Bringing home remittances by rural poor in Mid and Far West Nepal from India

A Situation Report

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Oxfam

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Study carried out by Centre for Micro Finance

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Oxfam in Nepal

Foreword

Remittance has become a significant and integral part of the Nepalese economy. Due to this, there is increasing concern on the part of the government and other stakeholders toward the situation of Nepalese migrant labor around the world. However, very little effort has been made to address the genuine issues of Nepalese migrant workers in India. One of the major issues of Nepalese migrant workers in India is related to the use of formal remittance transfer channels. Due to high dependency on informal remittance methods, migrants in India are facing risks of losing their hard-earned money as they frequently face problems like theft, bribery and high costs.

Despite the existence of a formal remittance channel, there are many obstacles for migrant workers in using it. This is generally not an issue of cost, as the formal channel is usually cheaper than informal ones. Lack of awareness, difficulties to access services and trouble over identification documents have been the major hindrances. This issue is highly relevant in the Mid-West and Far-West Regions of Nepal where there is a very high propensity for migrating populations to leave for India.

The study has also revealed that improving access to remittance services at reasonable costs is not the only need of Nepali workers in India. They also would benefit greatly from education in financial management as well as choosing how to best utilize their earnings for their families' benefit and productive purposes.

I would like to thank everyone involved in conducting this study. With its excellent analysis, it has been able to yield a vivid picture of the remittance issues of Nepalese migrants to India and has provided some valuable conclusions. I have confidence that this study will be instrumental for policymakers, donors, planners and implementers in the field of remittances. Oxfam in Nepal would like to thank the following for being supportive and for their substantial contributions:

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Scott Faiia
Country Director
Oxfam in Nepal

Executive Summary

Migration is an established phenomenon in all world cultures. People migrate to cope with demographic pressure, poverty, natural disaster and conflict of various kinds, or simply for better opportunities elsewhere. In Nepal, economic hardships, social stratification, and political unrest have cumulatively led to labor migration.

Remittances are the financial counterparts of migration. In recent years, remittance has emerged as a new strategy for poverty alleviation in developing countries as it percolates to the poorest section of society. It is a more consistent source of income in a developing country than official development assistance, foreign direct investment and other private inflows. This has proven true in Nepal also.

Over time, the share of remittance has continued to grow significantly in the Nepalese economy. The real value of remittance to Nepal increased 76 times during the 18-year period between 1991 and 2008, with remittances now reaching over NRs 139 billion (equivalent to US$2 billion). It has contributed to poverty reduction as is identified as one of the reasons for the decline in poverty from 41.7 percent in 1995/96 to about 30.9 percent in 2003/04. According to the Migration Factbook 2011 (World Bank), remittance contributes 23 percent of the GDP of Nepal.

India has remained the major destination for Nepali migrants for a long time because of higher income opportunities there than in Nepal, lower cost of travel, and visa-free entry. Ethnic, community and family ties prevalent across the Nepal/India border also minimize the migration uncertainties and costs. Even though migration to India is decreasing with the opening of new labor markets after 1980s, the volume of migration and resulting remittance from India are still significant. The 2001 Population Census conducted by the Central Bureau of Statistics (CBS) estimated 589,050 Nepali migrants to be in India (77.3% of a total absentee population of 762,181). However, several other studies have estimated that it could be as high as 3 million.

Despite the significance of migration to India and remittance from there, policy makers have failed to give enough attention to the phenomenon. Migration to India is not addressed in the Foreign Employment Act (2007) and Foreign Employment Regulations (2008) of Nepal. While the government is making efforts to regulate migration to other countries, issues related to migration to India are ignored. Similarly, there are no policies to govern the remittance flow from India.

Migration to India is a survival strategy rather than a means to prosperity for the population of the Mid-West and Far-West regions of Nepal. Most of the men in these regions migrate to India because of their poor economic situation. It is worth noting that women from these regions don't migrate to India for employment.

People migrate to India during the lean farming seasons to augment their farm income and as a consequence the migration trend follows the agricultural season. They return to Nepal during the sowing and harvesting seasons and go back to India when the farming season is over. An estimated 60% of the migrants to India are seasonal migrants. Similarly, most of the remittance money is used by migrant families for household consumption. After consumption expenses, there is very little money left for investment due to which remittance has not been able to generate any long-term positive impact on the migrants' economic situation.

Remittance from India is limited to survival purposes because Nepali migrants there are usually less-educated and unskilled people who migrate at an early age. They are employed in low paying unskilled or semi-skilled jobs such as porter, driver, watchman, peon, cook and unskilled hotel jobs which pay a minimum average salary of IRs 2,500 to a maximum average salary of IRs 5,500 per month.

Migrant workers from the Study area mainly go to Gujarat, Delhi, Banglore, and areas of Uttarkhand and Himachal

Pradesh such as Almoda, Nainitaal, Bageshwar, Gangolihat and Simla. Non-seasonal migrants go to Gujarat, Delhi and Bangalore and stay for longer periods of between one to one and half years while the seasonal migrants generally go to Uttarkhand and Himachal Pradesh and stay at most for six months.

Migrant workers go to India mostly with family members, relatives or friends. Also, there are also some migrations agents who help people travel to India and find jobs. These agents bear the travel and accommodation costs until the migrant finds a job. Others borrow from informal sources, especially when they migrate to India for the first time. The interest rate on these loans from the informal sector varies between 36 to 60 percent per annum.

Migrant workers in India save 15 to 100 percent of their income. The percentage amount depends more on an individual's saving habits than the type of job held. Their average monthly remittance is IRs 1,800 which is equivalent to NRs 2,880. The remittance is not sent at fixed intervals but depends on a family's monetary needs. People usually carry remittance money with them in cash when they return to Nepal. They also send it through friends and relatives going to Nepal if their family is in need of the money.

Informal remittance transfer has its own consequences. There were several incidents among the Study participants where people were either robbed or lost their money. More problematic are the border hassles that occur while migrants return from India. In Addition, informal remittance transfers are irregular due to which the migrants' families must depend on credit for securing their daily living supplies. This raises the possibility of exploitation by local traders as migrants' families sometimes have to depend on credit for more than a year.

The informal method of personally carrying or sending money through friends and relatives also has its own direct and indirect costs. In practice, the migrants pay a commission of 5 to 10 percent as costs for tea and snacks to the person carrying money to their homes in Nepal. This is acceptable as the carrier bears considerable risk while carrying the money and bears personal liability in case of loss of the money. The indirect cost is the bribe that inevitably needs to be paid to border officials. The ongoing 'rate' as stated by Study participants is between IRs 500 to 800, which every migrant is compelled to pay. It can be higher if the migrant is found to be carrying a large sum of money. While it is not illegal to carry money across the India/Nepal border, except for bank notes in denominations of IRs 500 or IRS 1,000, every migrant must pay the bribe when they are identified as migrant. Migrants are also vulnerable to border hassles because they often carry bank notes in denominations of IRs 500 and 1,000 to reduce the physical volume of the money. The Nepalese Government has made possession of these high-denomination Indian bank notes illegal in Nepal.

A formal channel of remittance transfer exists across the India-Nepal corridor. It is targeted at Nepali migrants in India and is called the Indo-Nepal Remittance Scheme. This initiative of the Reserve Bank of India is intended to develop a strong cross-border remittance facility that is low-cost and efficient. According to the arrangement, there are around 62,000 NEFT (National Electronic Fund Transfer)-enabled commercial bank branches in India that can receive transactions which are then centralized at the State Bank of India (SBI). At the Nepalese end, account credit transactions are handled by Nepal SBI Bank Limited (NSBL) through its 17 branches. Cash transactions are transferred to Prabhu Money Transfer (PMT) for payment from its over 900 locations.

As per the remittance scheme, any walk-in customer can deposit cash up to IRs 50,000 for transfer to a beneficiary in Nepal. It is not necessary to have a bank account at the recipient's end. The sender must, however, produce an acceptable identity document to use this service. As the scheme is targeted at migrants, transfer charges are affordable. The applicable charges are IRs 70 to transfer an amount up to IRs 5,000 and IRS 95 to transfer a higher amount up to a maximum upper limit of IRs 50,000. A remitter in India is allowed to send up to 12 remittances in a year with a maximum limit of IRs 50,000 per transaction.

Although the scheme is targeted at migrants and has many good features, it has not as yet been successful in formalizing the remittance flow due to several bottlenecks. The scheme has not as yet been marketed to the migrant population and as a consequence most of the migrants are unaware of the facility even after almost three years of operation. In addition, an ID is required to transfer money and most migrants do not possess an acceptable one i.e. passport, permanent account number (PAN), driving license, telephone bill or certificate of identification issued by an employer. Furthermore, the prohibition against Money Transfer Operators (MTOs) working in India directly and the limited payment network at the recipient end are also bottlenecks.

A program intervention is required to promote use of the formal remittance transfer channel and subsequently the development of remittance-based financial products. The intervention should focus on policy advocacy on such matters as migrant ID, creating awareness among migrants and their families of the formal remittance channel and its procedures for sending money, and building the necessary network of payment facilities for recipients. A model is proposed for building the recipient network by linking Microfinance Institutions (MFIs) with MTOs (Prabhu Money Transfer in this case). MFIs have the advantage of location, client relationship, and financial service provision, which can be leveraged to develop a successful money transfer network. Formalizing remittance transfer is the way to develop remittance-based financial products/services for migrant families that will in turn create the intersection between remittance and development.

Abbreviation

CBS	Central Bureau of Statistics
CMF	Centre for Microfinance
DDC	District Development Committee
FGD	Focus Group Discussion
FWDR	Far-Western Development Region
GoN	Government of Nepal
IRs	Indian Rupees
MFI	Microfinance Institution
MTO	Money Transfer Operator
MWDR	Mid-Western Development Region
NEFT	National Electronic Fund Transfer
NRB	Nepal Rastra Bank
NRs	Nepalese Rupees
NSBL	Nepal SBI Bank Limited
PAN	Permanent Account Number
PMT	Prabhu Money Transfer
RBI	Reserve Bank of India
SBI	State Bank of India
VDC	Village Development Committee

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1 Introduction and Background

1.1 Introduction

Labour migration is not a new phenomenon in Nepal. Economic hardships, constraints imposed by social stratification, and political instability have cumulatively led to consistent labour migration, with India being the dominant destination. The situation of the Nepal-India migration corridor is characterized by slightly higher income opportunities in India, lower initial cost of travelling to India, and most important, visa-free entry. Furthermore, migration uncertainties and costs are minimized due to the ethnic, community and family ties that exist across the Nepal/India border.

Migration to India is generally a livelihood strategy adopted by the poorest Nepalese households which have otherwise little or no income generating capability. Migration to India is seen as a coping strategy in times of crisis which is more of a norm rather than an exception. In fact, it has become embedded in the lifestyle of rural Nepalese households.

Table 1: Percent (%) of Total Migrants going to India

	1981	1991	2001
MWDR	96.33	94.35	95.16
FWDR	96.06	95.27	99.28
Source: CBS, Population Census Statistics			

With the opening of new labour markets in other countries after 1980, a migrant's destination options have increased. Because of this development, migration to India has slowed. Studies conducted on migration focusing on the Mid and Far West regions of Nepal, however, reveal that India still is the principal destination of migrants from these regions while an insignificant number of people go elsewhere. This finding is in line with the population census data (CBS) which shows that the percentage of the migrant population going to India has remained almost constant or even increased between 1981 and 2001.

The impact of migration falls on the migrant and his family. The most important impact is financial remittance because economic well-being is one of the strongest motivators for migration. Important as it might be, there are several issues surrounding remittance, especially along the Nepal-India remittance corridor, that makes it an issue of concern. While opinion is unanimous that remittance is an indispensable contributor to the Nepalese economy, opinions vary on whether this remittance can prove to be a catalyst for sustainable economic development.

The most common feature of migration to and remittance from India is its inherent informality. Since movement across the Nepal/India border is undocumented, the remittance received from India is an estimate because of the informal channels used to transfer the money. People normally bring money back to Nepal either themselves or send it with a friend or relative. The Nepal Living Standard Survey (2003/04) states that of the total remittance received from India, only 3% comes through the formal channel. This informality largely limits the potential of remittance to contribute to the sustainable livelihood strategy of households.

In this context, a team was set up by Oxfam in Nepal to conduct a Situation Study of Migration and Remittance in the Mid and Far West regions of Nepal, focussing on India. The Study's objectives were to carry out migrant mapping; gain an understanding regarding the crucial issues surrounding migration and remittance in Mid and Far West Nepal; and recommend appropriate strategy to formalize the remittance transfer process in order to leverage migrant remittance. Leveraged remittance could then be used to offer financial services as well as utilized in productive asset formation.

1.2 Problem Statement

In the absence of reliable information on the migration status from the Mid and Far West regions of Nepal to India, the potential of formal remittance transfer facilities in these regions along the Nepal- India corridor is unknown. The difficult geography has always been seen as the principal barrier to extending such facilities in these areas but no effort has been made to identify the underlying potential. Consequently, lack of a strong formal remittance mechanism has resulted in migrants from these regions falling victim to the unfair practices prevalent in informal channels; prevented them from utilizing remittance assets productively; and has largely limited the sustainable development potential of remittance for households.

At present, most remittances are brought back to Nepal by the persons who migrate, or by a relative or friend. The most obvious disadvantage of this method of transfer is the possibility of theft and infrequent payment to recipients. Even though remittance is a regular and predictable source of income, the prevalent informal method of transfer results in lost opportunity to develop financial services and ultimately investment in productive assets for the migrant's economic sustainability.

1.3 Study Objectives

This Study is intended to explore migration trends and patterns in the Mid and Far West regions of Nepal, with particular focus on migration to India. It explores the issues related to remittance (transfer and use) in these areas. Specifically, it:

- Provides a detailed mapping of the migrants of the Mid and Far West regions of Nepal in order to identify:
  - Household and migrants' social and economic profile
  - Financial issues and considerations in relation to migration
  - Pre- and post-migration status of migrants and their families
- Explores the current remittance transfer mechanisms: their reliability, policies and practical barriers to formal remittance transfer from India to Nepal
- Develops an approach and program interpenetration modality based on the Situation Study

1.4 Study Rationale

Migration to India is a common feature of the livelihood strategy of Nepali people across development regions. Despite this, there are important reasons for choosing the Mid and Far West regions of Nepal for this Study:

- Almost 100% of the migrant population of the Mid and Far West regions still migrate to India even though the percentage of the migrant population going to India is falling at the national level and for Nepal's other development regions. This shows that migration to India still remains an important livelihood strategy for most of the households in these two regions.
- The poverty level in the Mid and Far West regions of Nepal is well above the national average. Remittance has been one of the main sources for economic development in most developing economies including Nepal. As a consequence it becomes necessary to explore and acknowledge the role of migration and remittance in shaping the socio-economic condition of people in these societies as well as make an effort to utilize the remittance for sustainable development.
- The geographical remoteness of the area makes these two regions less attractive to remittance service providers due to which migrants continue to depend on informal mechanisms. If a mechanism can be developed for formal remittance transfer in these regions, the remittance can be leveraged to offer bundled services to recipient households and help them use remittance in productive areas.

1.5 Study Methodology

The Study is based on primary and secondary information sources. Specifically, the following approaches are used for data and information collection:

- **Analysis of Secondary Information Sources and Policy Review:** This approach is used to explore the general context of migration to and remittance from India and identify the issues surrounding the subject. A review of available acts, regulations and bylaws governing migration and remittance is made to understand existing policies and their implications.
- **Focus Group discussions and Case Study:** Altogether eight (8) FGDs were conducted in Dailekh and Dadeldhura districts, four (4) FGDs in each district among migrants and/or their family members. The purpose of the FGD is to collect information at the individual migrant level for migration mapping and to identify the issues surrounding migration to India and remittance transfer.
- **Interviews with Key Informants:** The key informant interviews are conducted with stakeholders who could provide insights into the issue of migration and remittance. Key informants include people from district development committees (DDCs), money transfer operators (MTOs), and financial institutions (FIs).

Pic: Focal Group Discussion

Sample Size

Table 2: Field Study Sample

District	VDCs	FGDs	Participants
Dailekh	Gamaudi	2	9+10
	Bindyabashini	1	12
	Chhiudi Pusakot	1	10
Dadeldhura	Alitaal (Siradi-3, Chai-6)	2	12+9
	Gankhet (Nikane-9)	1	12
	Ganeshpur (Mailoda-4)	1	12
Total		**8**	**86**

Four (4) FGDs were conducted in three (3) VDCs of each district, a total of eight (8) FGDs in Dailekh and Dadeldhura districts. The selected VDCs are the program areas of Oxfam in these districts. FGD participants were randomly selected based on their availability, by representatives of the local partner organizations of Oxfam, Sustainable Development and Environment Conservation Centre (SuDEC) in Dailekh and Integrated Development Society (IDeS) in Dadeldhura. Each FGD had a more than 50 percent representation of migrants, which helped in the collection of first hand information. The lack of specific information about migrants who were represented by family members was made up for by other migrants present in the FGDs.

2 Key Findings

2.1 Migration and Remittance

Migration has remained a livelihood option for Nepalese for many years, especially among the poorest households. The dependence of a large population on subsistence agriculture, coupled with caste and gender issues and a challenging geography facilitates labour migration. Poverty, unemployment, declining natural resources, and, most recently, political instability are major reasons why international labour migration has become an increasingly important source of national/ individual income.[1]

The 1952/54 Census reported 198,130 persons or 2.3 percent of the total population absent for more than six (6) months and living abroad. Of this absentee population, 97.3 percent were originally from the mountainous and hilly areas of Nepal. This flow increased to 328,470 (3.4%) in the 1961 Census; to 402,977 (2.7%) in the 1981 Census; to 656,290 (3.7%) in the 1991 Census; and to 762,181 (3.4%) in the 2001 Census, an upward trend.

While migration is still prevalent and increasing, the only thing that has changed is the preferred destination. Earlier, India was the most preferred destination for migration for Nepalese, especially from the Hill regions, and they worked as a low-skilled or unskilled labour force. Recently, with greater access to information and increased geographical accessibility, migration to the Gulf and the Asian Tiger economies, Europe and the USA has been increasing.

A distinct trend can be seen in the migration pattern in Nepal in relation to the country of choice for migration. It can be observed that the country of choice largely depends on a migrant's financial resources, skills and education. Those with the most resources and education choose Europe, America and East Asia. Others with less financial resources, skills and/or education migrate to Malaysia and the Gulf countries. Similarly, the first choice for the illiterate or minimally literate, unskilled and marginal population of rural Nepal remains India.

Remittance: Issues and Prospects

With migration comes the issue of remittance. Remittances are the financial counterpart to migration and are the most tangible contribution that migrants can make to the development of their areas of origin.[2] The most obvious reason for migration is the expectation of income generation, especially for rural households. In most cases, a migrant worker travels alone to a foreign country, in search of employment, leaving the family behind to look after property and belongings. The reason might be uncertainty on the part of migrants of their ability to generate sufficient income in the foreign country to sustain the entire family. Another reason can be the reluctance of families to leave Nepal despite the hardships. In such a situation, migrants normally remit a large percentage of their earnings (average 50%) to their families.

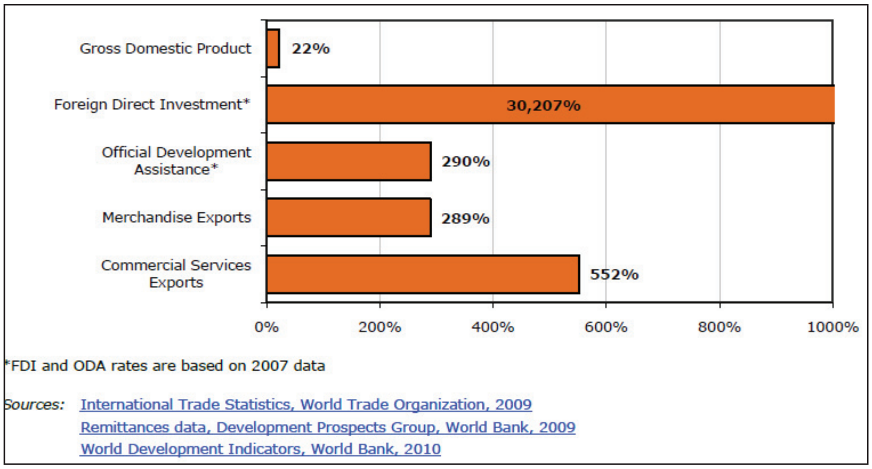
In recent years, remittance has emerged as a new strategy for poverty alleviation in developing countries. Remittance is a strong vehicle for national economic development as it stimulates the poorest sector of society. It provides a more consistent source of income for developing countries than

1 1û Michael Kollmair, Siddhi Manandhar, Bhim Subedi and Susan Thieme, *New figures for old stories: Migration and remittances in Nepal*

2 Rosemary Vargas-Lundius and Guillaume Lanly, *International migration, Remittances and Rural development*, IFAD

official development assistance, foreign direct investment and other private inflows.[3] This is particularly true in the case of Nepal as indicated by Figure 1 which depicts remittance as a percentage of some important economic indicators and financial inflows:

Figure 1: Remittance as a percent of Key Economic Indicators/Financial Inflows



Source: Migration Policy Institute Data Hub

Remittance is more significant than the other indicators/ flows because it reaches households directly and leads to a rise in income and living standards almost immediately compared to the other flows which take time to penetrate at the household level and might not fully reach the target group.

Remittance continues to grow in significance for the Nepalese economy. The real value of remittance to Nepal can be seen in its dramatic growth from 1991 to 2008 with remittance reaching over NRs 139 billion (equivalent to US$2 billion). Additional significant statistics related to remittance can be found in Table 3.

Table 3: Significant Remittance Statistics

Description	1995/96	2003/04	Change Percent
Percentage of households receiving remittance	23.4	31.9	+36.32
Average remittances per recipient household (Nominal NRs.)	15,160	34,698	+128.88
Share of remittances in household's total income among recipients	26.6	35.4	+33.08
Per capita remittance amount for all Nepal (Nominal NRs.)	625	2,100	+236.00
Total amount of remittance received (Nominal NRs.)	12,957,840,907	46,365,466,726	+257.82

Source: Nepal Living Standards Survey, Government of Nepal (2003/04)[4]

In Nepal's case, remittance has had a positive impact on poverty reduction, as indicated by the data available from the Nepal Living Standards Survey (2003/04). The Survey data shows that the incidence of poverty, based on the national poverty level, declined from about 41.7 percent in 1995/96 to about 30.9 percent in 2003/04, or by over 10 percentage points. During the same period, the incidence of poverty based on the $1-per-day poverty line showed a similar decline, from about 34.4 to 24.7 percent. One of the key factors in the fall of the percentage of poverty despite a sluggish growth in per capita GDP is overseas remittances (Econometric analyses and simulations attribute 20 percent of such decline to remittances[5]). The other factors affecting the decrease in incidence of poverty include an increased rate of rural-to-urban migration and increased entrepreneurial activities in agriculture.

2.2 Migration and Remittance: In the Context of India

Migration to India is a tradition for people from rural Nepal. Although migration between Nepal and India started in ancient times, the formal entrance of Nepalese into India is believed to have begun after the War of 1814-15 with British India. The original 4,656 Nepalese soldiers recruited to serve in British Gurkha regiments is the first evidence of Nepalese officially employed in India. During the same period a large number of Nepalese also migrated to India for better employment opportunities in the tea estates of Darjeeling and wood mills of Assam. Later, increasing numbers of Nepalese migrants began to work in different parts of India as watchmen and in other low-skilled or unskilled jobs.

Indo-Nepal migration is in fact somewhat unique. In accordance with the Nepal-India Treaty of Peace and Friendship of 1950, nationals of either country can enter the other country for any purpose, stay for any length of time and either leave or settle permanently if they so choose. In this regard, no documents are required, no registration is needed at the border check-posts and, by and large, no questions are asked.

3 Bhubanesh Pant, *Mobilizing Remittances for Productive use: A Policy-oriented Approach*, NRB working paper (2008)

4 Extracted from "Passage to India: Migration as a Coping Strategy in times of Crisis in Nepal", WFP and NDRI

5 Udaya Raj Wagle, *Experience of Nepali Families with Foreign Remittance: Evidence from the Nepal Living Standard Survey* (2009)

India has remained a preferred destination because of its proximity and the open border, cultural affinities, an easily convertible currency, easy and affordable travel options, and histories of migration in families and villages[6]. The 1991 Census indicates that 89.2 percent of total migrants (658,337) went to India. The trend changed over the next ten years, with the total number of migrants increased to 762,181, of which nearly 77.3 percent (589,050) went to India. But studies have shown that the total number of migrants may be several times higher than the reported figures and, in the case of migration to India, which is not documented because of the open border and no requirement for passport or visa, the number of Nepalese could be up to 3 million[7]. Most migration to India is seasonal (60%) and occurs after the sowing and/or harvesting of crops, due to which the number of Nepalese migrant workers in India fluctuates greatly.

The main destinations in India for Nepalese migrant workers are the major cities and their adjoining provinces. Migrants from the Mid and Far West regions of Nepal go to Mumbai, Delhi, Himachal Pradesh, Uttaranchal and Gujarat.[8] The highest percent of migrants work as porters (32%) and security guards (21%). Other jobs include low level work in hotels and restaurants, construction projects, agriculture labour, domestic help, drivers and factory and office work.

Migration to India is of significance for the following reasons:

- It still remains the destination of choice for a large percent of Nepal's population. Although remittance from India is only 12.4 percent of total remittances according to a study conducted by Nepal Rastra Bank in 2004, it generally reaches the poor households.
- It penetrates into the households of grass-roots people who would otherwise have limited livelihood options and face acute poverty. It thus serves as a means of poverty reduction

Need for Formalization of Remittance Transfer from India to Nepal

Despite the fact that a formal remittance transfer channel from India to Nepal exists, the remittance flow from India still follows the traditional informal method of self-carry and/or conveyance through a relative or friend. There are two major drawbacks in using the informal transfer method: a high incidence of theft when in transit and infrequent mode of payment.

Formalization of the remittance flow would provide a number of important advantages:

- It would help to overcome the challenges associated with physically carrying the remittance money, i.e. the problems of theft and infrequent payment would be minimized, which would help to optimize the benefits for the target group.
- It would help bring about the development of financial services based on remittances, thereby helping to increase the financial access of deprived communities.
- It would help to create opportunities to invest remittance in productive assets which would eventually lead to wealth creation, and thereby help to create sustainable livelihood options for the target group.

A study conducted by Nepal Rastra Bank (NRB) in 2008 titled 'Remittance from India to Nepal' explored several dimensions related to the migration of Nepalese workers to India and the remittance received from there. The study identified and underscored several important issues related to migration to and remittance from India.

The findings which are of relevance in the context of this Study include:

- Approximately 3 percent of migrant respondents were found to use a formal remittance transfer mechanism. This relates closely to the data obtained from the Nepal Living Standard Survey of 2001 in which approximately 1% of total remittance came through a formal channel.
- The main reason cited for not using a formal remittance transfer mechanism by respondents (more than 50 percent) was lack of knowledge about the formal mechanism. It is interesting to note that many of the respondents who had bank accounts were also not aware of the formal mechanism
- Those aware of the formal mechanism are not using that channel for a number of reasons: documentation hassle, high commission, and distantly located banks at senders' and/or recipients' end.

6 Raju Bhattarai, *International migration, multi-local livelihoods and human security: Perspectives from Europe, Asia and Africa* (2007)
7 Michael Kollmair, Siddhi Manandhar, Bisnu Subedi and Susan Thieme, Migration Letters (2006)
8 *Passage to India: Migration as a Coping Strategy in Times of Crises in Nepal*, WFP and NDRI:: November 2008

3 Policies Regulating Foreign Employment and Remittances in Nepal

3.1 Foreign Employment Act (2007); Foreign Employment Regulation (2008)

The Foreign Employment Act of 2007 was formulated by the Government of Nepal, Ministry of Labor and Transportation Management and enacted by the Legislature-Parliament to amend and consolidate the laws relating to foreign employment. The intent was to make the foreign employment business safe, systematic and decent and to protect the rights and interests of workers who go for foreign employment and of foreign employment entrepreneurs, while promoting foreign employment business (Preamble). The Act has provisions relating to the following:

- Specification of countries for carrying out foreign employment business; the power of government to enter into bilateral agreements; selection of institutions, and the power to send workers after entering into a treaty or agreement; prohibitions (related to sending minors for employment and gender discrimination); and provisions for special facilities and reservations
- Licensing; prior approval and selection of workers; classification of training and work; foreign employment welfare fund; and monitoring and inquiries
- Formation, functions, duties and powers of the Board
- Offenses and punishments; investigations and inquiries; trials and settlement of cases

The Foreign Employment Regulation of 2008 was framed by the Government of Nepal (GON) in exercise of powers conferred by Section 85 of the Foreign Employment Act of 2007 for attainment of the objectives of that Act.

3.2 Remittance Directive (NRB, 2010)

A remittance bylaw came into effect under the Foreign Exchange Act of 2019 *Bikram Sambat* (i.e. 1962/63) to regulate individuals or companies licensed to conduct a remittance business. It regulates the following aspects of remittance business:

- It mandates that a remittance business be conducted by an interested firm only after obtaining a license from NRB and lays down the procedures and qualifications for obtaining that license
- It specifies the paid-up capital and deposit required to operate a remittance business. The paid-up capital and deposit are different for firms interested in operating as a principal and as agents
- It sets out the duties and responsibilities of a firm licensed to conduct remittance business. It addresses the following subjects: the conditions to be met when conducting remittance business, the maintenance of a remittance database, and the submission of monthly statements related to remittance, in specified formats along with audited financial statements of the firm conducting the remittance business
- It specifies the supervisory rights of Nepal Rastra Bank (NRB), both on-site and off-site
- It also sets out other regulations related to: change in the area of operations, renewal of license, cancellation of license, and closure of operations

3.3 Policy Issues that affect Migration to and Remittance from India

Although acts, regulations and by-laws are formulated to promote foreign employment and remittance, and protect the rights of both workers and entrepreneurs involved in foreign employment, these have not been able to address the needs of those migrating to India and the remittance they transfer from India. It is apparent that a 'one rule applies to all' approach will not be able to address the issue of migration and remittance in the context of India because of several unique factors that differentiate India from other countries.

Although the Foreign Employment Act of 2007 and Foreign Employment Regulation of 2008 do not explicitly rule out migration to India, the underlying assumptions related to the organization of the foreign employment market and ways of approaching it clearly do not consider the case of employment migration to India. Similarly, a singular approach is taken toward policies governing remittance transfer, without making a distinction between India and other countries. Such apathy towards migration and remittance issues in the context of India serves to promote the status-quo, which is governed by informality and underutilization of the inherent potential.

The government's apathy towards the issue of migration to India is also apparent in the way it treats foreign employment to countries other than India. The Foreign Employment Act of 2007 provides that there should be one labor attaché in any country having at least 5,000 male and 1,000 female Nepalese workers. Accordingly, the Government of Nepal has deployed four (4) labor attachés to Malaysia, Qatar, UAE and Saudi Arabia and is in the process of appointing labor attachés to Kuwait, Japan, Hong Kong, Israel, South Korea, Bahrain and Oman[1]. Given this fact, India should have been the first country to have a labor attaché if one takes into account the volume of migration to India, and the fact that it is largely employment-oriented. Unfortunately, the government has shown no such intention.

Similarly, Nepal signed memoranda of understanding (MOU) with South Korea, the UAE, Qatar and Bahrain in 2007. Memoranda of understanding with Malaysia, Israel and other major migrant receiving countries are now in the process of being completed. However, a similar initiative is lacking in the case of India. It is apparent from the government's policy interventions as well as the institutional arrangements that it is not equipped to deal with foreign employment and labor migration issues in/with India.

1 Kantipur Daily, December 9, 2009

4 Findings of the Field Study

4.1 Socio-Economic Status of Areas under Study

Dailekh District

Dailekh is situated at an altitude ranging from 544 to 4,168 meters from sea level. It is bordered by Jajarkot district in the east, Achham district in the west, Kalikot district in the north, and Surkhet district in the south. The population of the district is 225,201 of which the female population is 51.1percent and male population 49.9 percent.

Chhetris (34.8%) are the major ethnic community in Dailekh followed by Dalits (24.1%), Thakuri (14.1%), and Brahmin (11.9%). Nepali is the major language, which is spoken by 98.98 percent of the population, and Hinduism is the major religion, followed by 98.32 percent of the population. The literacy rate is 48 percent with male literacy at 64.7 percent and female literacy at 32.3 percent.

Agriculture is the main economic activity with 92 percent of the population and 94.3 percent of households dependent on it. Rice, maize and wheat are the three main crops. Vegetables and potatoes are high potential crops because of their high productivity. These are 5 times more productive compared to rice or maize but have, up to now, been cultivated in less than 10 percent of the available land. Vegetables are the third main agriculture produce in terms of yield after rice and maize. Citrus fruits such as oranges and lemons also have good potential. Although agriculture is the main economic activity of the district, 38.5 percent of the households that depend on agriculture have food self-sufficiency for only 1 to 3 months and 40.8 percent have food self-sufficiency for 4 to 6 months.

Dadeldhura District

Dadeldhura is bordered by Doti and Kailali districts in the east, Uttaranchal province (India) in the west, Baitadi district in the north and Kanchanpur district in the south. It is located in the Far West Development region, with altitudes ranging from 432 to 2,639 meters above sea-level.

The population of the district is 126,162 of which 51.7 percent is female and 48.3 percent male. The rural population comprises 85.42 percent. 64.43 percent of the population is economically active (62.24% male and 66.40% female). Dalits comprise 19.51 percent, ethnics (Janajati) 6.06 percent and upper caste (Brahmin, Chhetri, Thakuri, etc) the remaining 74.43 percent of the population. 96.3 percent speaks Nepali followed by the Magar language which is

Table 4: Overview of VDCs studied in Dailekh district

Name of VDC	Total HHs (No.)	Population			% of HHs with Food Sufficiency for less than 3 months
		M	F	Total	
Bindyabashini	545	1438 (49.3%)	1588 (50.7%)	3026	26-40%
Gamaudi	645	1444 (45.3%)	1676 (54.7%)	3120	More than 40%
Chhiudi Pusakot	742	2051 (49.9%)	2094 (50.1%)	4145	10-25%

Source: Dailekh District Profile, CBS (2063 BS/ 2006/07) spoken by 1.5 percent of the population. The literacy rate is 53.43 percent with male literacy at 74.3 percent and female literacy 33.90 percent.

Rice, maize and wheat are the main crops of the district.

Table 5: Brief Overview of VDCs studied in Dadeldhura district

VDC	H H s (No)	Population (No. /%)			% of HHs with Food Sufficiency of less than 3 months
		M	F	Total	
Alitaal	1562	4740 (49.7%)	4802 (50.3%)	9542	26-40%
Ganeshpur	683	1507 (42.5%)	2035 (57.5%)	3542	10-25%
Gankhet	747	2352 (51.0%)	2263 (49.0%)	4615	26-40%

Source: Dadeldhura District Profile, CBS (2063 BS/ 2006/07)

4.2 Migration: A Survival Strategy

Migration is an alternative survival strategy adopted by households in the Mid and Far West regions of Nepal. It is important to the extent that it maintains the status quo with only marginal improvements in the living standards of the people. This can be inferred from the responses of FGD participants in a number of areas related to migration and remittance i.e. the reasons cited by FGD participants for migrating to India for jobs, the migration seasons and their length, the usage pattern for remittance income, the impact of remittance on livelihood, and the perceptions of migrants and their families concerning migration. A closer look at participants' responses to these points reveals that migration is clearly a survival strategy adopted during adverse economic times rather than a choice opted for with any expectations of affluence.

Reason/Motivation for Migration

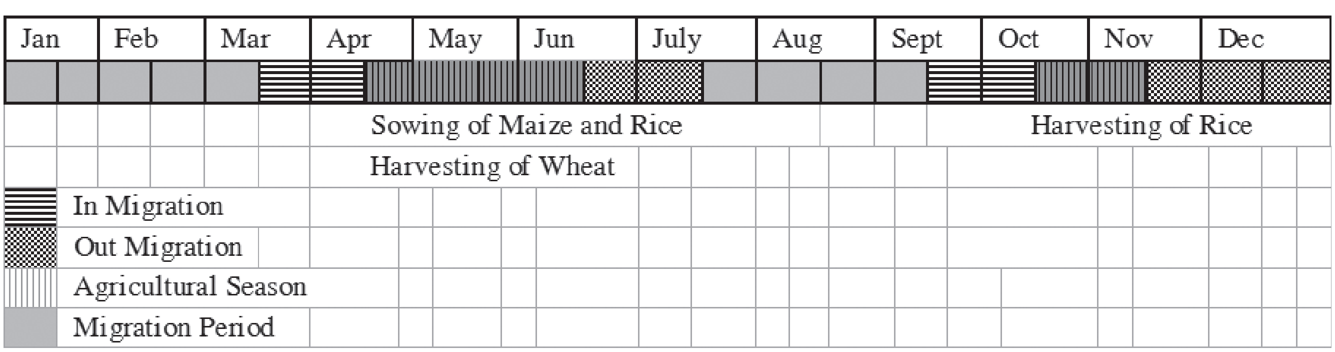
The most common reason cited by FGD participants for migrating to India was their poor economic condition. The Mid and Far West regions of Nepal are food insecure locations. In the absence of reliable local employment opportunities, people have no choice but to go to India for work. There were some participants who cited better income earning opportunities for similar jobs as the reason for migration. One FGD participant said that in India he could earn the same amount of money for the same job but in IRs, not NRs, thereby allowing him to earn more because of the Indian currency exchange rate (100 IRS= 160 NRs.). Very few participants cited the cost of living as a reason for migration. However, these reasons for migrating were only mentioned by a few of the FGD participants and were not the primary reason for migrants going to India.

Migration season and Length of stay

The migration season and duration of stay support the fact that migration to India is a coping strategy of poor households. Migration relates closely with the agricultural seasons and tends to move in tandem with the sowing and harvesting of the main crops, i.e. rice, maize and wheat. However, migrants sometimes cannot be in Nepal during the entire agricultural season. In some cases, the duration of stay in Nepal is as little as one month. Figure 2 below shows the seasonal migration trend for most FGD participants. The migration season and length of stay depend upon the type of jobs held in India, the land holdings of migrants in Nepal, and the availability of other family members to work in agriculture.

Migrants typically go to India to fill in the gaps between major agricultural activities in order to augment their income from farming sources. 60 percent of total migrants are

Figure 2: Seasonality of Migration and its relation with Agricultural Activities



Source: Field Study (2011)

seasonal migrants. Although there also is a trend of staying longer in India (1-1.5 years) among FGD participants, many see migration as an opportunity to earn an extra rupee during the lean agricultural months to finance their livelihoods.

Pattern of Remittance Income Use

Most of the remittance income is spent on consumption. Food items such as rice to be more precise, take up most of the remittance income. This is followed by other daily necessities such as clothes and children's education. Other contingencies such as home improvement/construction,livestock purchase, weddings and health related expenses occasionally find a place in their expenditure budgets. Only rarely do people purchase livestock as part of an investment decision rather than as a contingency that arises due to the death of existing livestock. Land purchase is another area of investment but not many of the FGD participants have been able to go for this. For most migrants, however, remittance income is a source of consumption budget to sustain their livelihood.

Impact of Remittance

The notion that migration to India is a survival strategy is further reinforced if one looks at the impact of remittance on livelihood. As stated earlier, remittance is mostly spent for consumption by the migrants' families. The impact of remittance is low on economic well-being and improved living standards. Most of the FGD participants, when asked to compare their living standards pre and post migration, state that the remittance from India was only enough to meet their basic food and clothing needs They would hardly ever earn enough to move to a higher economic level in terms of living standards. One of the FGD participants gave an interesting reply when asked about the economic impact of remittance from India. He said the impact has been that local supplier now trusts him over credit for daily supplies.

There are some cases, however, where migration to India has led to an improvement in lifestyle and enabled a migrant to withstand a moment of crisis.

Migrants' Perception of Migration to India

Migrants and their families view migration to India as a basic survival strategy. They don't appear to have any higher expectations of their migration, which contrasts with the expectations of migrants to countries other than India. Migration for foreign employment other than in India is seen

Box 1: A Migrant's Perspective on Impact of Remittance

Mansara Khadka- Ward No. 2, Chhiudi Pusakot VDC

Mansara's husband has been working in India for the past 13 years. He first left home at the age of 13 with his cousin when his father showed no intention of taking care of his educational expenses due to poor economic conditions. He went to Surkhet with the money he received from selling a few cucumbers that he took from his home and the NRs.70 he had with him. He stayed in Surkhet for several days and then went to Nepalgunj where he worked in a hotel for 3 years earning a monthly salary of NRs. 700. Because of poor economic conditions at home and his father's drinking, their land was taken away as collateral for a loan his family had taken.

He then decided that the money he earned would never enable him to raise himself out of the poverty cycle. So, he decided to go to India with the IRS 1,100 he then had and went to Gujarat where he at first washed dishes for IRS 500 per month. He washed dishes for 15 months after which he was promoted to water-waiter, which earned him IRS 1,500 per month. He worked as a water-waiter for 2 years and was again promoted to captain at the monthly wage of IRS 2,500. After that he worked as a kitchen help at a monthly wage of IRS 4,500.

In the meantime he received a message from his family that their creditor would sell off their land if they didn't pay off their debt. Although his family had taken a loan of only NRs. 8,000, this had increased to NRs. 25,000 including interest. After receiving this message he returned home with the IRS 50,000 he had with him. Upon his return, he paid back the debt, purchased an ox and some goats. It was at this time that he asked for Mansara's hand in marriage and then returned to India. He came back after some time with the intention of building a home and marrying Mansara. Unfortunately, due to the Maoist insurgency he couldn't build the house. He was not allowed to. But he married Mansara and took her to Gujarat with him.

Life had a few surprises for him two years after he took Mansara to India. She became pregnant with twins. Due to complications in delivery, they incurred a debt of IRS 80,000 for medical expenses. Thanks to his job in India, says Mansara, they have been able to pay off the entire debt. Mansara has returned to Nepal while her husband still works in Gujrat as a cook and currently earns IRS 6,500 per month. They now own a house and have also purchased land. Mansara owns a few goats. Her two children go to school and she thinks her life is secure.

Source: Field Study (2011)

by migrants and their families as an opportunity to improve their economic condition, as was found during the interaction with several FGD participants who went to India earlier but had recently been to the Gulf. They now expected to be able to save enough, at some point, to start a business when they return. Migrants to India believe it is a routine that neither has an end nor any extraordinary returns. By contrast, migrants to other countries usually expect a handsome income during migration and that it last for a certain period.

4.3 Migrant Profile

Gender

Migrants to India from the Study area are mostly male. Among FGD participants, there were no female migrants to India. Female migrants to India from these areas are rare and might account for 2-3% of total migrants to India but the exact figure is not available. Women sometimes accompany male members of their families to India but don't themselves go as migrants.

Migrants' Age at First Migration

The average age of Migrants when they first migrate is less than 20 years for all the VDCs except Bindyabashini. This is due to one person who was 40. Excluding the outlier, the average age comes down to 20.46 years.

According to FGD participants, in adverse circumstances, people as young as 10 also migrate for work. Multiple reasons were cited for migration at an early age:

- Poor economic condition puts pressure on individuals to earn rather than remain dependant on the family
- Discontinuing education early leaves no choice other than to work. In the absence of local employment opportunities, the only available choice is migration to India
- If people wait too long, their job progression becomes limited. This was the reason cited by FGD participants who are employed in hotel jobs. The normal trend is that people begin as dish washers or as water waiters and then move on to become cooks and captains. In case of late starters, they would be working in low paying jobs during their peak earning age.

Education

The education level of migrants is typically low. The highest level of education achieved was SLC passed (10th standard) for 5 out of the 86 FGD participants. A few were without any formal education and could only write their names. There were 4 participants in this category. The average education level of migrants in the researched VDCs is shown below:

Table 6: Average Age of Migrants at First Migration

VD C	Gamaudi	Bindyabashini	Chhiudi	Alitaal	Gankhet	Ganeshpur
Average Age (Years)	16.9	21.6	16.2	16.51	19.63	18.46

Source: Field Study (2011)

Table 7: Education Level of Migrants (Class Studied)

VDC	Gamaudi	Bindyabashini	Chhiudi	Alitaal	Gankhet	Ganeshpur
Highest	9	10	10	9	8	10
Lowest	0	2	5	0	0	2
Average	5.2	4.8	7.5	4	4.5	6.1

Source: Field Study (2011)

Box 2: A Migrant's Realization of the Importance of Education

Bhupendra Bista - Ward No. 1, Chhiudi Pusakot VDC, Dailekh

Bhupendra went to India in 2065 BS/2008 after taking his School Leaving Certificate Exam. In India he worked as a peon first and later also started working as a night watchman. In the course of his stay he realized that higher education was the only way he could secure a better job. He realized this when he tried to find a job in a 3-star hotel and was rejected because of insufficient education. He then decided to continue his education and with this intention he came back to Nepal after 18 months. He is currently studying in Class 11 at the local higher secondary school. The situation at home puts pressure on him to quit studying and go back to India, he states, but he is equally determined to get a higher level of education.

Source: Field Study (2011)

Skills

Very few migrants go to India as trained or skilled workers. The traditional skills possessed by some, usually Dalits, are of no value when it comes to finding work in India. As a result, they are usually employed in unskilled jobs like watchmen, waiters, dish washers, domestic help, porters and peons. A few skills like carpentry are useful for employment. People also bring back skills, mainly cooking skills, learnt during their stay in India. In general, however, migrants from Nepal to India are unskilled, are employed in unskilled jobs and return unskilled.

Number of Migrants per Household

Most FGD households had one migrant each (71%) while some households had two migrants (29%). None of the households represented in the FGDs had more than two migrants.

4.4 Migration Parameters

Agents for Migration

Given the informal nature of employment in India, which largely remains outside the purview of government regulation, the ease of travel to India, and the presence of large numbers of friends/relatives willing to help, employment agents are hardly needed. Most of the migrants represented in the FGD went to India the first time with a family member, relative or friend who also helped them secure work without charging any commission. In two FGD areas, (Alitaal - Siradi and Gankhet - Nikane of Dadeldhura district) there were agents who took people to India and arranged jobs in exchange for a commission from an employer. The agent's role is to extend financial support to people willing to migrate to India for work thereby reducing the risk of unemployment for a long period, which further adds to the cost of migration.

The agents basically 'invest' in the potential migrant. They bear the travel expenses of migrants and also provide money to the families to cover expenses when they are away. The migrant needs to pay them back.

How much commission do the agents earn and who pays their commissions were a matter of debate in Siradi, and finally all FGD members agreed that whoever paid the commission, that cost adversely affected an individual worker's ability to earn. The amount of commission an agent receives, as told by FGD participants in these two places, varies widely. For example, FGD participants in Siradi said an agent is paid IRs 10 per day for each person taken to India and continues to get this commission as long as the migrant works in India. On the other hand, the FGD in Nikane commented that exorbitant commissions were being offered to agents, as high as IRs 200 per person per day for the period the migrant works. This amount is too high but there is reason to believe an agent was present in the FGD and provided this information.

Regions of Migration

An interesting finding in relation to the regions of migration is that people of one ward/village usually migrate to the same place or two places at the most, which was the case at least in areas where the FGDs were conducted. This might happen because when one or several people work in a certain place, they support others from their own village to get jobs in that place. In some cases, presence of agents in a particular place also leads to the population from that area migrating to the same place. Types of jobs also tend to be similar for all migrants in those areas. A typical case was found in Nikane of Gankhet VDC where all the migrants represented in the FGD went to Gangolihat (Uttaranchal state) and where each one of them was involved in construction work, the only difference being the type and level of job. All of them worked for the same contractor in India. Another case was that of Siradi - 3, Alitaal VDC Dadeldhura, where among the 12 FGD participants, 11 worked in Old Delhi and 8 of them as watchmen.

Jobs Held in India

Hotel jobs, watchmen and porters at construction sites are the most common types of work migrants represented in the FGDs were employed in. As discussed earlier, they mainly work as unskilled labour. Hotel jobs, in which they are mostly involved, include dish washer, waiter, captain and

Table 8: Migrant's Destinations in India

Gamaudi	Bindyabashini	Chhiudi	Alitaal	Gankhet	Ganeshpur
Gujarat, Almoda, Nainitaal, Simla, Kalapahad, Bageshwor	Kumau-Gadwal, Simla, Gujrat	Gujrat, Delhi, Almoda	Bangalore, Old Delhi	Gangolighat (Uttaranchal)	Delhi, Punjab

Source: Field Study (2011)

Table 9: Migrants' Jobs in India

Gamaudi	Bindyabashini	Chhiudi	Alitaal	Nikane	Ganeshpur
Cook, waiter, dish washer	Picking apples, porter, construction job	Cook, waiter, hotel look- after, dish washer, porter	Cook, peon, watchman, carpenter	Construction labour	Peon, watchman, driver, domestic help

Source: Field Study (2011)

cook. A few of them advance to as far as manager, but this was not found among FGD participants. According to FGD participants, these were the jobs held by Nepalese migrants in general. Other jobs like driver and carpenter were held by only two people among FGD participants. A few others worked as peons and domestic help.

Length of Stay

The length of stay varied greatly depending upon the type of job held and the region of migration, from a minimum of 2 months to a maximum of 2 years. People who work in Ahemdabad and Bangalore, for example, stay in India for longer periods and return home once in 1 to 1.5 years. This is understandable, taking into account the physical distance involved and the cost of travel. According to FGD participants, it normally costs IRs 3,000 for one-way travel to or from those places. On the other hand, people who work in adjoining states of Uttaranchal and Himachal Pradesh travel back and forth much more frequently, with maximum 6 months per stay. While the distance of places of migration determines the frequency of travel back home, one's flexibility about staying away from home might equally determine the destination of choice.

The length of stay is also longer when people go to India for the first time, especially when people opt for migration as a response to some economic shock, like indebtedness or death of the bread winner of the family. It also tends to be longer when people have taken a loan to go to India.

4.5 Financial Aspects of Migration to India

Borrowing Behavior and its Cost

The tendency to borrow money to finance travel to India varied among individual FGD participants. While most of them took a loan to go to India the first time, only a few continued to take loans for subsequent travel. The nature of funding can differ. Some people go to India with financial support from agents while others take a loan from the informal sector. While an agent's fund is free of interest cost, the prevalent rate of interest in the informal sector is between 3 to 5 percent per month. The traditional practice of taking a loan in NRs and repaying it in IRs for a one year period is still in practice in Chhiudi Pusakot VDC but not in other VDCs.

Income Level

Income level varies greatly depending on the type of jobs and even within the same job. Such variation is mainly found among cooks and watchmen. The earnings of a cook are relative to the skills he possesses. The greater the variety of dishes he can prepare, the more would be his pay. According to FGD participants, a well-trained Chinese cook can earn as high as IRS 10,000 net after accommodation and food have been deducted by the employer. A watchman's income, on the other hand, depends on the number of flats in the building he is looking after or the number of buildings in the 'Society' he watches. Watchmen are also found to compliment their earnings by washing cars in the morning.

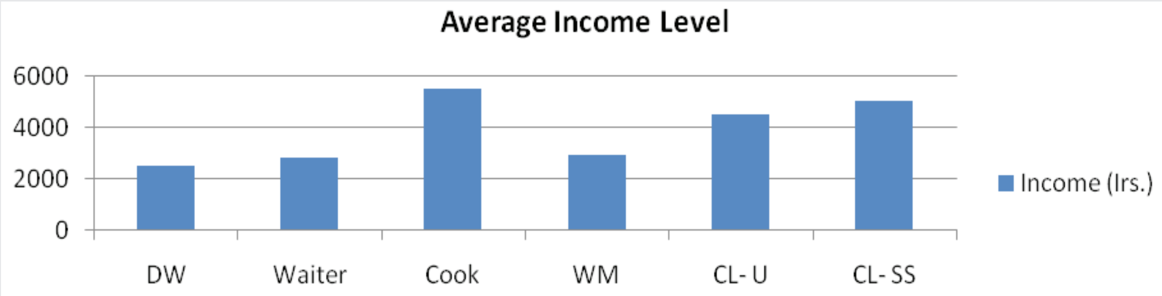
Savings and Remittances

The amount of savings depended on several factors:

- Income earning ability of individual
- Status of accommodation and food facility
- Propensity of individual to save.

It is obvious that income and the propensity to save have a bearing on remittance. In addition, the ability to save can also be expected to depend on whether accommodation and food arrangements are under the responsibility of the employer or the migrant. Remittance, on the other hand, is the savings of an individual minus any contingent expenses that arise in between, for example, medical expenses. Among FGD participants, remittance as a percentage of income varied greatly (anywhere between 15 to 100%) and didn't have a direct correlation to the type of job held. On average, remittance for participants as a percentage of income is around 47.7 percent. Average remittance per month is around IRs 1,800 or the equivalent of NRs. 2,880.

Figure 3: Average Income Level by Job Category



DW	WM	CL-U	CL-SS
Dish washer	Watchman	Construction Labor- Unskilled	Construction Labor-Semiskilled

Source: Field Study (2011)

Frequency of Remittance

There is no fixed interval for a migrant to send money home. Sometimes, they send it as frequently as four (4) times a year while at other times they bring it with them at intervals of 1 to 1.5 years. The main determinant of frequency of remittance is the need for money back home in Nepal.

4.6 Remittance Transfer Mechanism

Migrants normally transfer money earned in India via self carry-when they return home or through friends and relatives if their family members need money in between their home stays. One of the main purposes of this Study is to determine the extent of use of the formal channel for remittance transfer in the context of India and the general awareness level of migrants and/or their families about the existence of a formal channel.

Awareness about Formal Transfer Mechanism

It was found that none of the FGD participants use or had ever used a formal mechanism to transfer money from India. They lacked awareness about the existence of a formal transfer mechanism. Not a single FGD participant was found who knew about the formal procedure for remittance transfer or had even heard of it. Some had the opinion that it was not possible to send money from India through banks. Others had heard of some relatives who had used their friend's account to transfer money. They were also not aware of the presence of money transfer operators in India. However, all of them were aware about money transfer from the Gulf countries. They had heard about MTOs through advertisements on FM radio as well as their use by friends/ relatives but they weren't aware of the procedures involved in sending or receiving money.

Given this context, the most obvious reason for not using a formal channel is lack of awareness. On the other hand, a migrant's reluctance to explore a formal channel because of the small amounts of money involved and the availability of people travelling back and forth almost at any time during the year further strengthens the preference for informal remittance transfer. An interesting aspect of remittance transfer from India, unlike remittance transfer in an informal setting elsewhere, is that there are no organized informal channels like 'hundi' and 'hawalas'. This could be due to the geographical proximity, free movement of people across the Indo-Nepal border, and the large number of people travelling to Nepal at any given time.

4.7 Consequences of Prevalent Transfer Mechanism

Irregularity of Payment and Credit Purchase of Supplies

Due to the informal transfer mechanism, payment from migrants to their families is irregular. As a result, people who are already vulnerable to poor economic conditions don't have a cushion against the financial shocks that might arise, forcing them to resort to the exploitative informal money lending system which charges 3 to 5 percent interest per month. One of the most common results of irregularity in the payment system is that people depend on consumption credit from local shops. This opens one more avenue for the potential exploitation of an already marginalized population.

All of the households represented in the FGDs (86) used credit when obtaining their daily supplies of rice, cooking oil, salt, clothes and other necessities. A migrant, before leaving for India, requests a local merchant to provide credit to his family during his absence, promising to pay them on his return or when he sends back money.

The perceived degree of exploitation by local merchants varied among different FGD groups, and this may be largely due to the varying terms under which credit is provided by merchants. In some FGD areas payment terms are limited to a slight price difference between the cash and credit purchase prices. In others, migrants' families must pay the current price of goods at the time the payment is made. Given the fact that prices are always moving up due to inflation, they end up paying higher rates. In some areas, they even have to pay interest after 3 months of purchasing supplies on credit and the rate is 5 percent per month. There was also a case of a merchant in Siradi of Alitaal VDC going to India to collect dues.

Box 3: Credit Collection Method of Local Supplier

Sarmati BK: Siradi 6-Alitaal VDC, Dadeldhura

Sarmati's husband works in India. His reasons for working in India are the same as for any other migrant, i.e. to feed his family and provide for their basic necessities. During the period her husband is away in India, Sarmati purchases supplies from the local grocery on credit. She pays the shopkeeper when her husband returns with money or when he sends money through friends/relatives. However, when her husband is not able to send money on time, the shopkeeper goes to India with a credit bill to collect from her husband and also from other people whose families have purchased goods from him on credit. Her husband pays the shopkeeper whatever money he has with him, the whole amount owed if he has it or a partial payment if he can't pay the full amount. With the money collected from the migrants, the shopkeeper purchases the supplies for his shop.

The shopkeeper doesn't charge interest on the credit amount but charges the current price of goods, especially for rice, which is usually higher than the price at the time it is purchased. Sarmati doesn't know whether the bill lists only the goods she purchased as she is uneducated and has no way of knowing. Neither does her husband. They pay whatever amount is stated by the shopkeeper.

Mishaps

Carrying money is a risky proposition, especially when everyone can identify a migrant returning from India. There were not many cases of casualties among FGD participants but when it happened, it caused them to lose several months' earnings. Among the FGD participants, there were 5 cases where people were either looted or lost their money. Some had heard of the mishaps of other migrants. The maximum amount of money looted among FGD participants was IRs 20,000.

Box 4: Incidence of Migrant Mishap

Dhana B.K: Siradi 3-Alitaal VDC, Dadeldhura

Dhana works as a cook in Bangalore. He first went to India with his friend at the age of 12 and his first job was to wash dishes in a hotel. Later, he learned to cook and is currently working as a cook. His first job paid him IRS 300 per month but now he earns a monthly income of IRs 5,100. He manages to bring back home an average of IRS 10,000 to 12,000 per year, which he carries himself.

Once, he was on his way home with IRS 12,000 on his person. He was travelling in a jeep with 4 other people. On the way they started a conversation and became friendly. When they learnt that he was Nepali they started talking in Nepali. However, on reaching a jungle area near Banabasa bridge, they looted his money. He felt disheartened after that and decided to go back to Delhi where he worked. He sold his watch to arrange his travel expense.

Source: Field Study (2011)

Interestingly, migrants seemed more concerned about hassles at the India-Nepal border than the danger of theft or looting. When asked to recall a bad experience while carrying money, migrants in every FGD referred to border hassles first. According to FGD participants, border officials extract money from them for different reasons. The incidents of theft and looting surfaced only when they were probed further. They considered theft and looting as things that can be avoided if one is careful.

4.8 Cost of Informal Transfer: Direct and Indirect cost

In the case of remittance transfer from India to Nepal, informal transfer refers to self-carry or transfer through friends and relatives. One would naturally assume that this is free of cost. But that's not the case. The cost is not in terms of the risks associated with transporting cash; rather, real monetary cost is involved.

In six (6) out of eight (8) FGDs, participants said that they needed to pay some amount to the person who carries their money to their family. This amount is not termed a fee or commission but rather as 'chiya-paani kharcha' (tea expense). FGD participants said they paid anywhere between 5 to 10 percent of the transported amount as such courtesy fee. It is also natural to give a reward to the carrier, who runs a considerable risk. He bears personal liability for the money he carries, which he does as a 'naso' in normal parlance, or trust. If the money is lost or looted, he has to pay back the amount. This is the direct cost of money transport.

The table below shows the cost differences in the formal and informal transfer channels for different transfer amounts:

Table 10: Cost (IRs) Differences in Formal and Informal Transfer Channels

The indirect transfer cost is the amount that has to be paid to officials at the border. The minimum stated amount paid by FGD participants is IRs 500 and the maximum is IRS 2,000 when the amount carried is as large as IRS 100,000. The usual 'rate' as termed by FGD participants -- is IRS 500 to IRS 800. According to FGD participants, there are no particular reasons why the officials demand money from them. Sometimes there could be no reason at all. They would demand a customs tax for small items like mobile phones which they have purchased for personal use.

One interesting fact that surfaced during the FGDs, which makes them vulnerable to border hassles, was the possession of bank notes of IRS 500 and IRS 1,000 denominations. As migrants carry a few months' savings at a time plus other migrants' money as well, they can be carrying a considerable amount at any one time. As a result, it is only natural that they opt to carry money in the highest-possible denomination notes, i.e. preferably IRS 1,000 or 500, to reduce the physical volume of the notes and avoid the potential hassles of carrying bigger volumes. Since the Nepal government has made it illegal to carry these large bank notes (IRS 1,000 and IRS 500), this opens an avenue for border officials to take bribes from migrants found in possession of such notes. The migrants don't seem to be aware about the illegality of carrying larger bank notes, except if and when these are found on them by the border officials and they then need to pay some 'taxes'.

Table 10: Cost (IRs) Differences in Formal and Informal Transfer Channels

Transfer Amount (IRS)	1000	2000	3000	4000	5000	6000	7000	8000	9000	10000
Cost in Formal Channel	70	70	70	70	70	95	95	95	95	95
Cost in Informal channel	50	100	150	200	250	300	350	400	450	500
% Difference in Cost of Transfer between formal and informal channel	-28.6	42.9	114.3	185.7	257.1	215.8	268.4	321.1	373.7	426.3

Source: Field Study (2011)

5 Formal Remittance Transfer Mechanism from India to Nepal[1]

5.1 Reserve Bank of India's Initiative

The Reserve Bank of India (RBI) took the initiative to set up a formal mechanism to remit money from India to Nepal, in appreciation of the urgency of developing such a system. Considering the fact that there are a substantial number of Nepali migrants in India, it felt the need to develop a strong cross-border remittance facility between the two countries that is efficient and low in cost.

The arrangement is such that RBI and Nepal Rastra Bank (NRB, the central bank of Nepal) can, through mutual consultation, identify a commercial bank in India for handling the Indian leg of the transactions and a commercial bank in Nepal to handle the Nepal leg. The commercial bank in India can receive the funds meant for beneficiaries in Nepal, through the National Electronic Fund Transfer (NEFT) system. The Indian commercial bank can then send the transaction details to the identified bank in Nepal. In Nepal, the funds would be distributed by the Nepalese bank to the beneficiaries either through banking channels or through a combination of banking channels and money transfer agencies. NRB has since identified Nepal SBI Bank Ltd (NSBL) for handling the Nepalese leg of the remittances and the State Bank of India (SBI) has been chosen by RBI to handle the Indian leg.

5.2 Modality and Coverage of the System

The commercial bank in India (SBI) can receive transactions meant for beneficiaries in Nepal, through the NEFT system, and can then send the transaction details to the identified bank in Nepal (NSBL). In Nepal, the funds would then be distributed to beneficiaries by the Nepalese bank either through the banking channel or a combination of banking channel and money transfer agencies.

1 Other formal banking channels exist for remittance transfer from India to Nepal. However, those channels are not covered in this report as they are less accessible to Nepali migrants in India.

The system would cover NEFT-enabled bank branches in India. To facilitate the quick transfer of NEFT messages, it is essential that only the networked branches of banks are part of the system. As per the envisaged scheme about 62,000 NEFT-enabled branches of various banks in India would be in a position to make use of this facility for effecting electronic fund transfers to Nepal through SBI. SBI is designated as the nodal bank under the scheme. Remittances meant for beneficiaries in Nepal will be originated by various banks through NEFT and sent to the Payment Systems Group (PSG) at SBI to be credited to a centralized pool account available at the Dedicated Accounting Unit (DAU) at PSG.

Once in Nepal, the remittances would be distributed through all branches of NSBL and its money transfer agents, who are also approved by Nepal Rastra Bank. At present NSBL has 17 branches and its money transfer agent Prabhu Money Transfer (PMT) Pvt. Ltd. is operational in 900 plus locations covering the entire geographical area of Nepal.

5.3 Strengths/Advantages of the Indo-Nepal Remittance Scheme

The salient features of the scheme are as follows:

- Bank account at remitter's end is not required. Even a walk-in customer can deposit cash up to IRS 50,000 for transfer of the funds to a beneficiary in Nepal
- Bank account at the recipient's end is also not a requirement. However, the recipient can have access to a credit facility against the remittance account if they maintain one.
- Documentation: The remitter has to produce an identification document, i.e. passport /PAN/driver's license/telephone bill/ certificate of identification issued by their employer with details and photograph, etc. in case s/he is not an account holder. No additional documents are needed for account holders.

- Good coverage: Remittances can be originated from any of the NEFT-enabled branches in India, which now number about 62,000. In Nepal, the money is distributed through 39 NSBL branches and Prabhu Money Transfer's payout branches at 900-plus locations.

- Affordable: Since the scheme is targeted at Nepalese migrants normally engaged in unskilled or semiskilled jobs, concessional fees apply. The applicable charge would be IRS 70 for an amount up to IRS 5,000. For a higher amount up to IRs 50,000, the charge would be IRS 95. These charges are for non-account holders of NSBL. The applicable charge for an account holder would be a flat IRS 20 for any amount of remittance transfer up to IRS 50,000.[2]

- A frequency and maximum amount that can be sent each time is envisaged so as not to create a bottleneck for the remitter considering the profile of the average Nepali remitter in India: An originator in India is allowed to remit a maximum of 12 remittances in a year under the scheme with a maximum limit of IRS 50,000 per transaction

5.4 Bottlenecks in the Indo-Nepal Remittance Scheme

Lack of marketing resulting in a lack of awareness among migrants and their families: The most common reason for not using the formal transfer mechanism is lack of awareness among migrants about the presence of such a system. This lack of awareness exists mainly because there have been no marketing efforts to inform the migrants.

Neither SBI nor NSBL are involved in promoting this scheme. Prabhu Money Transfer, however, has mobilized six (6) staffers in various Indian locations including Delhi, Mumbai, Jalandhar, Assam, Calcutta and Patna to act as contact persons. Unfortunately, their presence is confined to a particular location, thereby limiting the coverage of migrants who are spread over much larger areas. Marketing efforts could also be directed towards the migrant population in Nepal so that they play a pull role by demanding transfer services. This has not been done. There is no marketing budget allocated to sub-agents to promote their service to migrants in their respective areas of operation. Such a budget would make sense, given the fact that remittances from India are still sluggish and PMT alone cannot bear the marketing costs. In addition, if such a scheme succeeds the benefits would accrue not just to PMT.

Under the present structural arrangement, demand pull is necessary for remittance transfers from India to Nepal as the banks in India can't be expected to be actively promoting this. They have no interest in doing so. Thus, the creation of awareness among Nepali migrants is very important as this will lead them to demand a transfer facility in India.

Identification (ID) requirement which many migrants might not possess: In the case of a migrant not being an account holder of the remitting bank, RBI has specified that an identification document such as a passport, PAN, driving license, telephone bill or a certificate of identification issued by an employer must be produced to transfer money. However, most of these identification documents are not within the reach of an average Nepali migrant. In the absence of any need for a visa to travel to India, migrants wouldn't have their passports with them. A passport is a costly document and a migrant wouldn't bother to obtain one simply to remit money. A migrant also can't be expected to possess a PAN as their financial activities are limited. Not every migrant can be expected to possess a driving license, which one can assume is issued by the Indian government. A telephone bill might appear easy to produce, but if a migrant has a telephone it is probably a pre-paid mobile.

The simplest document that could serve as an ID would be their Nepali citizenship certificate, but this is not recognized all over India and is not accepted as an ID. According to PMT sources, it is accepted in some cities like Calcutta but not in others. Migrants are unable to show any valid proof of identity, and in the absence of a provision for issuing a valid ID or recognizing an existing one, they may not be able to use the remittance service even if they are aware of the system.

Prohibition on Money Transfer Operators working directly in India: One of the main reasons why Money Transfer Operators (MTOs) in the Gulf and other countries have flourished is because they are allowed to work directly in those countries. However, in the case of India, SBI initiates the transfer process (although it may originate in any NEFT-enabled branch of any bank) and forwards it to NSBL which then forwards the cash to PMT. The bottleneck is that the migrant will have to visit an enabled bank in India, which they might not feel comfortable doing for the small sums to be transferred. On the other hand, since money transfer is not a bank's main business, transfers to Nepal can't be expected to be on their priority agenda. Remitters might not be able to find the assistance they may require to fill out even the simplest form. Where MTOs are allowed to operate directly, they can be expected to be more aggressive in attracting customers as securing transfer customers is their core business.

Limited network of payers at recipient's end: The network is limited at the recipient's end as service providers tend to be centrally located at district headquarters or in the few urban centers. In Dailekh and Dadeldhura districts recipients sometimes walk 2 days to receive money transfer from the Gulf or Malaysia. In the case of India, however, it takes less than 2 days to come from there to Nepal, so migrants and/or their families may not be willing to travel long distances to receive the money. Unless this bottleneck is removed migrants will not be willing to make use of the service even after they become aware of its existence.

Despite the huge potential for formalizing remittance transfers from India, these bottlenecks have limited the remittance flow through formal channels. They need to be removed if the formal flow of remittances is to improve.

2 www.nepalsbi.com.np, Indo-Nepal Remittance

6 Interpenetration Modality

Remittances are basically cash transactions with a high propensity to be used for consumption. This is especially true for rural households where migration is a coping strategy during times of crisis. Several studies, including this one, have shown that migration to India is a typical livelihood strategy for the poorest households that are lacking in year round food sufficiency. In such a scenario, the likelihood of the entire remittance being used for consumption is very high. Additionally, the result of informal fund transfers and lack of financial intermediation to remittance recipients is that households have no orientation about the alternate uses of remittance money besides consumption. Any decision to use remittance money productively then becomes merely a matter of an individual recipient's personal wisdom rather than a well-organized effort to induce recipients to do so.

An interpenetration modality should look at the multiple facets of the migration and remittance issue. Bringing remittance transfer from India into the formal system and ensuring that financial intermediation through remittance is available involves several intertwined agendas which need to be worked on simultaneously. While one attempts to work through the issues, it is certain that policy agendas will emerge, which a development agency would be able to neither overcome nor circumvent but would only be in a position to advocate for reforms. On the other hand, there are issues that can be handled at the individual institutional level. In view of this, while proposing intervention; recommendations will be made at the policy level as well as at the program level.

6.1 Program-Level Intervention Areas

Orientation and Sensitization of Migrants and their Families

Knowledge about formal transfer mechanisms is very limited among Nepalese migrants in India. Regulations related to transfers and procedures to be followed by senders of money are not widely disseminated among the migrant communities, through regular publicity, briefings or orientations. It is primarily due to a lack of information that the authorized formal institutions are not contacted by the migrants.

It is therefore necessary that an orientation program for migrants in India be worked out. The program would be held mainly in cities with a sizable concentration of Nepalese migrants and this must take place at least a few times at regular intervals. Illustrated brochures detailing the formal transfer procedures should be available at these orientations. Such orientation programs should be organized through the Nepalese associations in India and representatives from SBI and PMT should be invited to attend. In the case of seasonal migrants, they can be targeted for orientation and sensitization during their stay in Nepal. The remittance recipient households should also be contacted/oriented and sensitized concerning the benefits and procedures involved in using the formal channel. This should be done in the presence of PMT's local agent, who is responsible for delivery of the remittance money.

Creating Intersection of Remittance and Development

Even after migrants become aware of the transfer facility and start using it, they will still face structural barriers due to which the flow of remittance through formal channels might not increase as envisioned. The most important barrier is the very limited distribution of Prabhu Money Transfer (PMT) agents. In fact, there is only one PMT agent in Dailekh district and two in Dadeldhura district, each located in a municipality. The limited network of agents will be a major bottleneck when more migrants become willing to use formal remittance transfer. Similarly, the geographical distance of these agents from the remittance receiving community is another barrier which needs attention. Being able to establish an agent strategically closer to remittance recipients can further improve the formal flow.

Meanwhile, money transfer agents are concerned only with money transfer and cannot generate financial leverage based on the remittances. Consequently, there is no scope for developing remittance-based financial services if the transfers take place through agents. This limitation calls for an alternate mechanism that can bring about convenience in transfers as well as provide opportunity for developing financial products based on the remittances.

Recently, the entry of microfinance institutions (MFIs) into money transfer business has opened new prospects for leveraging remittances for development. Many development agencies are now finding MFIs at the intersection between remittance and development. This is defined as a condition in which microfinance institutions offer remittance transfers in under-served areas through an effective market presence, selling tailored financial services through a systematic understanding of the remittance recipient market.[1] Making use of MFIs is increasingly advocated as a mechanism for leveraging remittance flows to achieve development goals.

Linking MFIs with MTOs

The inclusion of MFIs in the money transfer value chain as pay-out branches has a number of advantages:

- Geographical proximity of MFIs to remittance receiving clients
- Existing relations with clients, which can generate a trust factor among migrants
- Better equipped to provide remittance-based financial products to remittance recipients

The involvement of MFIs as pay-out branches will bring formal remittance transfer services closer to remittance receiving clients. As adult male members of families migrate to India, households are left only with women and children. Considering the very limited number of pay-out locations, receiving money through money transfer means spending a day or more in travel, which is not very practical for many recipients. Informal transfer through friends and relatives, on the other hand, means the remittance money arrives at their doorstep. Thus, unless the money arrives nearer to their home through the formal channel or unless there are bigger risks in informal transfer, people will continue using the informal mechanisms.

Similarly, the trust factor can play an important role in making a transfer channel popular. Migrants weigh the trust factor inherent in each transfer channel before making a choice. A migrant's trust is especially important when the remitted money can't be paid out immediately during the occasional cash crunch. Such a situation is likely to arise because of the limited cash holdings of MFIs and the geographic distance of their bank.

MFIs can offer financial services which other non-financial institutions cannot. NRB regulations do not allow non-financial institutions to carry out savings and credit functions, unlike in some other countries. Thus, if remittance-based financial products and services are developed, they have to be administered through financial institutions. Since MFIs are allowed to operate as remittance transfer sub-agents, it is practical to involve these same institutions in money transfer as well as in offering remittance-based financial services.

The type of MFI best suited to carry out remittance transfers in Nepal would be cooperatives. Microfinance banks (MFDBs) are no better than commercial banks when it comes to penetrating rural markets in the Mid- and Far-West regions of Nepal. They are, if at all present, limited to a district's urban centers. Recently, cooperatives have been authorized by NRB to become involved in remittance transfer as sub-agents.

Model Linking Cooperatives with MTOs:

Consultative Group to Assist the Poor (CGAP) has proposed two distinct models for how MFIs can become involved in the money transfer business: a direct approach or a partnership. The choice of which model to use depends on a number of factors including the business goal, market structure and competition, the regulatory environment, and the existing infrastructure of MFIs. In the direct approach, MFIs carry out transfers either between their branches or through their bank accounts. The partnership approach, on the other hand, works through alliances with MTOs, banks, or through a consortium.

In the context of Nepal, the partnership approach would be best for cooperatives as the money transfer business model because:

- Cooperatives in the study regions have not yet been involved in remittance transfer. As remittance transfer is not their business goal yet, a partnership approach can give them the needed push. Partnership is relatively risk-free and requires fewer resources.
- NRB regulations allow cooperatives to work as sub-agents for established MTOs or banks that have transfer products. However, they are not allowed to establish a transfer business and work as an MTO. As a result, the only option available to cooperatives for entering this business is the partnership approach.
- In case of remittance transfer from India, money transfer operators are not allowed to operate directly in

1 Manuel Orozco and Eve Hamilton, *Remittances and MFI Intermediation: Issues and Lessons* (2005)

that country. Market structure there stipulates that any organization willing to participate in money transfer from India has to do it through a pre-established route. This means cooperatives can only operate as sub-agents for remittance payout at the recipient end.

- Any organization's capability to operate a successful transfer business depends on the soundness of its MIS and transfer technology. Cooperatives in Nepal don't as yet possess such infrastructure. They also don't have sufficient resources to invest in such infrastructure or set up an independent money transfer business.

So, the partnership approach should be used when integrating cooperatives into the formal remittance transfer process from India. This approach would enable them to operate as sub-agents of PMT. While MFIs offer their location and client-relationship advantages, they will also have access to the pre-established network at the transfer originating end and the technology platform of Indo-Nepal Remittance Scheme.

Capacity of MFIs to operate money transfer

MFIs traditionally involved in managing low volume saving and credit schemes in a VDC are much more likely to encounter capability and capacity constraints when they operate money transfer. The areas where such gaps may be encountered are:

- **Resource capability**: Cooperatives in rural areas operate traditionally and lack infrastructure to operate money transfer. Transactions and daily operations are paper-based. Basic infrastructure such as a computers, internet connectivity and communications devices (telephone or mobile phone) are needed to operate money transfer. Given cooperatives' low scale of operations, investment in such equipment can prove to be prohibitive for their resources.

- **Technical capability of cooperatives to administer remittance schemes**: Money transfer is a technology-based on-line operation and requires skill to administer. There are also other related functions such as record keeping and cash management that need to be managed along with the core money-transfer operation. Building the technical capacity of staff to handle money transfer can be a challenge and needs an appropriate plan.

- **Financial capability**: Two aspects of financial management are important for cooperatives in money transfer operations. First is ensuring that the daily demand of transfer is met through sufficient currency inventory. This can be a challenge for a cooperative with a limited deposit and credit portfolio and which operates its cash functions informally. Lack of sufficient cash to meet daily demands can lead to customer dissatisfaction and loss of goodwill. Depending upon the scale of operations and capital base, capital injection might be necessary in many cooperatives if money transfer is integrated into their operations. Second is establishing a well-functioning financial system that provides input in overall financial management.

Any program intervention which aims to link MFIs in Nepal with MTOs needs to take the constraints into account and develop ways to overcome them.

Developing Financial Products based on Remittance

Remittance transfer through financial institutions has the advantage of increasing financial depth and the availability of resources to finance productive projects and serve the financial needs of migrants and recipient households. This advantage can be leveraged by developing remittance-based financial products and creating access for recipient households to these products.

Once cooperatives are tied to MTOs and migrants start using this channel to transfer remittance, the next stage is to develop remittance-based financial products. While developing these products, it needs to be ensured that:

- The resulting product is attractive to target migrants and their families. Many FGD participants for example, when asked about the benefits of remittances, said that they could send their children to school. If such is the case, education insurance can be one attractive product. Identifying what migrants' families value the most or are most anxious about or what future expenses fall most heavily on them can yield insights into what products can be attractive to migrants and their families.

- It doesn't put financial stress on households to access those products. A typical example is if a remittance-based saving scheme requires recipients to deposit 10 percent of the transfer amount, it puts a high level of stress on them as they depend on remittance for their daily financial needs and don't have an alternate income source.

- The product is simple to administer taking into account the capability of cooperatives, and compliments or enhances their existing products.

6.2 Policy Lobbying

Issuance of Identity Card/Certificate

One of the most important constraints for migrants in using formal channels is the absence of an identity document which is needed for executing a transfer through formal channel and which is acceptable to Indian banks. It should be much easier for Nepalese migrants to apply and obtain an authorized identity card from the Nepalese Embassy or the Nepalese Consulates in India. The identity card, besides being useful for the transfer of money to Nepal, will prove a means of identity and protection in many other areas of day-to-day living for Nepalese migrant workers.

In the course of this Study, no reliable estimate was found for the number of Nepalese migrants in India. The identity document, besides being useful to migrants in availing themselves of services including remittance transfer, will also prove a reliable means of tracking the number of Nepalese migrants in India. Therefore, ways should be found for the issuance of identity papers to all Nepalese migrants in India through the Nepalese diplomatic missions. Such identity papers should be acceptable to the Indian authorities and Indian financial institutions, and for this the government of Nepal and NRB should negotiate with their Indian counterparts.

Issuance of an identity card and establishing its acceptance among financial service providers is not a difficult task for the Nepal government, given that legal status is not an issue for Nepalese migrants in India. It just needs an initiative and strong determination to make it work. Until a migrant identity card is issued, however, an effort could be made to establish the Nepali Citizenship Certificate as a valid identity document in India as it is already accepted in some Indian cities and was formerly accepted even at Indian Immigration. In the meantime, there should be strong policy lobbying to pressure the Nepal government to start issuing identity cards to Nepalese migrants in India.

Expansion of formal channels for remittance

Since 2001, money transfer operators have been allowed to enter the remittance market and many transfer operators have established links with the Gulf countries and Malaysia. The relative ease and reasonable cost of transfer have helped formal remittance transfers to increase several fold. However, money transfer operators are limited to the Nepal-India corridor as RBI has authorized only SBI and Prabhu Money Transfer to handle this task between India and Nepal. Because of the limited number of market players, they have not been able to generate sufficient awareness among migrants and encourage them to use the formal transfer mechanism. In the Gulf and other countries, it is not any well thought out awareness program that has helped promote the use of formal channels among remitters but rather it is the dynamism of competition among MTOs that has drawn people to formal transfers. If the restriction that allows only a few fixed players to operate remittance transfer is lifted, the use of the formal money transfer mechanism by Nepali migrants in India can be expected to rise.

Nepal Rastra Bank's Task Force Report of 2064 BS (2007/8) hinted at the desirability of government-owned Nepalese commercial banks opening branch offices in New Delhi and other Indian cities or establishing contact offices to be able to handle remittances to Nepal, in concurrence with RBI. In this regard, NRB can be encouraged to initiate a dialogue with RBI to allow a number of money transfer options to operate in India for remittance from India to Nepal.

The proposal to establish Nepalese bank offices in India must be based on a well thought out plan supported by a feasibility study. It should ascertain that the volume of remittance transaction is adequate to support the operational cost of a bank office, and if not, it must be seen what other banking business in addition to remittances can be undertaken to help meet the cost of operation. Alternatively, Nepalese commercial banks that lead the remittance business in Nepal may enter into an agency relationship with a number of Indian banks beside SBI to provide more choices and more outlets to migrants for money transfer. A feasibility study for this may be undertaken at the initiative of NRB and supported by donors once NRB succeeds in persuading RBI to allow multiple money transfer agencies to operate along the India-Nepal remittance corridor.

7 Conclusion

The role of remittance in the Nepalese economy is underscored by several statistics. Remittance from India is of particular significance as it reaches the poorest households that have limited alternative income sources. Migration to India is pervasive in the Mid and Far West regions of Nepal and it is believed that around 50% of households that depend on agriculture migrate to India. Most of these migrants are seasonal (60%) and their arrival and departure moves in tandem with the agricultural season. The Mid and Far West regions are food insecure and remittance is the livelihood of people during the lean growing seasons.

Although migration to India is significant both in terms of the volume of migration itself and the remittance it generates, it has received only minimal attention from policy makers. Despite being the largest and oldest labor market, there have been no efforts by the government to ease the process of formal remittance transfers from India. In addition, there is only a limited network of money transfer agents in Nepal, which puts the formal transfer process out of the reach for many migrant families living in rural areas. As a result, remittance continues through the informal method of self-carry by migrants and sending via friends or relatives.

In spite of remittance being an important income source, the intersection between remittance and development does not yet exist. This can be attributed mostly to informal remittance transfers as such transfers keep money away from the formal system and prevent any opportunity for leveraging it for development. If money comes through the formal channel, financial products such as savings and credit schemes and insurance can be developed to target remittance money. The availability of such financial products encourages savings (discourages unnecessary consumption), provides an opportunity to invest in productive assets, and reduces vulnerability to future risk.

Therefore, a program intervention is needed that will promote the formal channel while at the same time work on policy and structural issues. Such an integrated approach is necessary to ensure that migrants become aware of and willing to use formal transfer, and the formal channel is equipped to capture migrant remittances and develop their productive use. The program intervention should target policy issues such as the issuance of migrant ID cards and the elimination of the regulation that allows only a limited number of players to operate in India under pre-determined arrangement. In addition, the program should also increase awareness among migrants about the formal channel and improve and increase the network of pay-out counters through the inclusion of a number of MFIs.

Remittance from India is limited to being a means of survival for most migrants and their families because of its low value. However, it is also because of the lack of financial intermediation based on remittance. Remittance is mostly used for consumption and managing of crisis contingencies. The way to channelize remittance for the long-term benefit of migrants is by developing remittance-based financial products. Any program intervention should take an integrated approach aimed at formalizing the remittance flow and making financial intermediation based on remittance available.

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