Available online at www.elixirpublishers.com (Elixir International Journal)

Finance Management

Elixir Fin. Mgmt. 100 (2016) 43477-43485

ISSN: 2229-712X

Foreign Employment Saving Bond for Sustainable Economic Development: A Case of Nepal

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ARTICLE INFO

Article history:

Received: 1 October 2016;
Received in revised form:
01 November 2016;
Accepted: 08 November 2016;

Keywords

Foreign Employment Saving Bond,
Remittance,
Fiscal Deficit,
Sustainable Economic Development.

ABSTRACT

Nepal is in continuous pressure for graduation from LDC by 2022. Despite planned development efforts, capital expenditure has been consistently below 30 percent of the GDP threshold, resulting into slow structural transformation, low private investment and growth. Lack of project readiness due to governance factor has been considered as major constraint of economic development. The main objective of the study is to analyze the possibilities of introducing the foreign employment bond as an instrument for financing the fiscal deficits and sustainable economic development. The increasing trend of remittance income and its already visible micro and macro impact has raised the possibilities to channelize remittances as an important instrument for national development.

Introduction

Development Needs of the Country and Remittances

Nepal was included in the Least Developed Country (LDC) category as one of the 25 countries in 1971. Being a member state of the United Nations and signatory to the Declaration of Istanbul Program of Action (IPoA), as belonging to the LDC category, Nepal has targeted to graduate from the LDC status by 2022.

Nepal's efforts towards LDC graduation have been an ongoing endeavor for over five decades in Nepal. Subsequent periodic development plans have paved path towards the said graduation.

Plans besides focusing on increasing production and employment, poverty alleviation and raising the living standards of the people along with sustainable development and social justice. It also shows commitment to bring about a direct positive change in the living standards of the general people by reducing economic and human poverty in an effort to create a "Prosperous, Peaceful and Just Nepal". The Twelfth Plan also targeted Nepal's graduation from an LDC to a developing country by 2030 [1].

Many factors work in the growth and development process. In the long run, country's prosperity and the welfare of its people are determined by the pace of accumulating physical and human capital, by how efficiently the capital is used, and by how equitable access is to opportunities that growth and development generate. In this endeavor, It would be relevant to view the following "Growth Diagnostic Framework" [2]. The framework usage variety of evidence—macroeconomic, financial, and social indicators to identified the critical constraints to private investment and growth.

The growth diagnostics framework emphasizes the needs of low cost of financing private investment for yielding high social return (Figure 1). For the purpose, for sufficient levels of complementary factors of production—in particular, human capital, technical know-how, and/or infrastructure will be required. Macroeconomic stability, clear taxation, and property rights and contract enforcement are the pre-requisites on the one hand, whereas appropriate system for information and coordination, on the other. Domestic savings, strong intermediation in domestic financial markets, and strong integration with external financial markets will also be necessary for low cost of financing for development.

The most striking constraint of economic development in Nepal in interrelated governance factors is political in nature.

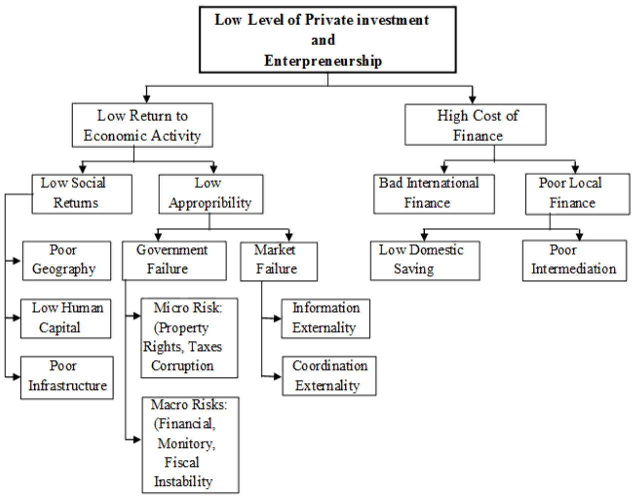

Figure 1. Growth Diagnostic Framework

Source: R. Hausmann, D. Rodrik, and A. Velasco. 2005.

Both public and private sectors are also constrained by a lack of government capacity, authority, and leadership. Weak governance system; inadequate infrastructure, particularly related to electricity supply, irrigation, and transport; poor industrial relations and labor market rigidities; and inability to

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address market failures leading to slow structural transformation are the major bottleneck to private investment and growth in Nepal [3].

Foreign Employment and remittances sent home by migrants has become a growing source of income for Nepalese households in recent years. The proportion of migrants going abroad (beside India) has been increasing since 2001. But this has apparently become opportunity only for the highest expenditure quintile households.

During 1989/90 remittance income in Nepal was Rs.676.8 million. This was equal to about half the country's income from tourism and equaled around one seventh of the export economy. In 1990s, the official value of remittance economy was put at 2.9 billion Nepali Rupees [4]. The record of Nepal Rastra Bank shows a dramatic increment in the incoming remittance. It increased considerably from Rs.549.7 million in 1990/91 to about Rs.343,6361 million in 2011/12. Remittance soared, particularly after 2001/02 (Table 1).

The flow of GDP and remittances from the fiscal year 2000/01 to 2014/15 shows ever increasing growth of remittances. The trend shows that the average growth of remittance is 37.50 percent during 15 year time period. The time series data also shows the Proportion of remittance to GDP at current producer's price [5]. The data gives the glimpse of GDP from the year 2000/01 till 2014/15 and the corresponding remittance received. Through simple arithmetic calculation it was found that, during the year 2000/01 proportion of remittance in GDP was 2.22 percent. This proportion reached to 17.01 percent in 2010/11 and in 2014/15 it has reached 25.42 percent. On an average, the share of remittance to GDP was 15.46 percent during the review period from 2000 to 2015.

Table 1. Timeline data of Remittance and its proportion to GDP. (NRs in Million)

Fiscal Year	GDP at current prices	Remittance Income	% Growth of Remittance	Proportion of Remittance to GDP
2000/01	441,519.0	9,797.60	-	2.22%
2001/02	459,440.0	14,859.80	51.67%	3.23%
2002/03	492,230.0	41,630.00	180.15%	8.46%
2003/04	536,750.0	56,629.80	36.03%	10.55%
2004/05	589,410.0	61,784.80	9.10%	10.48%
2005/06	654,080.0	92,748.60	50.12%	14.18%
2006/07	727,830.0	107,417.40	15.82%	14.75%
2007/08	815,660.0	139,421.50	29.79%	17.04%
2008/09	988,053.0	194,215.60	39.30%	19.65%
2009/10	1,171,905.0	213,998.9	10.19%	18.26%
2010/11	1,369,430.0	232,963.2	8.86%	17.01%
2011/12	1,558,174.0	343,636.1	47.51%	22.05%
2012/13	1,692,643.0	394,348.7	12.86%	23.30%
2013/14	1,941,624.0	490,302.5	19.57%	25.25%
2014/15	2,124,650.0	540,053.2	9.21%	25.42%
Average Proportion of remittance to GDP			37.15%	15.46%

Sources: Economic Survey 2014/015, Ministry of Finance, Government of Nepal, Quarterly Economic Bulletin-2016 (Mid-January), NRB, and researchers calculation.

Impact of remittances on macroeconomic indicators (national development process) can be understood from both micro and macro perspectives. In Nepal, remittance is considered as the major component which has direct and indirect impact on macroeconomic indicators: the GDP, BoP, Consumption and Investment, Foreign Exchange, and Employment. It has provided the foreign exchange needed for importing scarce inputs and also provide additional savings.

But, magnitude of the developmental impact of remittances on the receiving countries is often depends on how this money is spent. This demands the investment of remittances income in productive sector. However, even the disposition of remittances on consumption and real estate may produce various indirect growth effects on the economy. These include the release of other resources to investment and the generation of multiplier effects.

At micro level, remittance income earned from foreign employment is helping the households of the study area in fulfilling their basic needs as well as fulfillment of other socio- economic aspect of their life. Therefore, it is clear that the remittance is playing very positive role to the respondents and their family to reduce the poverty level of the study area.

Examination of the impact of remittance on poverty at the household level, using propensity score matching techniques shows a mixed result. Calculation of per capita income and the per capita expenditure of the Remittance Receiving Households (RRHH) and the Remittance Non-Receiving Households (RNRHH) show only little difference between the two clusters of population. Though, per capita income shows significant difference between the RRHH and the RNRHH, difference in per capita expenditure is only a marginal [6].

Regarding poverty incidence head count poverty index (41.87 percent and 48.22 percent respectively) between the RRHH and the RNRHH shows significance difference. It is clear that remittances income has direct impact poverty incidence. Comparison of the data of the RRHH with the National data shows that there significant improvement in the depth and severity of poverty [6].

Financing development is crucial for the sustainable economic development of any country. Optimum utilization of natural resources, technical development, formation of capital and capital market development are the important aspects for economic development of the country. Among these, capital formation is the most important element.

In Nepal lack of adequate infrastructure has been the major barrier to national progress. Economic Survey Report for fiscal year 2015-16 reports that Nepal's real economic growth has been hampering by underperforming of the state capital expenditure for a number of years. The statistical figure shows Gross Fixed Capital Formation (i.e., an indicator of Investment expenditure) is again below (Figure 2) the level required for Nepalese economy, characterized by Capital/infrastructure deficit and strong potentiality of Marginal Productivity of added Capital (MPK). It is estimated that at least 30 percent of the GDP as a threshold for Gross Fixed Capital Formation (GFCF) that will be required to boost required real economic growth of the country that can uplift per-capita income and generate further employment based on Investment Expenditure [4].

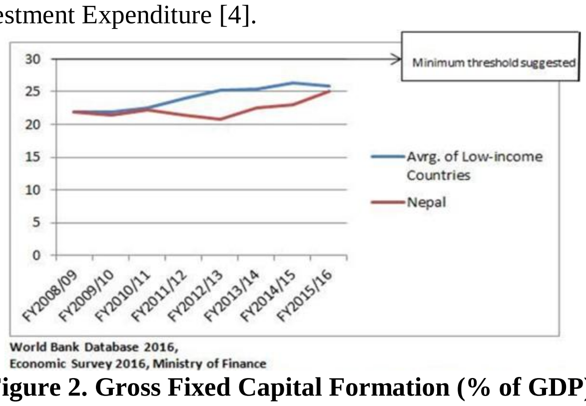


Figure 2. Gross Fixed Capital Formation (% of GDP).

World Bank's database and Economic Survey Report 2016, clearly indicates capital formation deficiency in Nepalese Economy in a graphical comparison of GFCF (percentage of GDP) of Nepal with the average of low-income countries in last 8 years.

It can be observed from the comparative graphical representation, the GFCF (percentage of GDP) of Nepal is considerably below the minimum threshold of 30 percent.

Similarly, statistics of volume contribution to the Gross Fixed Capital Formation of the Nepalese economy by the Private Fixed Capital investment and Public Fixed Capital investment throughout the timeline is observed, the ratio of Private Contribution on GFCF to Government Contribution was about 3.23 times in FY2015/16 as per the Economic Survey 2016 [4]. The graph below (Figure 3) shows a wide difference in contribution of the two parties through the period of 8 years. It exhibited that Private party even in midst of not so friendly regulatory environment has strong enthusiasm towards the growth of GFCF/GDP ratio compare to the Government.

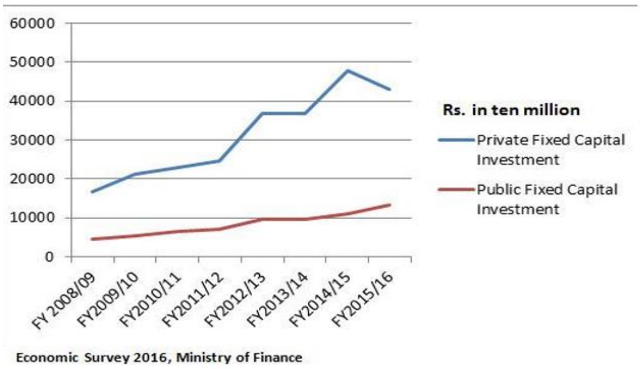


Figure 3. Comparative Contribution towards GFCF.

Multiple reasons have been identified for such lacking in capital allocation and spending. The major reason for low capital spending (which is especially notable in the last five years) has been due to lack of project readiness, such as delays in project design, land acquisition, and establishment of project management offices [7].

Table 2. Timeline Data on Fiscal Deficit trend in Nepal (NRs. in billion).

Fiscal Year	Total Expenditure	Total Revenue	Deficit	Deficit (% of GDP)
1990/2000	43.27	25.48	- 13.70	6.28
2001/2002	80.07	57.13	- 22.94	5.70
2002/2003	83.99	67.55	- 16.43	3.80
2003/2004	89.43	73.60	-15.82	3.50
2004/2005	102.55	84.50	- 18.04	4.00
2005/2006	110.88	103.49	- 24.77	3.40
2006/2007	133.59	127.94	- 30.09	3.60
2007/2008	161.35	169.85	- 33.41	3.60
2008/2009	219.66	218.49	- 49.80	3.70
2009/2010	259.68	245.74	- 41.19	3.20
20010/2011	295.36	287.98	- 49.62	3.60
20011/2012	339.16	287.98	- 51.18	3.40
20012/2013	358.63	333.92	- 24.71	1.50
20013/2014	435.05	396.31	- 38.95	2.00
20014/2015	618.10	514.82	- 103.28	4.86
20015/2016	819.46	587.90	- 231.56	-

Source: Ministry of Finance Economic Survey 2014/15

Budget incurs fiscal deficit when expenses exceeds revenue. It is an increasingly common phenomenon in developing countries and Nepal. Fiscal deficit has been incurring in Nepalese budget from the early budgeting years. The level of deficit has varied every year and does not exhibit a definite pattern. However, the recent deficit as a percentage of GDP, has lower in comparison to the 1990s (Table 2). One of the reason for decreasing deficit was said to introduce and promote liberalization which aimed at giving more functions to the market. But, this process required more macroeconomic stability to maintain the level of deficit.

Relating low level of budget deficit with low level of Capital expenditure and GFCF indicates that the Government in the name of maintaining macroeconomic stability is slashing down developmental expenditure even in the year where revenue collection fell short of the target. This has resulted into further cutting down the capital spending and stagnating the growth in an economy which is already struggling with inadequate infrastructure. ADB report, 2015 suggested that for the country like Nepal public debt of around 40 percent is considered fiscally sustainable. Nepal's current public borrowing is around 24.5 percent. It further suggests that growth rate of 7 percent per annum could be achievable from FY 2017/18 to FY 2024/25, given that borrowing is gradually raised to 40.6 percent of the GDP, and capacity to manage the borrowing enhanced [7].

Given the present scenario of capital expenditure, GFCF, and fiscal deficit on the one hand and huge remittance earning on the other, it has become necessary to channel remittance towards productive sectors and help diversify our source of development financing. One of such mechanism is "Foreign Employment Saving Bonds (FESB)" – which from July 2010, Nepal Rastra Bank, Central Bank of Nepal has repeatedly initiated to raises funds (though minimal currently) from their diaspora through the issuance of FESB. But, the government must understand that remittances are not a panacea to our structural economic problems. Remittance does not automatically contribute to national development.

This paper attempts to examine the inflow of remittances which could be used to improve infrastructure, housing and public utilities. For the purpose, the study also analyzes the possibilities of introducing the foreign employment bond as an instrument for financing the fiscal deficits and sustainable economic development.

Methodology

This paper is based on secondary sources of information. The data regarding remittances and, its use are collected from the government and non-governmental publications.

The principal sources of data for the present study are the following:

- Various issues of Economic Survey were used for analysing present debt situation in Nepal. Collected data are tabulated and presented for analysis (the situation of Bond issue of various types by Nepal Rastra Bank (NRB) for financing the budget deficit).
- Lots of literatures have been reviewed for successful stories from the leading countries which have been able to tap the wealth of their diaspora communities by issuing diaspora bonds were reviewed.
- For proposing the strategic frame-work for utilizing remittances in economic development, cases of various undeveloped countries were taken as reference.

Analysis of data relating to remittance and fiscal deficits is based on simple arithmetic calculation and for interpretation qualitative method has been used.

Table 3. Time series data of Foreign Employment Saving Bonds issued (2010 to 2016)

S.N	Name	Issue Date	Maturity date	Amount Offered (in NRs. 10million)	Amount Sold (in NRs.10 million)	Interest Rate	Sale%	Term (year)
1	FESB 2015	7/15/2010	7/15/2015	100.00	0.40	9.75	0.40	5
2	FESB 2016	6/26/2011	6/26/2016	500.00	0.34	10.50	0.07	5
3	FEBS 2017	7/12/2012	7/12/2017	100.00	0.87	10.00	0.87	5
4	FEBS 2018	7/14/2013	7/14/2018	100.00	4.29	10.50	4 29	5
5	FEBS 2019A	1/12/2014	1/12/2019	25.00	2.64	9.00	10.56	5
6	FEBS 2019B	4/14/2014	4/14/2019	25.00	5.00	9.00	20.00	5
7	FEBS 2020	7/07/2015	7/07/2020	25.00	8 37	9 00	33 49	5
8	FEBS 2021 A	4/13/2016	4/13/2021	25.00	8.21	9.00	32.83	5
9	FEBS 2021	5/12/2016	5/12/2021	25.00	8.00	9.00	32.00	5
10	FEBS 2021 A	7/13/2016	7/13/2021	33.79	11.24	9.00	33.27	5
			TOTAL:	958.79	49.35		5.14	

Existing situation of Foreign Employment Saving Bond in Nepal

In the budget for FY 09/10, the Government of Nepal (GoN) announced that it will be raising Nepalese Rupees NRs.7 billion by selling "Infrastructure Development Bonds (FESB)" – the name which was changed later to “Foreign Employment Saving Bond”- to Nepali workers working in 5 countries (Saudi Arabia, Qatar, UAE, South Korea and Malaysia). The government was planning to use the fund raised from the issuance of such bonds for infrastructure development of the country.

Later, the National Planning Commission has envisaged the sustainable economic development of the nation through creating and availing the opportunities for investing in productive sector and utilizing remittances for poverty reduction. For the purpose, government had planned to issue Foreign Employment Saving Bond to make foundation for the priority sectors and create investment friendly environment [8].

Responding to the plan, in June 2010, Nepal Rastra Bank on the behalf of the Government of Nepal (GoN), floated “Foreign Employment Saving Bond” worth Rs.1 billion for the first time. Major characteristics of its' FESB is that it could be used as collateral to obtain loans because; these securities carry zero risk because they are issued by the state. They can be bought in the form of promissory notes or stocks and can be traded by owners any time based on mutual understanding. But, trading can only be done in the presence of NRB officials.

Nepali workers working in South Korea, Qatar, Saudi Arabia, UAE, and Malaysia could buy the bond from one of seven licensed money transfer operators in denominations of Rs.5,000 (the then about $65). But the fund raised was nowhere near target (only Rs.4 millions). The next year, when the government issued bonds worth Rs.5 billion on June 26, 2011, subscriptions totaled Rs.3.38 million. Since then, the subscription rate has improved, but it has remained very poor compared to expectation. Despite the poor response to the bond issue, the government does not have plans to discontinue them. The response is relatively better compared to the past.

Nepal Rastra Bank has floated ten round of Foreign Employment Saving Bond. The status till date is as follows (Table 3):

Perhaps, failure of the first two round of bond issuance was due to lack of publicity and a short period of sale. Short period marketing was done before the issuance of bonds (only for two weeks), there wasn't enough time to generate wide interest. A second reason was limited targeting. Migrants in India (the largest destination of Nepali migrants) were not allowed to buy these bonds. Also excluded were Nepali migrants in the OECD countries that generally have higher incomes than migrants in the Gulf countries and Malaysia. A third reason was financial, notwithstanding patriotism and home bias. The interest offered on the bond was not attractive to potential buyers. This local currency Diasporas bond had an interest rate of 9.75 percent and a maturity of 5 years. Commercial banks in Nepal were offering up to 13 percent on 5-year fixed deposits.

Finally, money transfer agencies that sold the bonds received a 0.25 percent commission on the sale but had to forgo money transfer fees. It is possible that they did not have the right incentives to promote the bonds over remittance transfers [9].

Evidence shows that the reasons for low demand for these securities are mismatch in yield offered by the bonds and the currency depreciation rate. Capital gains are higher in investment tools like stocks than in bonds. So, there is more interest in capital appreciation instruments than fixed-income instruments [10].

The NRB admit that there has not been much awareness among migrant workers and their families about the advantage of the investment in diaspora bonds. As bond is a relatively new concept for migrant workers and their family, they lack of idea regarding saving and financial planning and money management to the under-subscription of diaspora bonds. Besides, comparatively low salary that most of the migrant workers draw in Gulf countries and Malaysia has also made it difficult for them and their family to invest on bonds.

Response was poor from countries where a huge number of Nepali migrant workers reside. The bonds have failed to attract the targeted buyers. According to NRB, there were altogether 48 subscribers for the latest issuance (the tenth issue), who bought Rs.50 million worth of bonds. The fact shows that the highest number of subscriptions came from Papua New Guinea, which is not exactly a wildly popular destination for jobseekers. Out of the total bond sales of Rs.50 million, buyers in Papua New Guinea accounted for Rs.12.4 million. This indicates lack of attraction for these bonds among Nepali migrant workers.

Rationale and Pre-requisites for Issuing and investing in FESB

It has become difficult in obtaining private financing using traditional financial instruments in the environment of a crisis of confidence in debt markets. In underdeveloped countries official aid alone will not be adequate to bridge the development financing gaps. There is a need for adopting innovative financing approaches to target previously untapped investors. FESB could be such mechanism that enables developing countries to borrow from their migrant communities. There are several factors that initiate adopting this mechanism:

It could be an attractive approach for countries to secure a stable and cheap source of external finance when country lag behind in approaching international capital market.

Such bond might promote image of issuing country's sovereign credit rating. By making available a reliable source of funding that can be availed in good as well as bad times, the nurturing of the diaspora bond market improves a country's sovereign credit rating.

There are several factors that contribute investors to buy Diaspora bonds issued by the country of origin:

The principal factor is the psychological one. The assumption is that such bond is less risky. A significant risk associated with such bonds is that the issuing country may be unable to make debt service payments in hard currency. But investors strongly perceive that their interest and principal will be returned in local currency.

Further to that migrants feels liable to their home country thus they view the risk of receiving debt service in local currency without less concern about the risk of currency devaluation.

Another factor is the feeling of contributing to the economic development of their home country. Such bonds offer investors a vehicle to express their desire to do "good" in their country of origin through investment.

It provides investors an opportunity to diversify their assets away from their adopted country.

Finally, investors may also believe that they have some influence on policies at home, especially on bond repayments. Whether such influence is real or imaginary is irrelevant. Migrants will be motivated to purchase bonds as long as they believe to have influence on policies.

As many as eleven countries are currently believed to be thinking about this financing vehicle. These include Ethiopia, Ghana, Grenada, Jamaica, Liberia, Morocco, Nepal, Philippines, Rwanda, Sierra Leone, and Sri Lanka [11].

Evidence shows that actual achievement of such bond has remained far below the expected level. Following are some of the reasons for such outcome:

Lack of minimum level of governability: Absence of governability is reflected in civil strife. Countries with weak governance and high sovereign risk may require support for institutional capacity building and credit enhancement from multilateral or bilateral agencies.

Limited awareness about this financing vehicle: Governments and other entities are often discouraged by the complexities of bond instruments. As result, not only are potential issuers uninformed about diaspora bonds, market players and regulators in the developed destination countries are also unfamiliar with these bonds.

Most of the bond issuance becomes failure due to lack of updated data on migrant population. As a result, many governments do not know where their diaspora are located and how much they earn, save and invest.

As pointed out before, diaspora investors must have confidence in the government of their home country if they are to purchase bonds issued by their countries of origin.

Learning from Experiences

Israel and India are two major countries which has been able to tap the wealth of their diaspora communities for financing countries development. They have risen over US$35 billion at the time of country's need. In this section, experience of these two countries in issuing diaspora bond is discussed in summary. Later, the approaches have been compared with that of Nepal's issuance of Foreign Employment Saving Bond.

Israeli experience in Diaspora Bonds

Israel views its diaspora as a reliable source of external capital, and has tapped their wealth and goodwill year after year on a regular basis since 1951. The Government of Israel established the Development Corporation for Israel (DCI) to issue diaspora bonds and views diaspora bond as a catalyst for economic development and growth. Over US$26 billion in proceeds from such issuance has been used in transportation, energy, telecommunications, water resources, and other essential infrastructure projects. It has a very positive track record, and consistently raising over $1 billion each year through the diaspora bond [12].

The 4 percent coupon as well as the yield on DCI's fixed-rate bonds from 1951 to 1989 was often far below the yields on 10-year UST notes. Thus, the Jewish diaspora initially provided a large patriotic discount to DCI. But the patriotic discount has dwindled in recent years. This is perhaps owed to the fact that younger Jewish investors are seeking market-based returns. More importantly, the decline in patriotic discount is also due to the availability of other Israeli bonds which trade in the secondary market and provide alternative avenues for acquiring exposure to Israel [13].

DCI also offered US Securities and Exchange Commission (SEC) registered, non-negotiable bonds to the Jewish diaspora and other migrant population, with a large menu of options — fixed and floating rate bonds and notes in denominations ranging from a low of US$100 to a high of US$1 million with maturities ranging from 1 year to 20 years. With this approach Israel has been able to maintaining ties with diaspora Jewry.

Indian experience in Diaspora Bonds

India has used diaspora funding only opportunistically in times of weakness in the balance of payments. The government-owned State Bank of India (SBI) is made responsible for tapped diaspora for funding on three separate occasions – India Development Bonds (IDBs) following the balance of payments crisis in 1991 (US$1.6 billion), Resurgent India Bonds (RIBs) following the imposition of sanctions in the wake of the nuclear testing in 1998 (US$4.2 billion), and India Millennium Deposits (IMDs) in 2000 (US$5.5 billion) [11].

SBI's diaspora bonds were limited to Indian diaspora, non-negotiable fixed-rate bonds with a five-year maturity. The minimum investment amount was US$2000. In contrast to the Jewish diaspora, Indian investors provided little overt discount—interest rates and yields on the SBI-issued bonds were about the same as comparably rated US corporate bonds. But the fact that the Indian diaspora purchased these bonds when India had lost its access to international capital markets suggests that the Indian diaspora in reality offered a large discount [11].

SBI's focused bond issuance at the Indian origin could be viewed as a marketing strategy which has been introduced in the belief that Indian investors would be more eager to invest in instrument that are available exclusively to them. Having local currency denominated current or contingent liabilities, SBI might have believed that the Indian diaspora investors would be content to receive debt service in rupees if India encountered a financial crisis. It is also assume that focusing to the Indian diaspora investors SBI is comfortable by knowing its customer that the invested funds did not involve money laundering.

Though, both DCI's and SBI's diaspora bonds were quite different in many ways detailed, the common thread in their success was the in-house marketing capability. Both have their own marketing and distribution channels even in other countries. There are about 200 DCI employees in the United States who maintain close contacts with Jewish communities for maintaining ties and selling bonds. Whereas, SBI's outsourced the marketing of RIBs and IMDs through specific foreign banks well-known to the Indian Diasporas [12].

Comparison of FESB with Diaspora Bonds

It would be appropriate that a comparative analysis between the FESB and Diaspora Bonds in order to extract learning from the success stories. Table 4 provides the cooperation between the two.

Table 4. Comparison of diaspora bonds and FESB issued

Israel(Diaspora Bonds)	India(Diaspora Bonds)	Nepal(FESB)
Annual issuance since 1951	Opportunistic issuance in 1991,1998,and 2000	Issuances since 2010
Development oriented borrowings	Balance of payments support	Priority sectors development
Coupon value:USS100 to a high of USSI million	Coupon value: USS 2,000	Coupon value: NRs. 5,000
Annually USS 1 billion	in 1991 USS1.6 billion; in 1998 USS4.2 billion; and in 2000 USS5.5 billion	Annual average in 10 issuance Rs.49.35 million(See Table 1)
Large though declining patriotic discount	Small patriotic discount,if any	None
Fixed,floating rate bonds and notes(4percent and market based returns)	Fixed rate bonds (same as comparably rated US corporate bonds)	Fixed rate bonds (Different rate annually,ranging from 9 percent to 10.5percent)
Targeted towards but not limited to diaspora	Limited to diaspora	Targeted towards but not limited to migrate workers
Fund allocation transportation, energy,telecommunications,water resources,and otheressential infrastructure projects.	Offering was targeted towards infrastructure financing	Not specified
Direct distributionby Development Corporation for Israel(DCI)	State Bank of India(SBI)distribution in conjunction with international banks	Nepal Rastra Bank(NRB)distribution Through Sales Agents;Banks andFinancial companies
Registered with U.S. SEC	No SEC Registration	No SEC Registration

Table 4 shows two clear distinctions between the FESB and diaspora Bond in terms of approaches during issuance. The prime factor that facilitates the issuance of diaspora bonds would be the motive of financing. The investors are always willing to be informed regarding sources (specific projects) of returns on their investment. This will help improve the marketability of the bond. In case of FESB, clarity in terms of allocating the investors fund is lacking, resulting into less attraction. Another factor that facilitates the issuance of diaspora bonds is having a sizeable and wealthy diaspora abroad. This is determined by strong database and targeting the issuances. Israeli and Indian Diaspora Bond are primarily focused in attracting Diaspora community abroad, whereas FESB's focus at the population migrated for comparatively better opportunity in foreign employment jobs. Naturally such jobs are comparatively low earning jobs.

Framework for enhancing investment in FESB

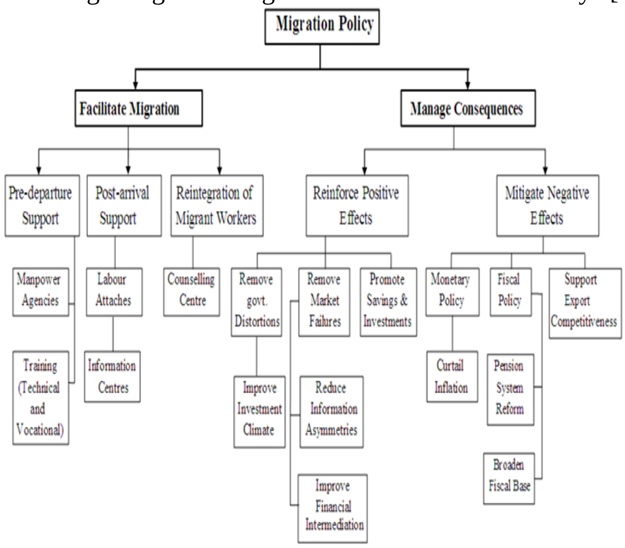
In recent times, it seems that the government has recognized overseas employment opportunities as one way to alleviate poverty and unemployment in the country. Foreign Employment Policy, 2012 was enacted with a target to "Ensure safe, organized, respected and reliable foreign employment to contribute on poverty reduction along with sustainable economic and social development through economic and non-economic benefits of foreign employment", through providing knowledge and skill based training to Nepalese human resources to develop skilled, empowered and competitive as per demand of international market creating safe, organized and respectable environment for foreign employment.

The policy has elaborated frames for making foreign employment process (pre-departure, security on the job, and re-integration) simple, transparent, reliable, organized and safe. Many of the mentioned policies have yet to be implemented. As a foreign employment programme is, in essence, an inter-agency programme its success depends upon the active participation of ministries, police, immigration officials, banks, airlines and Nepalese Embassies abroad. Besides, the Foreign Employment Act, 2008 also does not clearly demarcate the role to be played by each pertinent agency in their respective area. As a result many critical issues have remained unresolved [14].

In the learning experience of Israel and India in issuance of diaspora bonds, both countries have capitalized the feeling of from the experience of, both the countries capitalized from the psychological factor called patriotism. This has resulted sales of Diaspora bonds in premium thus fetching a "patriotic" discount in borrowing costs. Besides patriotism or the desire to do good in the investor's country of origin, investors are willing and able to take on sovereign risks of default in hard currency as well as devaluation as they may have local currency liabilities and they may be able to influence the borrower's decision to service such debt [12].

Feeling of patriotism is not one-way traffic. Country should invest a lot in terms of facilitation, promotion and security to its people to generate patriotism and trust. In the context of Foreign Employment it would be well facilitated services of government during initial struggles of immigrants, in terms of pre-departure, security on the job, and re-integration. Besides, good governance, strong and transparent legal system would also be necessary for the migrants to invest in the FESB.

In Nepal, given the results of outcomes of the ten rounds of issuance of the FESB, it should be no surprise that migrants are either not motivated, unaware about the FESB, or there is lack of trust or the Foreign Employment policy, 2012 is not sufficient to address the complexities of migration (ranging from border controls and taxes on remittances to active support of migrants abroad and the creation of incentives for direct investment of remittances) [15]. Thus, there is dealing with not only migration and remittances, but also its productive utilization. After all implementation of the policy would be very crucial. Presented below (Figure 4) would is a policy framework/ decision tree as an integrated migration and development strategy for encourage the use of remittances for promoting longer-term growth and income security [16].



Source: Alexander Culiuc, Integrating migration and development strategy, March 27, 2006

Figure 4. Possible framework for addressing migration and remittances.

The step-wise discussion with appropriate policy examples of the remittance earning countries is given below.

Step 1. Facilitate Migration and Manage its Consequences

It is no doubt that the remittance can potentially contribute to the economic development of the country. However, the extent to which this potential is fulfilled fundamentally depends on more general investment conditions. The first step in involving the remittance earning in development would be the government's decision regarding its overall stance and attitude towards migration. It is whether to encourage the migration or not. It is clear that migration and remittances have its positive and negative impact on the country of origin.

Migration and remittances have in general a positive welfare impact (reduced poverty and unemployment, increased disposable incomes, multiplier effects of increased aggregate demand etc.), and high inflation, increase in marginal propensity to consume of the people, unhealthy competition are some of the negative effect of migration and remittances.

'Facilitating Migration', demand for pre-departure service, post-arrival and re-integration support for the migrant workers. Specific and strong legislation, simplified recruitment process, accountability of manpower agencies and Technical and vocational training would be some of the supports that needs to be provided by the state as a pre-departure support. Pre-departure training for labor migrants is not only important to reduce the human and economic costs of migration; it can also be a powerful tool in raising awareness about remittance transfer methods and utilization. Establishment of Labor Attaches in the host country with appropriate information providing mechanism would be the crucial post-arrival support for the migrant workers. Whereas establishment of Counseling Centre for re-establishment of the migrant workers in the home town would be re-integration support for the migrant workers.

Step 2: Reinforcing positive effects of migration

In order to foster the positive effects of the remittances following three channels could be reinforced are:

- Mobilization of remittances
- Removal of government distortions
- Removal of market failures

Mobilizing available resources (remittances) for sustainable economic development would be the major challenge for the government. As it is the right of the migrant workers to use the remittance income, in order to utilize it into developmental activities, government should promote attractive and motivating schemes to the migrant workers. Issue of Foreign Employment Bonds worth Rs.5 billion by the Nepal Rastra Bank in 10 April 2011 and ten round of issuances could be considered good start in mobilizing remittances. These issue, though achievement is minimal could be considered as the instrument of internal borrowing aiming at brining and utilizing the money earned by migrant workers that is sitting idly, in financing the development.

But, mere issuing of the bond may not ensure necessary participation of the migrant workers unless they are provided necessary information and other incentives for investment. Recently, Ministry of Labour and Transportation management has developed a strategy paper to safeguard overseas migration for jobs and generate jobs in domestic market. A decade long Labour Migration and Foreign employment Strategy aims at providing jobs to people coming into labour market. The strategy focuses on using returnee migrant's skill and money in the development of the country. The strategy in itself is a mile stone for using migrant's skills and remittance as 'a factor of social and economic transformation' of the country. Though the ministry has planned to create jobs inside the country but the strategy lack concrete steps addressing effective measures in providing jobs to returnee migrant workers in case emergency in destination.

Thus, it would be necessary to learn from the rest of the world regarding motivating the migrant workers and utilize remittances for economic development. Philippines, Bangladesh, and India are considered leading remittance earning countries in Asia.

Bangladeshis government is rendering ceaseless efforts in enhancing the flow of remittance and to provide equal opportunity for the people of all areas of the country for overseas employment and ensuring overall welfare of the migrant workers. It has introduced different savings and investment facilities for non-resident including tax holiday and tax exemptions to encourage remittance flow and utilize it for economic development. One of these initiative implemented by The Philippines government is re-integration program which covers three phases of overseas employment: pre-departure, on-site, and upon return. Besides, government encouraging overseas Filipinos to invest their remittances in financial instruments and entrepreneurial undertakings, the Philippine government also makes use of its social security institutions to mobilize savings out of migrants' earnings.

Moreover, Microfinance International Corporation (MFIC), which was initially set up to cater for migrants from El Salvador in the US is an excellent example of a profit-making firm, which nevertheless contributes to economic growth and development in developing countries. Remittances are collected by the firm to such a scale that they constitute a pool of low-cost funds, which can then be used in lending programs by partner micro-finance institutions. MFIC also uses software which not only allows instant access to remittances by the receivers, but which also provides the sender with the opportunity to use remittances for school fees, utility bills or savings.

Hometown Association (HTA), a diaspora organization in Mexican state of Zacatecas, provides the example of collective remittance. It provides an incentive to save and invest. It ‘One example HTA's activities is a project in the, where each dollar contributed in remittances is matched by three dollars (one from the municipality, one form the state and one from the federal government. As an indication of the success of this programme villages connected better roads, electricity and employment opportunities in the programme locations.

There are several potential market failures that foreign employment policy can address, including imperfections in the financial market and information asymmetries between the migrant and recipients. Inefficiencies in the banking sector can reduce the positive impact of remittances. Poor competition in the financial sector can result in high costs for transferring remittances reduce the disposable income from remittances: both the short run multiplier effects of remittances and also the funds available for productive activities.

Development of the financial system thus, becomes an important component of an economic strategy that aims at integrating remittances into the development mix.

Step 3: Mitigating Negative effects

Migration is not free from negative effects. Labor outflows and remittances might cause reduce export competitiveness. This threat should be of particular concern to the government of small open economies, like that of Nepal. There are several ways in which a country can mitigate the negative effects on competitiveness:

Adjusting in monetary policy is one of the major instruments to fight the negative effects of remittances. Remittance inflows is directly connected to monetary policy through interest rate structure, exchange rate management, financial stability, efficiency of payments system, general economic stability, as measured by inflation. Exchange rate stability could be the starting point, as the motive for the remittances will have direct and diverse effects on appreciation or depreciation of the receiving country’s currency. The empirical findings in Nigeria shows, a rise of 2.2 and 1.9 percent in inflation after monetary policy action boosts the flow of remittances by 0.08 and 0.03percent respectively [17].

It is no doubt that the remittances can potentially contribute to the economic development of the country, it is not free from negative effects. The first step in involving the remittance earning in development would be the government's decision regarding its overall stance and attitude towards migration. On the one hand government should mobilize available resources (remittances) for sustainable economic development, while on the other it should mitigate the negative effects through appropriate policies.

The concept of Foreign Employment Saving Bond is in the preliminary stage in the country thus, it would be necessary to learn from the countries like Philippines, Bangladesh, and India are considered leading remittance earning countries in Asia, regarding motivating the migrant workers and utilize remittances for economic development.

Conclusion

As a signatory of the Declaration of Istanbul Program of Action (IPoA) and included in the Least Developed Country (LDC) category, Nepal is in continuous pressure for graduation from LDC by 2022. Besides planned development efforts Nepal's economic development is constrained by inadequate capital expenditure, which is consistently below 30 percent of the GDP threshold. Major reason for low capital spending (which is especially notable in the last five years) has been due to lack of project readiness, such as delays in project design, land acquisition, and establishment of project management offices. . However, the recent deficit as a percentage of GDP has lower in comparison to the 1990s. ADB, 2015 suggests that for the country like Nepal public debt of around 40 percent is considered fiscally sustainable. Nepal's current public borrowing is around 24.5 percent. It further suggests that growth rate of 7 percent per annum could be achievable from FY 2017/18 to FY 2024/25, given that borrowing is gradually raised to 40.6 percent of the GDP, and capacity to manage the borrowing enhanced. The increasing trend of remittance income (NRs.2.9 billion in 1990s has a dramatically increased to NRs. 450 billion in 2015) and its already visible micro and macro impact, could be channelize as an important instrument for national development.

Given the present scenario of capital expenditure, Gross Fixed Capita Formation (GFCF), and fiscal deficit on the one hand and huge remittance earning on the other, it has become necessary to channel remittance towards productive sectors and help diversify our source of development financing. Foreign Employment Saving Bonds (FESB) could be one of such mechanism. But, the achievement of ten rounds of issuance of the FESB (5.14 percent of the total offer of NRs.9.6 billion) does not show encouraging result. Perhaps, the government initiated the offer with wrong assumption and approaches without considering the basic pre-requisites (updated data on migrant population, transparent legal and contractual procedures, clarity in terms of specific project for allocating the raised fund, and confidence in the government).

Learning from success stories would have been helpful in designing the issuances of bonds. The psychological factor: creating environment of investor's "willing and able to do good in the country of origin" could be seen as major learning experience from Israel and India. Beside, both the countries are updated with the data base of the potential investors where their diaspora are located and how much they earn, save and invest. And finally, clear about the specific project, where the raise investments will be allocated.

Though, Foreign Employment Act, 2008, and Foreign Employment policy, 2012 has elaborated frames for making foreign employment process (pre-departure, security on the job, and re-integration) simple, transparent, reliable, organized and safe, it has not yet been implemented for facilitate the migrants during initial struggle of immigration and re-integration of returnee migrants. Thus, integrated migration policy which deals not only with the migration and remittances, but also its productive utilization would be necessary. Implementation of the policy would be very crucial.

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