriately training and skilling are considerably higher than the average NPR 25,000 that unskilled workers earn in the construction and other low wage sectors in which the majority of Nepali migrants are employed (see figure 28 for jobs with higher salary potential).

Figure 28. Jobs that cannot be filled by the recruitment agencies due to a lack of skills in Nepal

Country	Job profile	Monthly salary
Qatar	Welding (in construction)	1,800 QAR (56,520 NPR) <sup>46</sup>
New Zealand	Skilled Carpenter	600,000 NPR
Qatar	AC technician	40,000 NPR
Oman	Shaft alignment	150,000 NPR
Oman	Pump Overhaul	100,000 NPR
Oman	Turbo Charge	60,000 NPR
KSA	Escalator Technician	2,200 SAR (66,220 NPR) <sup>47</sup>

### 3.6 India -Nepal corridor

India used to be the main destination country for Nepali workers until 1970 when the oil boom created a demand for foreign workers in the oil sector of the GCC countries. The literature covering the India-Nepal corridor is poor in reliable data and the existing "open border policy" between the two countries is often the reason given not to dig further when labour migration is concerned. Even DoFE excludes India from its statistics since it doesn't need to release work permits to Nepali who want to migrate there.

What is known is that India is by far the main destination country for short-term Nepali migrant workers. When combining short-term and long-term migrant stocks, India is the most preferred destination country with a total estimated number of 719,100 Nepalis currently working there (or 29% of the total long and short-term migrant stock).<sup>48</sup>

India is also among the top 5 countries with most returnees, Malaysia (32% of the total number of long-term migrant workers returnees), Qatar (24%), Saudi Arabia (17%), UAE (10%) and India (9%). The top four countries of destination with the highest proportion of Nepali working in informal economies are India (89% or about 535,000 individuals), USA (69%), Australia (58%) and Japan (54%).

<sup>46</sup> 1 QAR= 31.04 NPR

<sup>47</sup> 1 SAR= 30.10 NPR

<sup>48</sup> Maximising the development impact of migration in Nepal -© 2017 International Organization for Migration (IOM) and International Agency for Source Country Information (IASCI)

Moreover, historically, Nepali workers, mostly from Province 7 (previously Far-Western region) and Province 5 (previously Mid-Western region of Nepal) migrated to India to work as daily wage labourers or as security guards or in restaurants in Indian cities. Women went to work as domestic workers.

Because of the recurrent nature of migration to India over so many years, there are well-established migration “corridors” or networks between districts in Nepal and Indian cities that help new Nepali migrants to find work without the intervention of recruitment agencies.

India remains by far the most preferred country of destination for short-term migrant workers. 95 % or about 430,900 people choose India as their destination country and it will probably continue to be so when we consider the poverty level of the provinces of origin and the migration cost to migrate in other international destinations. A bus fare from Dhangarhi (Province 7) to Delhi (390km) will take 10 hours and cost USD 70, migrating to GCC will cost on average USD 1,400.

There is an important demand for Nepalese workers in the following sectors: services, agriculture, construction and security, a relatively good match between Nepali owned skills and the Indian job market. The GoN may be interested into formalising Nepali recruitment by Indian employers so to increase their wages and security. Maybe, the DoFE should start releasing work permits to go to India but this would require amending the Foreign Employment Act or maybe the GoN could sign an MOU not compromising the open border policy but bringing more order to the labour migration market.

In conclusion, India is the destination where the poorest segment of Nepali population migrates to, where the proportion of male/female migrants is inverted (more women than men) and with the highest concentration of Dalit migrants, whereas migrants of other social groups such as Janajati, Muslims and other minorities, the preferred destinations are the GCC. Malaysia is mostly preferred by the Madhesi middle-class.<sup>49</sup>

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<sup>49</sup> Analysis of Labour Market and Migration Trends in Nepal, GIZ, ILO, 2015.

## 4. M4P and migration

### 4.1 market system important to the poor

What matters to every individual and particularly to the poor is

- to have access to predictable and sufficient income and productive resources
- to ensure sustainable livelihoods
- to have access to affordable education
- Access to affordable health care
- Access to adequate housing
- Functional public institutions
- Access to a social safety net

### 4.2 How is migration working for the migrants?

Remittance income constituted a significant part of total income for migrant households. Remittances represented more than half of household income for 58 per cent of households, with 8 per cent of households having no source of income beyond remittances.

Nepal Central Bureau of Statistics (CBS) reported that the percentage of households receiving remittances increased from 23 per cent in 1995/96 to 56 per cent in 2010/11 and the share of remittance in household income increased from 27 per cent to 31 per cent in the same period (CBS 2011). More than half of all households in Nepal receive remittances and the positive impact of remittances at the micro level, i.e. the level of recipient household family in Nepal has been notable, the literacy rate has increased from 48 to 65%, life expectancy from 63 to 69 years, the GINI index has improved from 0.44 to 0.32, the HDI has improved from 0.44 to 0.55 and the percentage of the population living under the domestic poverty line has fallen from 40% to 25.16%.

In 2016, a Nepali long-term migrant HH had an average annual income of USD 7,188 (or about USD 600 monthly, as compared to about USD 200 for short-term migrants), of which USD 5,316 was saved.<sup>50</sup>

### 4.3 Market Failures affecting migration and points of intervention

Figure 29 sums up the market failures that we've been describing in detail. Our proposition is to address these through three **सीप** Challenge Fund windows or points of intervention for the Migration component. They are: 9) *Financial products for lowering the cost of migration* 10) *Migrant Skilling ethical recruitment*, 11) *Access to factual information (innovative technology)*, 12) *Financial products for savings and investments*, 13) *Financial literacy* -

For instance through the model 9) the project will be able to procure loans to migration at market rates, about 17% per annum cheaper. The model 10) will promote the transition between job categories, namely from unskilled to semiskilled and therefore increase a migrant's revenue by an estimated 40%. Model 11) will promote the access to factual information that will help migrants in making informed decisions about migration. By providing migrants with a cost and benefit analysis, information on the skill requirements abroad and the real wages corresponding to their skills MRC will implement the migration management policies at the provincial and or municipal level if so decided by the new Federal Government. Module 12) will cover the provision of financial products to households by the BFIs, MFIs and MTOs. Finally the model 13) will provide tailored financial literacy at both the departing migrants and their family members.

Since financial literacy is cross-cutting it may well be that one participant may attend two or more training modules, for instance the modules for model 13) and model 9). The financial literacy provider will make sure that the candidate will be only counted once in the final attendants tally. On the other hand if a member of the household (non-migrant) attends the module under model 12) and the departing migrant of the same household follows another module for instance under model 9), they will be counted as distinct (different) attendees. Finally if the financial literacy course provider procures all

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<sup>50</sup> Ibidem

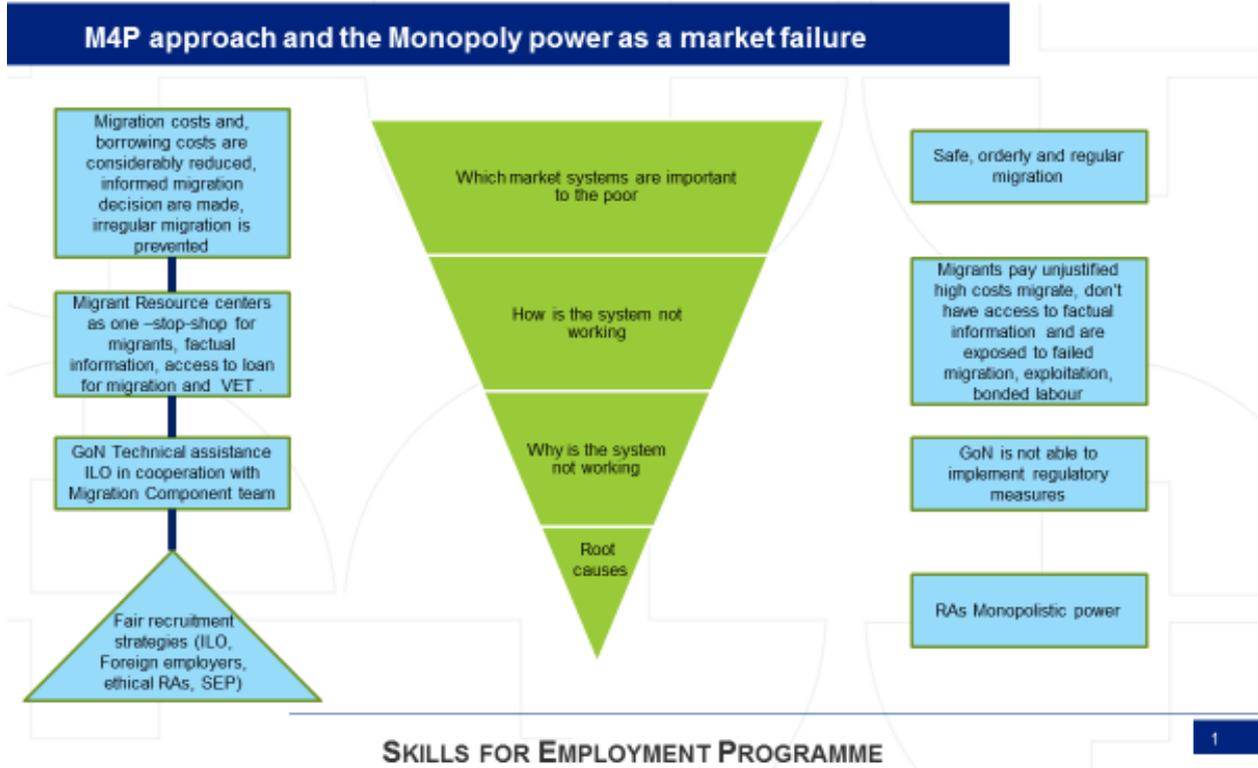
the modules under all the models, the Challenge Fund participation will be reduced and shall not exceed 50% of the cost.

To better illustrate how the M4P approach has been used for determining the intervention points through all the market failures please refer to figure 30.

Figure 29 Market failures affecting the migration process in Nepal.

Market Failures				
Capital Market Failure (missing market)	Labour Market Failure	Information failure (Information asymmetry)	Inequitable Access	cross cutting
BFIs fail to produce financial products requested and needed by Migrants	Majority of Nepali migrants is unskilled, skill mismatch for better paying jobs abroad, loss of acquired skills and motivation for returnee migrants due to mismatch between acquired skills and jobs available in Nepal	RAs are the sole providers of information on job availability abroad. Migration decision is based on hearsay,	migrants households don't have access to financial products that could increase their propensity to save	Migrants/returnees and migrants households lack the skills to understand the opportunities offered by financial products.
Model 9	Model 10	model 11	Model 12	Model 13
<i>Financial products for lowering the cost of migration</i>	<i>Migrant Skilling</i>	<i>Access to factual information (innovative technology)</i>	<i>Financial products for savings and investments</i>	<i>Financial literacy</i>
BFIs and MTOs offer loans, remittance and other products relevant to migration	Fair recruitment Agencies and other stakeholders provide training for the most requested sectors	Migrants access innovative technology for factual information on job opportunities and skills required for higher income	1) BFIs make savings schemes and insurance products more accessible to migrant households 2) BFIs and MFIs make microfinance loans more accessible to migrant households	Organisations deliver tailored financial literacy to migrant households, women and DAGs

Figure 30 Example of M4P addressing the Monopoly Power.



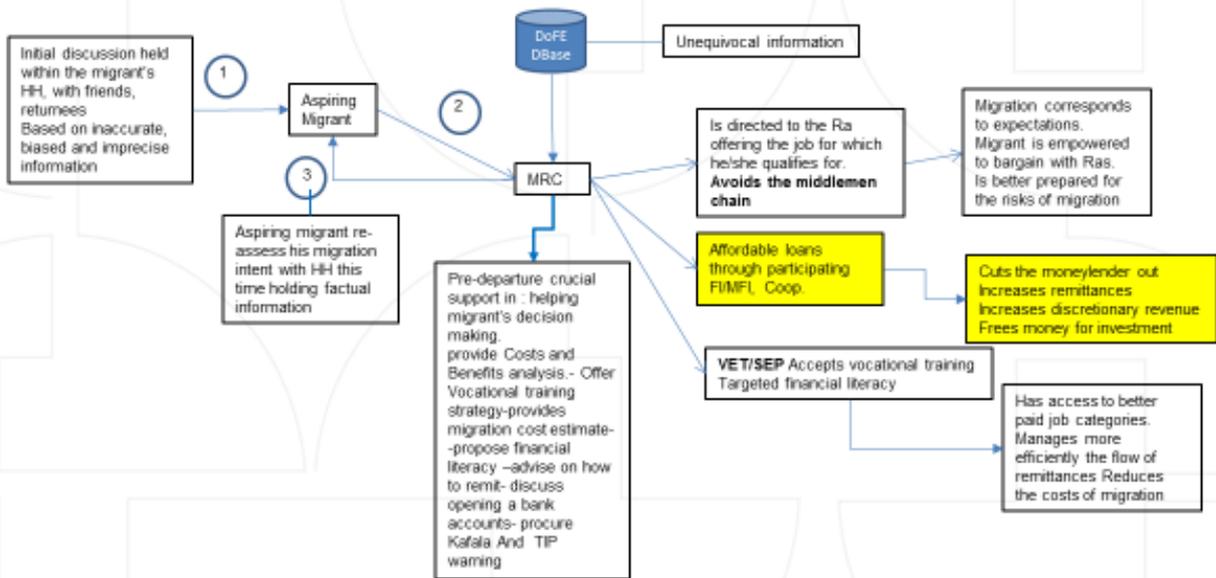
## Caveats

In our stakeholder mapping report, we described how the inability of both the GoN and the public authorities of the destination countries were not able to effectively regulate the migration process and market. The consequences are that 60 to 70% of the costs of migration are due to this lack of regulation (visa trading, visa gathering, etc.).

Another similar situation regards the MRCs, (please refer to model 11) they are an essential tool for reaching सीप objectives. Acting as "one-stop-shops" for migrants they are the perfect place through which the financial sector, partners specialised in providing training and skilling could reach the migrants and from where develop fair recruitment strategies as explained in figure 31.

Figure 31 the role of the MRC as a one-stop-shop migration centre.

## Strengthen Migrants Resource Centres



It is yet too early to ascertain in which sphere of government the management of MRCs will fall. ILO and SAMI see MRCs operating under the responsibility of Pallikas, each MRC acting as a hub for smaller Pallikas. Others would rather see the MRCs acting under the Provincial government rules and be the implementing agents of the Province's migration management policy. New approaches on how to manage the migration process under the new Federal structure may arise following the spirit of the Local Government Act. Whichever the case the importance of MRCs role in the migration process is acknowledged.

## 5. Conclusions

### The beneficiaries

The potential beneficiaries of the सीप are to be found in province 7, 5, and 2. These are the provinces with the highest concentration of poor young illiterate Nepali and DAG's group. They earn a daily remuneration which ranges between the national extreme poverty line and Nepal's minimum wage equivalent to USD 3.84 per day, women are the poorest members of this category.

Short term migrants and long-term migrants are two distinct groups with different socio-economic background. The poorest migrants constitute the absolute majority of the short-term category and migrate to India, where according to the 2001 Indian census Nepali women exceeded the number of men. First-time long-term migrants represent the category most exposed to the market failures affecting migration. Elevating migrants from the unskilled to semi-skilled category can increase their revenues substantially. There is a negative externality that needs to be addressed, सीप needs to support domestic skills market substantially if it wants to prevent skilled Nepali from migrating.

### Remittances and productive investment

When we looked at the allocation of the remittances per group, we found that the share of remittances spent on daily consumption is determined by the initial asset amounts of the household. For the poorest households, the allocation will be prioritised by the satisfaction of urgent needs: food security, housing security, health and education. Long term migrants who could afford more expensive migration corridors and higher salaries have a substantially different consumption pattern spending only 40% of their remittances for daily consumption and 25% in purchasing real estate.

Both categories of migrants are willing to invest their savings and remittances into productive investments but are prevented from doing so specifically by the absence of markets, namely credits and financial products targeted to their needs, the lack of an investment conducive environment will likely be solved by the new measure the GoN has announced in its first Federal Budget Plan (208-2019).

### Corridors

India remains the favourite destination for Nepali migrants, the following corridors: Province 5/India, Province 2/India (and Province 7) should be considered as priority corridors for short term migrants since they contain the highest proportion of सीप targeted beneficiaries. The same provinces should be prioritized for other corridors, particularly Province 2 and 5 from where the majority of migrants going abroad originate from.

The GoN diversification strategy is opening up new migration corridors. The sectors for which the demand for foreign workers is high vary according to the destination country. The skilling and training aspiring migrants should be receiving will also depend on their initial literacy level and the destination countries conditionalities. For example, European countries like Sweden and Denmark with ageing population and Israel need caregivers who are requested to be proficient in English, the Korea EPS system requires migrants to pass the TOPIK test to prove their familiarity with the Korean language.

### Skilling and training

सीप is based on a demand driven model and so skilling must be used to match the foreign employment market demand with the Nepali migrants' skills. According to existing and new potential corridors and the Firm Survey the Migration Component team as conducted with RAs, the sectors for which trainings and skilling should be provided are: Health, Horeca, Hospitality and Tourism, Construction, Manufacturing, and Agriculture. In a follow-on report, we will discuss the windows of intervention (the models) that respond to the market failures addressed and select those that could be used as pilots.



## Annex II: Principal Indicators of Manufacturing Establishment by type 2011/2012

Principal Indicators of Manufacturing Establishments by Type and Nepal standard Industrial classification 2011/2012					
NSIC	NSIC name	No of Estbs	No of Persons engaged	No of persons employed	Wages, salaries & facilities in '000 Rs
1010	Processing and preserving of meat	3	145	138	13,544
1030	Processing and preserving of fruit and vegetables	7	372	352	37,501
1040	Manufacture of vegetable and animal oils and fats	36	2,160	2,089	238,311
1050	Manufacture of dairy products	56	2,049	1,915	313,041
1061	Manufacture of grain mill products	575	10,001	8,745	860,343
1071	Manufacture of bakery products	112	3,207	2,893	265,351
1072	Manufacture of sugar	54	3,296	3,172	189,616
1073	Manufacture of cocoa, chocolate and sugar confectionery	17	1,341	1,291	166,602
1074	Manufacture of macaroni, noodles, couscous and similar farinaceous products	16	3,650	3,599	447,327
1079	Manufacture of other food products n.e.c.	67	3,440	3,268	231,007
1080	Manufacture of prepared animal feeds	40	1,837	1,725	274,509
1101	Distilling, rectifying and blending of spirits	29	2,756	2,656	300,488
1102	Manufacture of wines	2			
1103	Manufacture of malt liquors and malt	3	723	716	128,413
1104	Manufacture of soft drinks; production of mineral waters and other bottled	54	2,014	1,893	313,002
1200	Manufacture of tobacco products	30	1,637	1,585	252,361
1311	Preparation and spinning of textile fibres	12	8,592	8,568	806,055
1312	Weaving of textiles	109	8,224	7,949	688,478
1313	Finishing of textiles	6	89	78	6,963
1392	Manufacture of made-up textile articles, except apparel	15	322	265	21,812
1393	Manufacture of carpets and rugs	135	5,096	4,799	364,512
1399	Manufacture of other textiles n.e.c.	11	177	161	14,540
1410	Manufacture of wearing apparel, except fur apparel	50	1,636	1,507	140,525
1430	Manufacture of knitted and crocheted apparel	21	980	924	89,700
1511	Tanning and dressing of leather; dressing and dyeing of fur	8	416	390	33,174
1512	Manufacture of luggage, handbags and the like, saddlery and harness	2			
1520	Manufacture of footwear	40	1,524	1,447	133,587
1610	Sawmilling and planing of wood	228	3,176	2,712	216,252
1621	Manufacture of veneer sheets and wood-based panels	77	3,517	3,344	257,384
1622	Manufacture of builders' carpentry and joinery	4	54	49	6,400
1629	Manufacture of other products of wood; manufacture of articles of cork, straw and p1la0iting materi2a8ls	10	287	268	16,495
1701	Manufacture of pulp, paper and paperboard	31	1,009	924	79,986
1702	Manufacture of corrugated paper and paperboard and of containers of paper and pa5p4erboard	54	1,749	1,656	158,124
1709	Manufacture of other articles of paper and paperboard	7	151	124	10,953
1811	Printing	86	2,070	1,834	254,786
1812	activities related to printing	8	206	187	23,606

Principal Indicators of Manufacturing Establishments by Type and Nepal standard Industrial classification 2011/2012					
NSIC	NSIC name	No of Estbts	No of Persons engaged	No of persons employed	Wages, salaries & facilities in '000 Rs
1920	Manufacture of refined petroleum products	6	404	399	52,475
2011	Manufacture of basic chemicals	12	406	379	55,020
2012	Manufacture of fertilizers and nitrogen compounds	5	153	140	11,734
2013	Manufacture of plastics and synthetic rubber in primary forms	10	244	228	26,752
2021	Manufacture of pesticides and other agrochemical products	3	79	74	9,167
2022	Manufacture of paints, varnishes and similar coatings, printing ink and mastics	14	501	5	458
2023	Manufacture of soap and detergents, cleaning and polishing preparations,	34	1,709	1,637	265,294
2029	Manufacture of other chemical products n.e.c.	2			
2100	Manufacture of pharmaceuticals, medicinal chemical and botanical products	51	4,405	4,203	607,910
2211	Manufacture of rubber tyres and tubes; rethreading and rebuilding of rubber tyres	5	426	422	68,213
2219	Manufacture of other rubber products	3	60	58	7,686
2220	Manufacture of plastics products	229	7,318	6,820	689,285
2310	Manufacture of glass and glass products	6	131	118	15,694
2391	Manufacture of refractory products	606	77,883	76,672	3,395,809
2392	Manufacture of clay building materials	9	281	260	16,364
2393	Manufacture of other porcelain and ceramic products	5	181	173	13,312
2394	Manufacture of cement, lime and plaster	42	4,643	4,543	818,405
2395	Manufacture of articles of concrete, cement and plaster	111	1,767	1,528	144,531
2396	Cutting, shaping and finishing of stone	149	2,900	2,541	268,576
2410	Manufacture of basic iron and steel	20	4,917	4,863	651,463
2420	Manufacture of basic precious and other non-ferrous metals	13	941	911	114,100
2431	Casting of iron and steel	8	259	232	27,021
2432	Casting of non-ferrous metals	2			
2511	Manufacture of structural metal products	135	3,640	3,306	401,594
2512	Manufacture of tanks, reservoirs and containers of metal	5	309	297	47,459
2591	Forging, pressing, stamping and roll-forming of metal; powder metallurgy	5	834	808	103,784
2592	Treatment and coating of metals; machining	2			
2593	Manufacture of cutlery, hand tools and general hardware	5	74	67	5,720
2599	Manufacture of other fabricated metal products n.e.c.	77	1,941	1,793	180,626
2640	Manufacture of consumer electronics	5	516	503	75,897
2710	Manufacture of electric motors, generators, transformers and electricity distribution	9	185	159	17,826
2720	Manufacture of batteries and accumulators	3	275	268	26,380
2732	Manufacture of other electronic and electric wires and cables	9	605	585	73,623
2733	Manufacture of wiring devices	4	56	44	4,424
2750	Manufacture of domestic appliances	6	235	224	21,872
2790	Manufacture of other electrical equipment	2			
2811	Manufacture of engines and turbines, except aircraft, vehicle and cycle engines	7	362	342	63,653
2813	Manufacture of other pumps, compressors, taps and valves	3	87	77	5,179

Principal Indicators of Manufacturing Establishments by Type and Nepal standard Industrial classification 2011/2012					
NSIC	NSIC name	No of Estbs	No of Persons engaged	No of persons employed	Wages, salaries & facilities in '000 Rs
2819	Manufacture of other general-purpose machinery	1			
2821	Manufacture of agricultural and forestry machinery	4	62	50	4,631
2822	Manufacture of metal-forming machinery and machine tools	1			
2825	Manufacture of machinery for food, beverage and tobacco processing	2			
2826	Manufacture of machinery for textile, apparel and leather production	3	320	314	38,571
2829	Manufacture of other special-purpose machinery	4	60	49	5,082
2910	Manufacture of motor vehicles	4	204	202	18,079
2920	Manufacture of bodies (coachwork) for motor vehicles; manufacture of trailers	10	156	138	13,684
3100	Manufacture of furniture	390	5,734	4,790	534,102
3211	Manufacture of jewellery and related articles	11	179	145	24,685
3290	Other manufacturing n.e.c.	8	277	257	24,955
3314	Repair of electrical equipment 1	1			
	Total	4,076	203,622	193,847	16,305,843