

1. Background of the study

Remittance income in developing countries has become a lifeline for economic development. By remittances we mean sending income in terms of money or goods in home by the migrants or workers who have their earnings outside their home country. Nowadays, the sources of foreign income have been growing rapidly in each year in developing countries. Since long time in Nepal, many migrants have been transferring their income through the unofficial channels. Today with establishment of different agencies like Western union, International Money Express (IME) etc. in several district headquarters of the country, the remittance flows has become popular for transferring cash or money in time to the recipients. However, it is difficult to calculate the exact size of remittance flows in Nepal due to the emergence of unofficial channels even though it has recorded in balance of payments account.

Therefore, it is necessary to make this sector more systematic and take additional initiative for the flow of remittance through the formal channel. It is a challenge of making institutional arrangement for imparting training and skill for raising the demand for the Nepalese labors at the international level and guides the flow of remittance to the productive sector.

The history of remittance began after the British-India and Nepal war during 1814-16. Since then, Nepalese youths used to be recruited in the British national army (Thieme & Wyss, 2005). The volume of remittance increased only after 1995, when the civil conflict destroyed the local labor markets and people started looking for overseas employment. The political turmoil blocked the industrial expansion and halted plenty of small medium enterprises (SMEs) all over the country reducing job opportunities (Muller-Boker & Thieme, 2007).

Remittance inflow to Nepal is increasing dramatically in size over recent decades. It has been reached. It is one of the largest sources of financial flows for Nepalese economy. It is being a major source of foreign exchange earnings and sustaining the positive balance of payment in Nepal. The remittance is being a key factor to improve the status of households in the community level. The huge amount of remittance which is spending on different activities by households must have impact on Economic Growth through the channel of consumption, investment and

saving. To increase the level of impact of remittances on GDP in Nepal the remittances money should be used on productive sector more (Dhungana, 2012).

Nepali Migrant workers sent home \$8.1 billion in 2018, making it is the 19th biggest beneficiary of funds sent by migrants around the world, according to report released by World Bank. The remittances were up 16.39 percent year on year despite a drop in the number of departures. As a share of the gross domestic product for 2018, Nepal is among the top five recipient smaller economies, along with Tonga, Kyrgyz Republic, Tajikistan and Haiti. Five south Asian countries are in the top 20 list of biggest beneficiaries of remittances, with Nepal taking the fourth spot in the region. It is behind India (78.6 billion), Pakistan (\$21 billion) and Bangladesh (15.5 billion) but ahead of Silence (\$7.5 billion) in terms of remittances, according to the World Bank's Migration and Development Brief released (Prasain, 2019).

The Bank estimates that officially recorded annual remittance flows to low- and middle-income countries reached \$529 billion in 2018, an increase of 9.6 percent over the previous record high of \$483 billion in 2017. Global remittances, which include flows to high-income countries, reached \$689 billion in 2018, up from \$633 billion in 2017. Regionally, growth in remittance inflows ranged from almost 7 percent in East Asia and the Pacific to 12 percent in South Asia. The overall increase was driven by a stronger economy and employment situation in the United States and a rebound in outward flows from some Gulf Cooperation Council (GCC) countries and the Russian Federation. Excluding China, remittances to low- and middle-income countries (\$462 billion) were significantly larger than foreign direct investment flows in 2018 (\$344 billion). Among countries, the top remittance recipients were India with \$79 billion, followed by China (\$67 billion), Mexico (\$36 billion), the Philippines (\$34 billion), and Egypt (\$29 billion). In 2019, remittance flows to low- and middle-income countries are expected to reach \$550 billion, to become their largest source of external financing (World Bank, 2019).

2. Statement of the Problem

Worker's Remittance has been one of the major sources of foreign exchange earnings. Few years Nepalese worker's remittances are rapidly increasing. Despite a constant rise in remittance earning, the productive use of worker's remittances has been the matter of concern such as Industry, Hydropower, Agriculture and Tourism. While the direct economic impact of remittances to alleviate poverty is not much controversial, the non-securing consequence of remittance, such as impact on health, education, gender issue, social participation (Pant, 2011). Worker's Remittance also affect the gross domestic product (GDP), consumption(C), saving(S) and investment (I). So, the study under consideration was concerned with contribution of workers' remittance on National economy. This present study is carried out to answer the following research questions:

- i. What is the trend of workers' remittance, GDP, consumption, investment and saving?
- ii. What is the impact of workers' remittance on GDP, consumption, investment and saving?

3. Purposes of the study

The main objective of the study is to examine the impact of remittance on GDP, consumption, saving and investment. The specific objectives of the research are as follows.

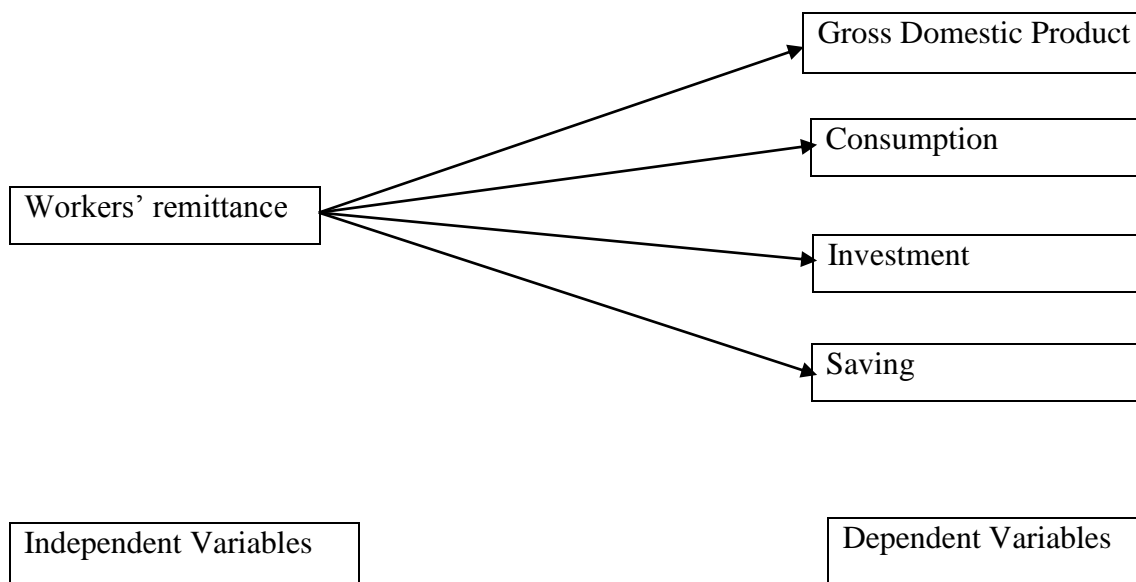
- i. To analyze the trend of workers' remittance, GDP, consumption, saving and investment.
- ii. To examine the impact of workers' remittance on GDP, consumption, saving and investment.

4. Conceptual Framework

The conceptual framework is designed to understand the contribution of remittance in Nepalese economy. The extant literature available strongly supports the contribution of remittance in Nepalese economy. In view of theory and major empirical evidences it is expected that the contribution of remittance may be influence by the conceptual

framework developed to test the effect of these variables on the Nepalese economy in this study portrayed in figure:

Fig: 1 Conceptual Framework



Gross domestic Product (GDP)

Gross domestic product is the best way to measure a country's economy. GDP is the total value of everything produced by all the people and companies in the country. It's easy to calculate a country's gross domestic product using this standard formula: $C + I + G + (X-M)$. It doesn't matter if they are citizens or foreign-owned companies. If they are located within the country's boundaries, government counts their production as GDP.

Investment

Investment is the amount spends to add the stock of capital goods over a given period of time. It is the most important means of creating employment both directly indirectly through multiple effects, but at same time it is the most volatile component of GDP. Investment can be define as change in capital stock i.e. $I = \Delta k$. The fluctuations in investment lead to business cycle.

Saving

Savings is the portion of income not spent on current expenditures. Because a person or institutions does not know what will happen in the future, money should be saved to pay for unexpected events or emergencies. An individual's car may breakdown, their dishwasher could begin to leak, or a medical emergency could occur or institution's were use further investment for organization betterment. Without savings, unexpected events can become large financial burdens. Therefore, savings helps an individual or institution or family become financially secure.

Consumption

Consumption is the use of goods and services by households. In another word, consumption means the direct and final use of goods and services in the satisfaction of human wants. Consumption has been given the most important role in economy. Consumption leads to economic activity of country. According to Keynes theory, if consumption does not increase the demand for goods will decrease and then production will fall. It may lead to unemployment, thus consumption plays an important role in the determination of income, output and employment in a country.

5. Significance of the Study

The role of workers remittance in economic development of recipient countries is considered to be an important area of research. It can play significant role in making overall development of the nation if inward remittance is used to enhance productive sector of the nation. So to advocate about contribution of workers' remittance upon national economy, it is necessary to examine the impact of workers' remittance on GDP, consumption, saving and investment of National economy. So, this study has tried to analyze the trend of remittance, GDP, consumption, saving and investment of the National economy. Furthermore this research is assumed to be useful for further researcher to conduct a research in this field. The study is helpful to government to provide guidance on the prudent use of those funds, and for developing countries to develop policies that will ensure that the growth is efficient and well planned. This study provides information for policy-makers in order to formulate wise policies to channel the remittance flows into productive investment. This research may be helpful in formulating suitable policy to divert remittance towards domestic national investment to foster economic growth of Nepal.

6. Limitations of the Study

Along with the significance of this study also have some limitations which are as follows:

- i. The study only analyzes the trend of workers' remittance, GDP, Consumption, Investment and Saving.
- ii. The study only examines the impact of workers' remittance only on four macroeconomics variables i.e. GDP, Consumption, Investment and Saving.
- iii. The research only considers the data for year period of 1990/91 to 2018/19AD.

7. Literature Review

Various studies, surveys and researches have been made to assess the impact of remittance upon economic growth, macroeconomic condition and other social aspects of the society and economy throughout the world by using different approaches. Most of the researches have not shown unique outcome. This means that different studies or papers have different findings about remittance and its impact.

Giuliano and Aranz (2005) analyzed the impact of remittances on financial development and growth. The study employed the Generalized Method of Moments (GMM) to measure the relationship between *endogeneity* of remittances and financial development. The empirical analysis showed that remittances can promote growth in less financially developed countries. The study concluded that little systematic empirical study on the relationship between remittances and growth. Based on the finding of the study suggested that remittances help alleviate credit constraints on the poor, substituting for the lack of financial development, improving the allocation of capital, and therefore accelerating economic growth.

Pradhan et al. (2008) examined the effect of workers' remittances on economic growth in sample of 39 developing countries using panel data from 1980–2004 resulting in 195 observations. The study used both fixed-effects and random-effects approaches to measure the relationship between workers' remittance on economic growth. The empirical results showed that significant overall fit based on the fixed-

effects method as the random-effects model is rejected in statistical tests. The study found that a significant overall fit. The study concluded that remittances have a positive impact on growth although the impact is not very large in size and the coefficient of the remittances variable is significant in two of four specifications

Javid, Arif and Qayyum (2012) focused the impact of remittances on economic growth and poverty. The study employed the ARDL approach to analyze the importance of remittances inflow and its implication for economic growth and poverty reduction in Pakistan. The empirical evidence showed that remittances affect economic growth positively and significantly. Furthermore, the study also found that remittances had a strong and statistically significant impact on poverty reduction. So the important of remittance inflows cannot be denied in terms of growth enhancement and poverty reduction that consequently improves the social and economic conditions of the recipient country. The study recommended that the government should formulate the policy that enhances the amount of remittances by reducing the transaction cost of transferring the remittances through formal channel.

Thagunna and Acharya (2013) analyzed the nine year remittance inflow and macroeconomic data of Nepal, and study the effect of remittance on each of those macroeconomic variables. The study used Unit Root Test, Least Squared Regression Analysis, and Granger Causality Test to empirically and theoretically investigate the impact of remittance of several macroeconomic variables. The empirical results suggested that remittance has more causality on the consumption pattern as well as the import patter, and less on investments. The study concluded that importance of channeling the remittance funds into the productive capital, mainly the public infrastructure, in comparison with the South Korean case study. The study would establish the importance of remittance in its role of triggering a kick start to the Nepali economy.

Kamran et al. (2014) explored the economic determinants of workers' remittances of Pakistan using annual data spanning from 1990 to 2010. The study used multiple regression equation to found empirical verify the economic determinants of workers' remittances of Pakistan. The study concluded that Pakistan's economic determinants

all play a strong role in explaining remittances. The study suggested that accurate policies can direct remittance flows into more prolific investment activities in the future. (Javid, Arif, & Qayyum, 2012) (Giuliano & Ruiz-Arranz, 2005) (Dastidar, 2017) (Pradhan, Upadhyay, & Upadhyay, 2008)

Aboulezz (2015) analyzed the impact of international remittances on economic growth in Kenya. The study also investigated the causality between international remittances and economic growth. The study used Granger Causality to investigate the causality between international remittances on economic growth in Kenya. The (ARDL) estimation method was used to determine this effect. The study showed that the international remittances indicators are significant factors influencing the economic growth in Kenya. The finding of the study concluded that economic growth in the Kenya is largely driven by international remittances. The study recommended that the Government of Kenya should continue to pursue a high and sustainable economic growth rate to attract remittances inflow.

Dastidar (2017) examined the empirical relationship between remittances and economic growth for a sample of 62 developing countries over the time period 1990–2014. The econometric findings indicated that, when estimated for all the countries in the sample, there is no evidence of a significant relationship between remittances and growth. The study concluded that remittance is not sufficient for growth. Thus, the extent of the benefit depends on domestic institutions and macroeconomic environment. So, the policymakers in the developing countries should not treat remittances as an alternative to these factors and pursue appropriate policies to increase investments and trade in their countries to promote faster grow.

8. Research Methodology

This chapter refers to the overall research methods from the theoretical aspects to the collection and analysis of data which helps us to find out accuracy, validity, and suitability. The justification on the present study cannot be obtained without help of proper research methodology. For the purpose of achieving the objectives of the study, the applied methodology was used. The research methodology has primarily evaluated the contribution of worker's remittance in Nepalese economy. The research

methodology adopted in this chapter follows some limited but crucial steps aimed to achieve the objectives of the research.

8.1 Research Design

This study will seek at studying the contribution of worker's remittance in Nepalese economy. This study follows descriptive and analytical research design for research study. It also analyzes the trends of remittance and impact of remittance on GDP, C, I and S of Nepal.

8.2 Population and Sample

The Population refers to the entire group of people, events or things of interest that the researcher wishes to investigate. The study will use Convenient 29 year's data of worker's remittances, GDP, Saving, Investment and Consumption of Nepalese economy as the sample of the research.

8.3 Sources of data

The sources of data indicate the place from where the information is gathered. The data for the study are remittances, GDP, Saving, Investment and consumption of Nepal. On the basis of techniques of its collection secondary sources will be use rather than primary sources in this research programmed. The data are abstracted from economic survey, Research department of NRB, MOF, etc. The relevant data will be instructed in meaningful tables and figures. It helps to find out the conclusion from the available data, with the help of various statistical tools.

8.4 Data analysis and tools and techniques

Statistical tools specially focused for data presentation and analysis .To comply with the objective, the paper will base on the secondary data. The research objective practicable, the year wise increase of remittances will study and the impact of remittances to GDP, S, C and I will also analyze and to find accurate result different statistical tools will use. The collected data will be analyzed using descriptive statistics, correlations and regression analysis.

9. Chapter Plan

Chapter-I Introduction: This chapter includes background of the study, statement of the problem, purpose of the study; significance as well as limitations included of the study.

Chapter-II Literature review: This chapter deals with the theoretical review, theory of remittances, theories of growth, review of previous national and international studies and research gap of study.

Chapter-III Research methodology: It deals with a research design, population and sample, source of data, data collection and processing procedure and data analysis tools and techniques.

Chapter-IV Result: This chapter fulfills the purposes of the study by presenting the data and analyzing them with the help of various statistical tools and techniques followed by methodology.

Chapter-V Conclusion: This chapter deals with the discussion, conclusion and implication for the improvement of effective remittance utilization. References and Appendices are also attached at the end of the research.

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