

**CONTRIBUTION OF REMITTANCE TO NATIONAL REVENUE  
OF NEPAL**

**A Thesis**

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# RECOMMENDATION

This is to certify that the thesis

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Has been prepared as approved by this department in the prescribed format of the  
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**Master's Degree in Business Studies (M.B.S.)**

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## **DECLARATION**

I hereby declare that the work reported in this thesis entitled CONTRIBUTION OF REMITTANCE TO NATIONAL REVENUE OF NEPAL submitted to Shanker Dev Campus, Faculty of Management Tribhuvan University is my genuine and original work done to fulfill the requirements for the Master Degree in Business Studies (MBS). It was prepared under the supervision of Bhoj Raj Ojha, of Shanker Dev Campus.

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## **ABBREVEATION**

FY	Fiscal Year
GDP	Gross Domestic Product
IMF	International Monetary Fund
IRD	Inland Revenue Department
MOF	Ministry of Finance
Rs.	Rupees
SAPTA	SAARCE Preferential Training Agreement
TU	Tribhuvan University
VAT	Value Added Tax
WTO	World Trade Organization

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Labor migration and remittances have emerged over the last three decades as prominent features of the Nepalese Economy. The phenomenon of migration is as old as the history of people has moved from country to country to search of new resources (New Era, 1981). From the early age of wildlife, people have been moving towards places where better facilities are available. The transmigration of human factors significantly increased at the beginning of the process of civilization. With the development of human civilization, innovation of different machine tools and rapid industrial revolution especially in western countries had made much more requirements of the labor force and to fulfil this gap was supplied from the Asian African and Latin American countries. As shown by this, the reason for development is the transmigration of human factors and labor forces globally. "Migration is a form of geographical or spiritual mobility between one geographical unit and another generally involving the change in residence from the place of origin of the place of departure to the place of destination" (UN Dictionary 1956). People are moving from one place to another since the ancient period and continued movement has been an international phenomenon resulting due to the complex mechanism, psychological, political and institutional and other determinants (Singh, 1998).

Labor migration is not a modern and recent phenomenon in Nepal. Labor migration for overseas employment from the labor surplus country has rapidly increased particularly after globalization. In Nepal, the migration of youth (male especially) for foreign employment speedily increased especially for the restoration of multi-party democracy and the introduction of liberalization policy. Nepal is one of the least developed countries in South Asia. About 85 percent of the people depend upon subsistence agriculture in rural areas facing great disparities of caste, gender and geography. Poverty, unemployment, declining natural resources and more recently political instability are the main reasons why international labor migration is the main resource increasing importance sources of income. Though Nepal has experienced

cross-broader migration from the ancient past, especially to India, China & Bhutan, it has taken speed up. In the recent past as the global economy open up gradually and the host economics (Gulf countries, South Korea, Malaysia etc.) welcomed our labor force to work.

Remittances are a financial inflow arising from the cross-border movement of nationals of a country and also the transfer of money and goods sent by migrant workers to their country of origin. Remittance flows to low and middle-income countries (LMICs) were \$505 billion in 2020 and \$470 billion in 2021 (World Bank 2020). Remittance covers a large portion of financial flows to developing countries like Nepal. Remittance is an important source in labor exporting countries to maintain foreign exchange reserves and to correct the Balance of Payments. According to World Bank, remittance enables households to increase their level of consumption, and ensure better health facilities, nutrition, education and other facilities. (World Bank, 2005).

Due to a long period of political instability, including the Maoist insurgency, there was no investment-friendly environment for sustainable economic growth. Most of the demands for consumer goods are fulfilled by the import, because of the weak performance of the domestic manufacturing sector. So, remittances are mostly used for the consumption of imported goods. In this connection, it is assumed that there may have less contribution of the remittance to the economic growth of Nepal.

Tuladhar (2014) concluded that remittance impacts the economic development in Nepal in the long run. It is not being properly utilized on productive investments as well as in export business. It is being utilized on high imports and consumption only.

Nepali migrant workers sent home Rs. 961.05 billion in the last fiscal year 2020-21 ended mid-July, a record-high money transfer to Nepal since Nepalese started going off to work overseas more than two decades ago. The amount grew by 10 percent year-on-year, which is equivalent to 22.5 percent of Nepal's current gross domestic product of Rs4.26 trillion evaluated at current market

Remittance income has also pushed up consumption. According to the Central Bureau of Statistics, in the last fiscal year that ended in mid-July, Nepal's final consumption

expenditure at current prices amounted to Rs3.98 trillion, representing 93.38 percent of the gross domestic product as shown in table 1.1.

From Table 1.1, India is the top remittance Recipient with a remittance recipient amount of 83.1 billion USD. Followed by China with 59.5 billion USD dollars remittance received. Among the top ten recipients, there are three countries from South Asia and those are India, Pakistan and Bangladesh. In fact, remittance has become one of the major components of the GDP of Nepal since the 1990s. According to a World Bank report, Nepal stood fifth in the world among the economies having a greater presence of remittance in GDP and first in south Asia in 2018 (Development Outlook (2018). In an impact study of remittance on poverty Byanjankar & Sakha (2021), the received remittance amounting to Rs 875 billion in FY2019/2020, which translates into a remittance to Gross Domestic Product (GDP) ratio of 23.23 percent. Consequently, Nepal is seemingly a remittance-based country with remittance inflow amounting to more than a quarter of the country's GDP. In a decade, remittances from abroad have increased by more than three-fold, from \$2.54 billion to \$8.75 billion. Labor migration is an integral part of the Nepalese economy. Department of Foreign Employment (DOFE) has issued over four million labor permits to Nepali workers from 2013 to 2023.

Table 1.1

The world's Top Remittance Recipients in 2023

Enrollment in local colleges, 2005

SN	Country	Remittance Recipients in 2023	%Change in 2022
1	India	83.1	0.2
2	China	59.5	-0.13
3	Mexico	42.9	9.9
4	Philippines	34.9	-0.7
5	Egypt	29.6	10.5
6	Pakistan	26.1	17.4
7	France	24.1	-8.8
8	Bangladesh	21.8	16.4

9	Germany	17.9	-2
10	Nigeria	17.2	-27.7

*Note. %= Percentage, source statista.com, figure shows Billion US Dollars.*

Nepal is one of the least developed but high remittances recipient countries in the world. The main source of Capital after agriculture is Remittance in Nepal.

Nepal received remittances amounting to NRs 875 billion in FY2019/2020, which translates into a remittance to GDP ratio of 23.3 percent (NRB, 2020). Nepal is a remittance based country with remittance inflow amounting to more than a quarter of the Country's GDP. Nepal was ranked 23rd among the remittance-receiving countries in the world. Remittance income is one of the major sources of capital formation in the context of Nepal.

The remittances income is spent by 39 percent on consumption, 28 percent on saving and loan payments, 26 per cent to purchase property and 7 percent on business (Online Khabar, Aug. 2017).

Remittance in Nepal represents the largest source of foreign currency reserve. Nepal is an import-based country and to maintain the balance of payment, remittance plays a vital role.

In spite of several problems including political instability, corruption, and lack of good governance, the country is advancing over time. The labor force of Nepal in 2020 was 16,045,628 as per World Bank (2022). The unemployment rate of Nepal was 4.44% in 2020.

Basically, remittance has been mostly used on domestic expenses such as food expenses, managing land and building, children's health care, entertainment and so on.

Remittance remains the dominant factor for the economy in Nepal after agriculture. Remittance has now become an important source of income for the rural economy. Remittance has been used for domestic purposes, such as land management and development, child education, health care, and entertainment. In a situation, when the country's main economic indicators are not showing a good picture, remittance has played a vital role in keeping the economy afloat. Remittance is also a major source of

foreign exchange earnings in low and middle-income countries (LMICs) and is on the rise. (Adhikari, 2023)

Remittance is now considered equally important as foreign direct investment, official development assistance and international trade for development activities because the amounts of remittances flowing to LMICs are now more than three times the size of official development assistance and higher than the foreign direct investment (World Bank 2022).

Table 1.2

Remittances and FDI as a percentage of GDP in Nepal

<b>Year</b>	<b>Remittance</b>	<b>FDI</b>
2014	25.9	01
2015	27.6	0.2
2016	27	0.4
2017	23.9	0.7
2018	25	0.2
2019	24.1	0.5
2020	24.1	0.4
2021	26.34	0.5
2022	28	0.4
2023	28	0.3

Note: World Development Index(WDI),2021 the figure shows percent in GDP

Table 1.2 revealed that the percentage of remittance during seven years was similar while FDI has an increasing trend.

## 1.2 Statement of the Problem

Nepalese households are receiving a huge amount of remittance and spending on consumption, housing, repaying of loans, child education, health care, saving and small business. It has a significant contribution to maintaining economic stability through foreign exchange earnings, trade financing, 31 government revenue and expansion of the service sector. It is assumed that the huge amount of remittance which is spent on different activities by households must have an impact on Economic Growth through the channel of consumption, investment and saving. But, due to the long transition caused by political instability and the Maoist insurgency, there is no favorable environment for investment. The demand for consumer goods is fulfilled by imported goods because of the very low performance of the production and manufacturing sectors. So, a large section of remittance income is spent on the consumption of imported goods. Depending on these facts, it can be assumed that there may not be an impact of the remittance on the economic growth of Nepal. Both views have points of justification.

If we see the remittance trend we see a gradual increment until 2022. But the remittance increment rate in the last decade is less as compared to the 80s and 90s though the number of foreign employment is very high as compared to early. Then where the money is going on? If remittance recipient is studied, it can be found that when the worldwide economy was hit by COVID and lockdown was imposed in most of countries. The remittance flow was record-breaking which proves that when there is a condition when informal channels are passive, the remittance from formal channels increases noticeably. So, there is a crucial question about the sustainability of the Nepalese economy from remittance unless all the remittance practice is completely routed formally. In this connection, the impact of remittance on sustaining the economy is an interesting issue. So questions arise in the field of remittance economy as:

- What is the Status of remittance with GDP inflow in the Nepalese economy?
- Is there any relationship between per capital Income and GDP?
- How is the remittance inflow contributed to economic growth or its impact is insignificant?

### **1.3 The objective of the Study**

The objective of this study is to analyze the socio-economic impacts of remittance in Nepal. So the following objectives are set up:

- To analyze the Impact of remittance in the Nepalese economy.
- To examine the dependent of remittance to the economic growth of Nepal.
- To analyses the relationship between remittance and GDP of Nepal

### **1.4 Significance of the Study**

Remittances are typically helpful to meet the specific needs of the respondents' family members and thus tend to increase their standard of living. In lower-class or poor households, they may finance their remittances to fulfil their basic needs, such as consumption, housing, children's education and health care and to pay for a loan. Remittance has become an important source of foreign exchange earnings, savings, investment, and consumption, predominantly from developed countries to developing countries. The availability of foreign exchange through remittances has not only helped the recipient countries in achieving a reasonable high economic growth by reducing the current account deficit. There is, however, also an alternative view that remittance may here a negative impact on output receipt economics. To advocate the impact of remittance upon the national economy, it is necessary to assess the impact of remittance on the lifestyle of people, national productivity, the consumption level of the nation and both of which are equally important to enhance the domestic product of the nation. As remittance is an integral part of the migration, analyzing trends and factors especially labor migration is equally important.

### **1.5 Limitations of the Study**

This research will try utmost care to cover most of the important sectors, but still subject to limitations. Some limitations are as follows:

This study is fully based on secondary data. The reliability of the findings depends upon the trustworthiness of the sources of data. There are two channels for the inflow of remittance in Nepal. One of them is formal whereas the other channel is hundi,

personal contact, relatives etc. We have made just some estimations for the remittance for the informal channel. So, this study has used only data on remittances entered into Nepal through formal channels. This study is based on data from Nepal only.

- The secondary data collection methods occur the limitation in the accuracy of the data and research outcomes.
- The inflow of the remittances may impacts the data of the calculation of Government Revenue depends upon the methods.

## **1.6 Organization of the Study**

This study has been organized into five different segments or chapter to make the study more systematic. The chapters one to five convey the following titles:

The chapter one contains the introduction part of the study. It describes the background of the study; it also deals with statement of the problem, objectives of the study, significance of the study, limitation of the study and organization of the study.

The second chapter deals with the conceptual framework, review of empirical works, relevant research studies, review of major studies in Nepal and finally conclusion of the literature.

The third chapter contains research methodology employed in the study. It explain the research methods , research design, nature and sources of data, data processing procedure, the basic tools and techniques and definitions of key terms.

The fourth chapter contains presentation and analysis of data. In this chapter, data is collected through different sources such as reports, questionnaire, observation, information system and required statistical tools has performed analysis and interpretation of data.

The fifth chapter contains summary and conclusion of the study. After that all necessary recommendation are presented for the improvement of the further study and research.

## **CHAPTER II**

### **LITERATURE REVIEW**

A literature review is the writing process of summarizing, synthesizing and/or critiquing the literature found as a result of a literature search. It may be used as background or context for a primary research project.

There are several reasons to review the literature:

- Identify the developments in the field of study
- Learn about the information sources and the research methodologies
- Find gaps in the literature that can become research questions
- Validate the originality of a research project
- Evaluate the methods
- Identify errors to avoid
- Highlight the strengths, weaknesses and controversies in the field of study
- Identify the subject experts

#### **2.1 Theoretical Review**

Today the term remittance has taken a central place in debates among development experts all over the world owing partly to the fact that its volume is growing at an exponential rate in recent years. The renewed debate started particularly after the 1990s when it was observed that the dependency theory and structural views on remittances, which dominated the decades of the 1970s and 1980s and maintained a pessimistic view on remittances, witnessed a downfall. The dependency theorists were of the view that remittance never contributes to the development of underdeveloped countries mainly for the reason that international migration encourages brain drain from the developing countries depriving them of the human capital that they desperately need to meet their development goals. Before the dependency and structural views, however, the development list and neoclassical thinkers during the 1960s and 1970s had maintained optimistic views on remittances believing that

capital and knowledge transfers by migrants would help achieve the development needs of least developed countries in the world. The same views have taken incarnation at the start of this century bringing back the debate about remittances on the floor once again. The impact of remittances on economic growth and poverty has been an extensively discussed issue both among academics and policymakers. Although this area of research has been explored extensively and widely, further research on this issue is still required to arrive at an overall judgment related to the desirability of foreign remittances for economic growth.

Amuedo-Dorantes & Pozo (2006) concluded that the increased remittance receiving country provides a cushion for income risk for receiving migrant increasing number of studies indicate that economic and currency crises in countries tend to increase remittance transfers corroborating the idea that remittance serve to spread income risks and smooth consumption.

Edelman et al. (1988) used a social allocation matrix (SAM) approach for a rural village in Mexico and found that there is a significant role of remittances from both domestic and international migration to affect economic activities in the village. According to the UNDP (2005), remittances are important for developing countries as the amount can provide access to additional financial resources and ultimately, to the creation and sustainability of livelihoods.

Ratna and Miambo (2005) examined the importance of workers' remittances as a stable source of external funding in developing countries. The economic effect of remittances increases the recipient's household income and the foreign exchange reserves of the recipient's country. Remittances contribute to the output growth if invested, and generate a positive multiplier effect if they are consumed.

An appropriate understanding of the remittance and growth relationship can help policy makers to design a suitable economic policy. Giuliano (2008) finds that remittances boost growth in countries with less developed financial systems as providing an alternative way to finance investment and reduce liquidity constraints. Workers' remittances also play an important role in human capital investment in the recipient country through relaxing resource constraints. Calero (2008) explored that

remittances increase school enrollment and decrease the extent of child work. Moreover, the study finds that remittances are used to finance education when households are facing aggregate shocks as these are associated with increased work activities. International remittances also perform an important role in reducing the extent of inequality and poverty. Acosta et al (2007) presented the household survey base estimates for 10 Latin American countries which confirmed that remittances have negative though relatively small inequality and poverty-reducing effects.

Rapport and Docquier (2006) show the household members who are left behind, use migrant remittances. Remittances are used to repay loans taken to finance migration or education, and insurance and strategic motives. It also directly contributes to household income, allowing households to purchase more assets; enabling higher business investment; and facilitating buying more goods, including education and health inputs.

Adams (2007) in a review of findings from recent research suggests that households receiving international remittances spend less at the margin on 42 consumption goods (like food) and more on investment goods (like education and housing).

Cattaneo (2005) that remittances are typically spent on investments in physical assets and in human capital, such as education and health, which can stimulate growth. Households receiving international remittances also tend to invest more in entrepreneurial activities. Therefore, remittances may stimulate the economy by boosting aggregate demand and output through increased consumption and investment expenditures of recipient households and their multiplier effects.

Mansuri (2007), Pakistan observes that remittances have a positive and significant effect on child education and health, including a gender equalizing effect, as the gains for girls is appreciably greater than those for boys. Moreover, with better access to schooling, children in remittance recipient households tend to work substantially fewer hours.

Yang (2005) in the Philippines finds that households whose overseas work experienced favorable exchange rate shocks (during the Asian financial crisis) were to reduce child labor, increase educational spending, improve child schooling, afford higher ownership of durable goods.

Acosta, Fajnzylber, and Lopez (2007) find that remittances increase the educational attainment of children with a low level of parental schooling in a sample of 11 American countries.

De and Ratha (2005) find that remittances have a significant positive weight of children under five in Sri Lanka.

Hildebrandt and McKenzie (2005) find that Mexico- US migration improves child health outcomes, i.e., lower infant mortality rates and higher birth weights. The study identifies two channels of the effect: one is the health improvements brought about by increases in income and another is that having a migrant family member is associated with an increase in the level of health knowledge among the mothers.

In Nepal, economists have recently concentrated their attention on estimating the impact of remittance on longer-term economic growth using modern growth theory. In that estimation, the positive, as well as the negative role of remittance upon growth, have been found. On the positive side, remittance may increase or enhance investment in physical capital. To the extent that there are frictions in domestic financial intermediation, imperfect capital mobility is present and remittance is not simply "disguised" as capital flows. The receipt of temporary remittance in an economy may lead to an increase in the domestic investment rate, thus increasing economic growth (Neupane, 2011).

Bhadra (2007) observed the mixed impacts on the children of migrant mothers in Nepal: positive impacts were seen on the opportunities for education, health care and lifestyle but worsening psychology of their children as their mothers apart for a long time. Being able to earn an income, support the family financially and have the freedom of financial decision-making, travelling to foreign countries with new experiences, seeing new places, and meeting with people from different parts of the world and interacting with them brings the feeling of independence and confidence for the migrants and this effect to impart to their immediate family as well.

Pant (2011) explored that remittances contribute largely to the national economy the remittances sent home by the migrants affect development at both the household and national levels. At the household level, remittances help to reduce poverty, improve the standard of living and attain higher educational levels. At the macro level,

remittances could be used for entrepreneurship and productive investment which in turn increases job opportunities and income of the people. However, remittances cannot be a substitute for a sustained, domestically engineered development effort.

Large-scale migration may hurt domestic labor markets in specific sectors, particularly when those leaving are mostly skilled workers. Still, migrant transfers can help ease the immediate budget constraints of recipient households (Pant, 2008).

The biggest contribution of remittances has been found to the welfare and improved livelihood of the receiving households in terms of basic needs, better health and education and to a smaller extent in terms of savings (Shrivastava & Chaudhary 2007).

They suggested that only meaningful utilization of remittance money can pave the way to the better prospects of the nation.

Shrestha (2008) found that the remittance helped to (a) maintain the balance of payment, (b) relax the foreign exchange constraint, (c) substitute foreign aid, and (d) reduce poverty in Nepal, and hence kept the economy afloat and maintain macroeconomic stability. Likewise, the study has pointed out that remittance is typically spent on land and housing which are non-productive assets with no lasting impact on the country's real income.

Many studies appear to find out the negative impact of remittance upon the national economy. Appreciation of real exchange rate, increase in the real wage, lack of manpower in rural areas to make optimum utilization of available scarce productive resources etc. are some negative indications which may be the outcome of labor migration and remittance and the outcomes cannot be undermined. Trial (2008) has raised four important and serious issues regarding the negative impact of remittances upon developing economies in his contribution paper. He argues that remittance is not hazarded free. The issues raised by trial in his paper about the negative impacts of remittance are: Remittance in developing economies sometimes maybe \*Ghost Town phenomenon means there is a high chance of collapse of small local economy that is highly dependent upon remittance remaining. It may be "Easy Money that negatively affects economic development. Remittance may widen the inequality through 'Remittance Haves and Have Not'.

The relationship between remittance and economic growth is unclear.

### **2.3 Empirical Literature Review**

Remittance can generate a positive effect on the economy through various channels, for instance, savings, investment, consumption, and income distribution. These inflows can also contribute to stability by lowering the probability of current account problems.

With the estimated international migrants of almost 272 million globally, with nearly two-thirds being labor migrants, the global remittance flows amounted to \$654.33 billion in 2019 (World Migration Report 2020, 2020). In 2019, the top five remittance recipient countries were India (\$83.1 billion), China (\$68.4 billion), Mexico (\$38.5 billion), the Philippines (\$35.2 billion), and the Arab Republic of Egypt (\$26.8 billion) (World Bank, 2020).

India which stood first on the top five remittance recipient countries, Remittance has helped Indian Rupee hold its value against the US dollar to form a significant part of GDP. Remittance inflows to GDP percentage in India were reported at 3.17% in 2020, according to the World Bank collection of development indicators, compiled from officially recognized sources. On a micro level, remittances have shown a positive impact on health care, entrepreneurship, education, and overall economic development of the recipient families.

Calaro (2008) revealed that remittances reduce the poverty, loan of the households, and accelerate investment, human development, education, and health. Katsushi et al. (2012), in their work remittance growth and poverty, new evidence from the Asian countries generally confirm that remittance has a positive impact on economic growth, the work also found a positive impact of remittance on poverty alleviation.

Adams (2002) for instance suggests that international remittances in Pakistan have a positive effect on the savings rate during the 1980s and early 1990s. He finds the marginal propensity to save out of international remittances to be 0.71 compared to the marginal propensity to save out of the rental income of just 0.085 and believes that the increased remittance flows were viewed as uncertain, and hence people want to save more for the future. He added that if these savings were to be channeled through

the banking sector for investment purposes then remittances could potentially have a positive effect on economic growth.

### **2.3.1 Review of Articles**

Sah (2019) Conducted the "Remittance and Economic Development of Nepal". Nepal is one of the least developed but high remittances recipient countries in the world. Nepal received remittance from US\$ 8.1 billion in 2016 and it is ranked 23rd among the remittance receiving countries in the world. Remittance income is one of the major sources of capital formation in the context of Nepal. It is directly related with the labor migration in a country which in return enhances foreign employment. Remittances have become a major contributing factor to increasing household income as well as country's GDP. About 30 percent of Nepal's GDP comes in the form of remittance money which is sent home by Nepalese working abroad and it helps to reduce country's poverty rate. Poverty reduction took place in Nepal from 42 percent (1995/96) to 25.2 percent (2010/11). Nepal's remittance recipients reached 31.5 percent GDP in 2015. The total amount of remittance in the country is 259 billion and among which 20 percent is internal sources, 11 percent from India and 69 percent from Gulf countries. Remittance received by the households is mainly used for daily consumption (79 percent) and remaining other purposes. Moreover, Nepal's economic status mostly depends on remittance received which is therefore migration driven economy.

Adhikari (2020) conducted the "Contribution of Remittance on Economic status of Dharan". The study aims to explore the Contribution of remittance on economic progress of Dharan -6, Panmari. For this purpose, Twenty-five households having immigrant family members were selected in Dharan -6, Panmari. The information was collected through interview by using structured interview by using structured interviewed schedule. Descriptive statistics is carried out to analyze the Contribution of remittance on economic status of the sampled household in the past-migration period is better than that in the pre-migration period. In the study area, remittance is a main source of income. So, it has brought a qualitative change in economic status of migrant household. An improvement in the economic status of migrant household, the involvement of the household in community development activities and participation

in social organization have brought a positive change in the overall socio economic status of the migrant household.

Adhikari (2021) Analyzed the "Remittances and development in Nepal: A disaggregated analysis". Remittance flows into low/middle-income countries are on a continuous rise and this trend is seen in Nepal as well. There is a constant increase in the number of the Nepalese workers migrating for foreign employment and that has been instrumental to boost the remittance inflow into the country. Remittance is contributing significantly to Gross Domestic Product and is emerging as a backbone of the country's economy. However, the ways remittances contribute to social development necessitates that many facets of development be explored because they affect the country's development in multiple ways. This study attempts to analyse the possibility that remittance positively contributes to social development, considering health and educational development as its proxies. Based on the latest available disaggregated educational enrolment and nutrition data of 2009 A.D. by districts, this study analyses the impact of the remittances on school enrolment and improvement in health status of families who remain at home. The results show a significant relationship between remittance and school enrolment but it also shows an insignificant relationship between remittance and health. The findings may be of interest to the countries and the policy makers with remittance being the dominant source of foreign currency. As the results of this study have indicated that remittances may serve as a contributing factor to the educational enrolment for social development.

Gaudel (2022) Analyzed the "Remittance Income in Nepal: Need for Economic Development". Remittance as a major source of foreign currency to the developing nation has become a substantial component of making current account surplus in the balance of payments. It is argued that many workers from Nepal going abroad for employment are no doubt young, energetic, laborious and enthusiastic. They do hard work for caring large remittance income to support their families. However, the downside of remittances reflects the view that remaining young generation for long time outside without family may increase their vulnerability and ultimately they will have a tendency to leave their homeland. Thus, in order to recover the loss of economically active labor force to the domestic economy, they should be encouraged

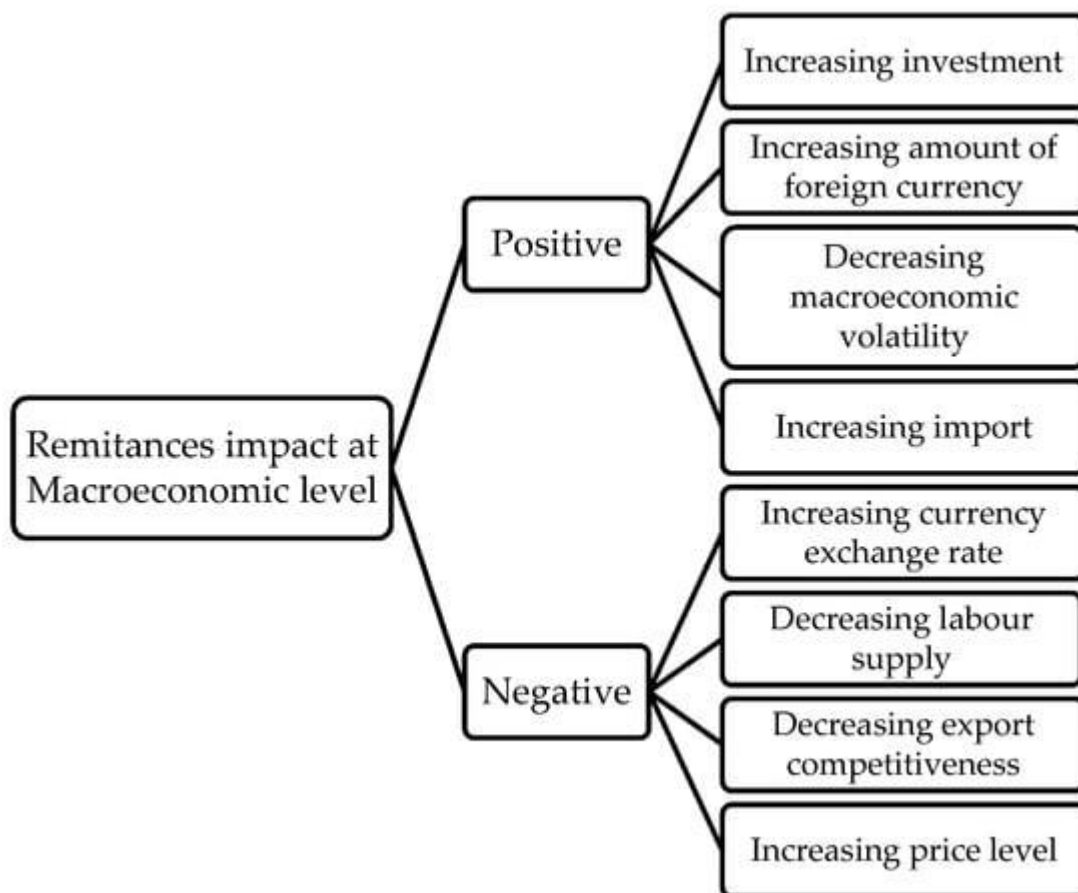
to come back again with skilled knowledge for utilizing their savings and working experience for development to the productive areas in accordance with the priority of the national development plans.

### **2.3.2 Research Gap**

Economic growth plays the most important role in reducing the level of poverty in the nation. But growth depends upon various elements like saving, investment, consumption pattern, labor force, technological advancement etc. No doubt, remittance has increased gradually in the nation and its share of GDP has also increased up to 23.23 percent (NRB, 2020). Remittance has reduced foreign exchange constraints in the nation. However, the economy of the nation has not got the right pace so far and no significant change is seen in the lifestyle of remittance recipient families.

A number of researches have been conducted outside Nepal on the positive impacts of remittance on the national economy and socio-cultural aspects of the life of people. There are several kinds of research in Nepal on the same, too. However, very few studies have been done on how remittance inflow affects the productivity and resource utilization of the nation in general and of the recipient families in particular. So the trend, positive effects as well as adverse effects of Remittance will be known through this study.

### 2.3.3 Conceptual Framework



### 2.4 International Context

Ratha (2003) concludes that remittances increase the consumption level of rural households, which might have substantial multiplier effects because they are more likely to be spent on domestically produced goods.

Ahortor & Adenutsi (2009) additionally proved that workers' remittances may create voluntary unemployment in recipient countries because of over-dependence on external or workers' remittances income leading to a diminished labor force reducing growth in gross domestic product.

Analysis shows that remittances have a positive significant effect on the Philippine economy in the long run. This translates to a 0.018% increase in the economy's GDP when the remittances sent by overseas workers to the Philippines increase by 1%. However, in the short run, remittances negatively affect the economy's output, which

implies that an increase in remittances sent to the country is associated with a decline in the economy's output (Moises Neil V. Serino, 2012). Personal remittances received in the Philippines accounted for 9.66 percent of the country's total GDP in 2020.

Along with the garment exports, Remittance from more than 10 million citizens abroad are very important for Bangladesh as a key source of foreign exchange. Bangladesh stood 8th most remittance-receiving country in World in 2020 as per World Bank. Remittance has helped enhance Bangladesh's inclusive growth, according to economists.

Javaid (2017), found a positive association between consumer behavior and remittances. Similarly, the study also derives a positive association between investment behavior and remittances. This study investigated the impact of remittances with other socio-economic variables on consumption and investment, one-year data (1<sup>st</sup> January 2011 to 31 December 2011) collected from the field survey of Tehsil Sargodha. The study has analyzed a sample of 355 households that have at least one person working abroad. The data is regressed by the OLS method.

Ziaul Haider et al. (2016) measured the impact of remittance on consumption and savings behavior through surveying rural households in Bangladesh. The remittance receiver households receive US\$ 358 monthly remittance on average. The average monthly food expenditure, aggregate expenditure and savings of a remittance receiver household are about the US \$28, \$32 and \$10 higher than that of a non-receiver household. The path model analysis findings indicate that remittance has a statistically significant positive impact on attributing food and aggregate consumption expenditure in addition to savings. Therefore, this study concludes that remittance plays an important role in attributing consumption and savings behavior in the selected rural areas of the southwest region of Bangladesh. However, a further study addressing randomness in the sample selection process with a wider sample and study area coverage might enhance the robustness of the study findings.

Clement (2011) conclude that in Tajikistan international remittances significantly increase the household consumption level but hurt investment expenditures. However, the effect of domestic remittances is not clear, as they affect two investment goods in opposite directions: domestic transfers reduce expenditure on housing and agriculture but increase spending on health. No effect of remittances is found on other key

investment variables such as education. He justifies this finding with the fact that health outcome is a short-term priority while education and agriculture represent long-term investments. He concludes that domestic remittances help households to achieve a basic level of consumption. Another way to look at remittances is to consider them fungible.

Therefore just like any other source of income. If a euro of income of remittances is treated by the household as a euro of wage income then migrant's transfers do not produce any change in how the household allocates its expenditure. Several empirical studies show that remittances do not have a differentiated impact on household expenditure behavior, concluding that income is just income wherever it is generated.

Adams et al. (2008) arrive at the same conclusion in their comparative study on household marginal spending behavior in Ghana. Using the 2005/2006 Ghana Living Standards Survey, they investigate a wide range of consumption and investment goods to capture any significant effect of remittances on household expenditure decision but it seems that remittance income is treated just like any other source of income.

Woodruff and Zenteno (2001) estimate that remittances account for about 20% of the capital invested in microenterprises in urban Mexico and the figure is higher for female-owned businesses.

World Bank (2006) estimates that growth of remittance inflows led to a 2% increase in the share of domestic investment to GDP in Latin American countries from 1991 to 1995, and 2001 to 2005.

Aggarwal et al. (2006) conducted a study of 99 countries over the period 1975-2003 and find that remittances have a positive effect on bank deposits and credit. The authors then interpolate the positive effect on development by invoking existing studies showing the positive impact of these two variables on economic growth.

Taylor (1999) find that every dollar Mexican migrants send back home or bring back home with them increases Mexico's GNP from anywhere between US\$2.69 and US\$3.17.

A study conducted by IMF (2005) regarding the impact of remittances on growth over an extended period (1970-2003) for 101 developing countries found no statistical link between remittances and per capita output growth.

Ahlburg (1991) argued that remittances undermine productivity and growth in low-income countries because they are readily spent on consumption likely to be dominated by foreign goods than on productive investments.

## **2.5 National Context**

Nepal has a long history of global migration. It started in two streams. First, beginning over 200 years ago the British armed forces began to recruit soldiers from Nepal, called Gorkhas, to deploy them in wars fought by Britain in different parts of the world (Seddon, Adhikari, & Gurung, 2002).

Neupane (2011) says Nepalese started foreign employment by travelling to Lahore in the early 19th century joining the Sikh ruler Ranjit Singh. Foreign migration started from the Sugauly Treaty of 1814 A.D. and remittance has shown its presence in the Nepalese economy since it started to receive remittance formally by exporting brave Nepalese Soldiers known as 'Gurkhas\*' to Britain. Secondly and more importantly, there have been cross-border flows of Nepalese to India for employment and other opportunities for centuries (Nikander, 2015). While the British army recruitment of Gurkhas is a fading phenomenon now, the cross-border migration to India has remained a living experience for Nepalese migrant many joined the Indian Army and many sought employment in the private sector in India in the 1950s and 1960s.

Gaudel (2006) explored that remittance and labor migration support their family at the micro-level and it induces other young labor forces to go abroad. Bhandari (2018) adds remittance significantly empower Nepali women in business entrepreneurship in small and cottage based industries in Nepal.

Nepal is following the path of monetization and development. Despite national and international expenditure, Nepal is still facing an increase in income inequality. Due to the political instability, the Nepalese economy and development activities are remarkably affected. Economic growth is a means towards human development rather than an end in itself. Nepali society is undergoing tremendous socio-political and cultural changes in a couple of decades.

Remittance is the primary source of livelihood for rural households. According to Nepal Living Standard Survey 2010/11, the proportion of all households that receive

remittances is 56 percent in Nepal. About two in three households in the Terai receive remittances and the proportion for both the hills and the mountains are roughly one in two households. Similarly, the per capita remittance received in the Terai is about two and a half times what the households in the mountains are receiving on average. In the same way, more rural households receive remittances than urban households but the per capita remittance received is higher for urban areas than for rural areas. About 79 percent of the total remittance received by the households is used for daily consumption while 7 percent is used for loans repayment. Other uses are - to acquire household property (5 percent) and for education (4 percent). Only a small percentage of the remittances (2 percent) is used for capital formation and the remaining (3 percent) is used for other purposes.

Dahal (2007) stated that the remittance transfer was a crucial source of income developing economies as well as to millions of households, particularly won women and their children. He argued that unlike the aid or private investment flows, remittance reached the poor directly and the poor were the ones to decide on how to spend money. According to him, more importantly, remittance services also offered a means financial institutions to increase their outreach and relevance to poor clients.

Gaudel (2006) argued that remittance income appears to be the most relevant variable to raise nominal GDP in Nepal,

Sharma (2006) argues that remittance and growth are negatively avoided in Nepal. He used macro-level data to estimate the impact of remittances on GDP growth in Nepal. Using OLS regressions, the author finds that the effects of remittances on GDP growth are negative. The author reasons that because remittances are largely compensatory and have no effect on savings and investments, they result in negative impacts on the country's economy.

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## **CHAPTER III**

### **RESEARCH METHODOLOGY**

This chapter deals with the methods and procedures of the study under consideration in order to achieve the objectives of the research. It describes in detail the work that is to be done in course of conducting the research. It consists of the design of the study, area of study, data collection procedures and data analysis procedures as well.

#### **3.1 Research Design**

The study was associated with the quantitative analysis of statistical data of remittance income and GDP of Nepal during the periods of FY 2000/2001 to FY 2020/21. Statistical software of regression was used to analyze the data. The software calculates only the quantitative data and gives the quantitative solution. Also, the quantitative statistics regression and F statistics were used for the analysis of the result of the study. So the research is quantitative research.

#### **3.2 Population and Sample**

The study used the data of remittances entered into Nepal through legal channels.

Since the total volume of remittances was included in the study they may come from any part of the country. So the area of the study is the whole Population of Nepal.

#### **3.3 Sample of the study**

The researcher used 21 years of data on remittances and the GDP of Nepal as the sample of the research. The GDP (current USD) was taken as GDP and the remittances is the worker's remittances from the World Bank data.

### **3.4 Model of the Study**

To test the significance of the contribution of remittances to GDP, an economic model was used. In the model, remittance was taken as the independent variable and GDP was taken as the dependent variable the simple linear regression models were as follows:

The model was  $\log \text{GDP}_t = a + B \log \text{Remt}_t + U_t$

Where,  $a$  = Natural growth rate of GDP/Constant term

$B$  = Regression coefficient of Remittance

$\text{GDP}_t$  = Nominal Gross Domestic Product at producer's price for the time period  $t$

$\text{Remt}_t$  = Workers' remittances for the time period  $t$ .

$U_t$  = error term

### **3.5 Collection of Data**

The data for the study are remittances and the GDP of Nepal. Only secondary data of remittances and GDP were used for the study. For the purpose of the study, data on remittances were collected from World Bank Data published on its official websites. Also, the researcher visited the official website of NRB for supporting information regarding data.

### **3.6 Reliability and Validity of Data**

The data for the study were collected from the authorized monetary authority of Nepal, NRB and World Bank official site. These data were already tested and verified by the authorized organizations and used as standard data. So the data are supposed to be reliable and valid in their original form. Thus no measures were taken to establish the reliability and validity of the data.

### **3.7 Methods of Analysis and Interpretation of Data**

The data were analyzed by graphical, multiple bar diagram and Least Squares methods. To analyze the trend of remittance inflow, the share of remittances to the GDP of Nepal was calculated and then presented in the graph. Also, the percentage of the year-wise increase of remittances was studied and the trend line of the remittances was drawn. To test the significance of the contribution of remittances on the economic growth of Nepal, the contribution of remittances to the nominal GDP of Nepal and the contribution of remittances in the service sector, agriculture sector and production sector. The Least Squares method of regression analysis was applied by using the statistical software R.

## **CHAPTER IV**

### **ANALYSIS AND INTERPRETATION OF THE RESULTS**

After collecting the statistical data for the study, the data were analyzed by graphical method, multiple bar diagram and Least Squares methods of regression. To analyze the trend of remittance inflow, the share of remittances to the GDP of Nepal was calculated and then presented in the graph. Also, the percentages of the increase of remittance in the succeeding year were calculated, an average growth of remittance was calculated and the trend line of remittance inflow was drawn. To test the significance of the contribution of remittances to the economic growth of Nepal, a regression line of GDP on the remittance was tested.

#### **4.1 Data Presentation**

##### **4.1.1 Trend of Remittances Income in Nepal**

The size of remittances income in Nepal has been increasing every year, especially from the fiscal year 2001/2002. With the increase in remittances, both the nominal and real income of the remittance-receiving family increase which has pushed up to increase the national disposable income. The increasing volume of remittance has also increased household consumption so that the aggregate demand of the economy increasing rapidly. Due to the increase in aggregate demand in the economy, the production of the economy should be increased otherwise there will be pressure on the import of goods and services. If the economy increased its production, then the aggregate income of the economy increased and hence the GDP also increases implying that the economy meets its equilibrium.

Among the least developed countries, Nepal is one of the major remit receiving countries. In 2012 AD, Nepal has the third-largest country in terms of rec remittances with the remittances income Rs. 359 billion. With the increase in the vi of remittances, the share of remittances to GDP has also been increased. But the g rate of GDP is not as much as the growth rate of remittances so the share of remit to GDP has been increasing every year rapidly. In 2000 it was 2.02 percent of G

2010 it was 21.64 percent of GDP, in 2015 it was 27.62 percent and in 2020 it was 24.08 per cent of the GDP (World Bank, 2021).

#### 4.1.1.1 Share of Remittances in terms of GDP of Nepal

The volume of remittances increased multiple times from Rs.111 million in 2021 to Rs. 8107 million in 2020. And the GDP of the country increased from Rs.5494 million in

2000 A.D to Rs.33657 million in 2020 A.D. This implies that the increasing rate of remittances exceeded the increasing rate of GDP. Thus the share of remittance in GDP is also increasing in accordance with the chronological order. During the age of the two decades, there has been a fluctuation in the inflow of remittances both in amount and in percentages. Here the share of remittances to the GDP of Nepal has been shown in the following table.

Table 4.1

#### Year-wise Remittances and GDP

Year	Personal	GDP(current US \$)	Rem.as% of GDP	GDP
2012	4216	21621	19.50	3.42
				21.73
2013	4792	21703	22.08	4.43
				13.65
2014	5583	22162	25.19	3.52
				16.5
2015	5888	22731	25.90	9.01
				5.4
2016	6729	24360	27.62	3.97
				14.28
2017	6611	24524	26.96	0.43
				1.75
2018	6928	28971	23.91	8.97

4.78				
2019	8286	33111	25.02	7.62
19.61				
2020	8244	34186	24.11	6.65
-0.51				
2021	8107	33657	24.08	-2.08
-1.66				

---

Source: - The World Bank 2022

Note: The shows in million dollars USD World Bank, 2022

Table 4.1 has shown that the remittances and GDP were 111 million dollars and 5494 million dollars respectively in 2000 where the share of remittance was 2.02 percent of the GDP. The remittance seems to be increasing every year multiple times. The personal remittance received exceeded 1 billion first time in 2005 which was 14.90 percent of the GDP. The personal remittance received reached from 111 million dollars USD to 3464 million by 2010 and was gradually increasing until 2018 when the personal remittance received was 8286 million dollars. By 2020 the share of remittance reached one-fourth of the GDP.

In 2008 the remittance of the Nepalese economy jumped very highly and increased by 57.28 percent. The volume of remittances increased rapidly and every year the ratio of remittance to GDP was increasing as the GDP was increasing at decreasing rate. In 2012 Nepal had been the third-largest remittance-receiving country in the world receiving 4792 million USD where the GDP was 21703million USD, so the share of remittance to GDP was 22.08 percent.

From the result shown in the table, it can be seen that the average growth in the remittance of the country is 33.7 percent whereas the average growth rate in GDP is 4.2 percent.

Thus from the above data, it can be said that the remittances were rapidly increasing and the Nepalese economy is heavily dependent upon the remittance economy. The

remittance income is beneficial for the country but if there is any disturbance in the inflow of remittance, then the Nepalese economy will be vulnerable.

#### 4.1.2 The Data summary

In this section, the different averages of data like the minimum value of data, 1<sup>a</sup> quarter, Median, mean, 3<sup>rd</sup> quarter and maximum value of data are computed. This section helps to know the data summary.

Table 4.2

Descriptive annex of remittance and GDP

	<b>Min</b>	<b>1<sup>st</sup> Qu.</b>	<b>Median</b>	<b>Mean</b>	<b>3<sup>rd</sup> Qu.</b>	<b>Max</b>
Personal Remittance	111	1211	3464	3880	6611	8286
GDP	5494	8130	16002	17480	24360	34186

Source: - The World Bank 2022

Table 4.2 shows summary information of the data. The mean value of personal remittance is 3880 whereas the mean value of GDP is 17480 respectively. In the meantime, the median value of personal remittance is 3464 and the median value of GDP is 16002. The table also shows the minimum value, first quarter, third quarter and maximum value of Personal Remittance. The minimum value of Personal Remittance was found to be 111, whereas the minimum of GDP was 5494. The table also shows the first quarter of personal remittance as 121 and the first quarter of GDP as 8130. The third quarter of Personal Remittance is found to be 6611 whereas the third quarter of GDP is found to be 24360. The maximum value of personal remittance and GDP is found to be 8286 and 34186 respectively.

#### 4.1.2.1 The Correlations

Correlation is a statistical measure that expresses the extent to which two variables are linearly related (meaning they change together at a constant rate). It's a common tool for describing simple relationships without making a statement about cause and effect. Correlation shows the relationship of data. There are two types of relationships .They are positive correlations and negative correlations .Positive correlation shows the positive relationship between data which means if one increases then the other also increases or if one fall other also falls. A positive correlation means directly proportional .In the meantime, negative correlation shows the negative relationship between the data which means if one increases other will fall and if one falls the other increases. Which means negative correlation means inversely proportional. The value of the correlation coefficient ranges between -1 (total negative correlation) and +1 (total positive correlation). A similar technique has been used to measure the relationship between personal remittance and GDP.

Table 4.3

#### The Correlation Result

Correlation result	0.984
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Source: - The World Bank 2022

The correlation was computed to be 0.984 which is positive .This result shows there is a positive correlation between Personal Remittance received and GDP Meaning when there is an increase in personal remittance there is also a positive increment in GDP.

#### 4.1.2.2 Estimation of the Main Model

To test the significance of the contribution of remittances to economic growth, the

Main model was  $\log \text{GDP} = a + B \log \text{Rem} + U$ . The following table gives the solution

Of the model.

Table 4.4  
Estimation of Log GDP from log Remittances

Residuals:				
Min	1Q	Median	3Q	Max
-0.313	-0.219	0.016	0.183	0.451
Coefficients:				
Estimate	Std.Error	t value	Pr(> t )	
(Intercept)5.96	0.33833	17.61	3.17e-13***	
Ln(GDP) 0.467	0.04302	10.87	1.36e-09***	
Signif. codes: 0 “***” 0.001 “**” 0.01 “*” 0.05 “.” 0.1 “ ” 1				
Residual standard error: 0.2449 on 19 degrees of freedom				
Multiple R-squared: 0.8614, Adjusted R-squared: 0.8541				
F-statistic: 118.1 on 1 and 19 DF, p-value: 1.361e-09				

Source: Own Calculation

Table 4.4 result shows that log GDP, is the positive function of log Remit. It is shown that the coefficient intercept is 5.96 which is positive and an increase in remittance increases the GDP. That is there is a positive relationship between the GDP and remittances at the same time period. This also implies the autonomous increment in the GDP was by 5.96 million every year. Since the coefficient of log remittance is positive and is equal to  $B = 0.467$  so the remittances have a positive role in the growth of the GDP of Nepal. It also tells us that the increase in remittance by one million at a time period  $t$  implies a 0.467 million increase in the nominal GDP for the same time period  $t$ . In other words, the unit change in remittance implies the 0.467 unit change in

nominal. In the meantime, this also shows that both intercept and remittance are totally significant.

The coefficient of determination i.e.  $R^2 = 0.8614$  shows the magnitude of the goodness of fit of the regression line and is the high percentage of the explained variation from the total variation to be explained. The table value of  $R^2$  shows that the total variation in GDP is 86.14 percent by the variation in the remittances. Also,  $R^2 = 86.14$  which is the larger coefficient of determination implies the higher explanatory power of the explanatory variable remittance for the estimation of the explained variable.

#### **4.1.3 Contribution of Foreign Employment and Remittance**

The contribution of foreign employment and remittance has been generalized in subsequent analysis (Shrestha, 2008)

##### **4.1.3.1 Labors' Mobility**

Labor mobility has been an important and essential feature of economic and social development throughout human history. In 2015, migrant workers in the industrial countries sent home more than \$300 billion, nearly three times the \$104 billion received as foreign aid by the developing countries. This figure exceeds the foreign direct investment in developing countries which stands at \$167 billion. Among the recipients, India ranks at the top with the remittance inflow of \$24.5 billion, followed by Mexico (\$24.2 billion), China (\$21 billion), the Philippines (\$14.6 billion) and Russia (\$13.7 billion). Labor migration for overseas employment has rapidly increased, particularly after globalization. The Nepalese economy is increasingly becoming dependent on remittances sent home by migrant workers. At a time when the country's major economic indicators. Labor migration for overseas employment has rapidly increased, particularly after globalization. The Nepalese economy is increasingly becoming dependent on remittances sent home by migrant workers. At a time when the country's major economic indicators do not display a good picture, remittances have played a vital role in keeping the economy afloat. Instability and insecurity are crucial problems for the low economic growth of 2.5 per cent (Ministry

of Finance, 2007a). Overseas migration and remittances have been instrumental in poverty alleviation as well as in improving the living standards of the people (Seddon et al., 1999, Shrestha, 2004). The objectives of the paper are to assess the contribution of foreign employment and remittances to the Nepalese economy and also to identify the information needs and gaps. An attempt is also made to assess the role of remittances in poverty reduction. For this purpose, data from Nepal Rastra Bank, Department of Foreign Employment and National Planning Commission/Central Bureau of Statistics have been utilized. For assessing the macroeconomic contribution of remittances, the paper has examined the data covering the period 1990/91 to 2005/06.

#### **4.1.3.2 Employment Opportunities Abroad**

The number of job aspirants in foreign land increased dramatically, especially after the restoration of democracy. The Labor Act, of 1985 came as a boon for facilitating foreign employment and opening up avenues for the private sector. With the enactment of the Foreign Employment Act, 1985 and the arrangement of distributing passports to the potential migrant workers by the district development offices, accompanied by higher demand for labor created by the oil boom in the Gulf, the Nepalese started to migrate beyond India, particularly to the Gulf. 2 The total number of migrant workers (excluding those migrating to India) increased to 940,824 in 2006/2007 from 1,926 in 1992/93. By the end of 2007, the total number crossed one million. The official figures of those working abroad are felt to be grossly underestimated (Gurung, 2002). The official figures capture only those passing through formal procedures. In many cases, those who travel abroad for other reasons (for instance, for study) may be involved in paid employment. The number of workers going abroad for employment has been steadily increasing as per the data provided by the Department of Labor and Employment Promotion. In 2006/07, the number of workers had gone via overseas for employment was 214,094 compared to 2,159 in 1994/95

The major factor contributing to large-scale out-migration from Nepal is the higher growth of the labor force and limited employment opportunities outside the farm sector. The 3 per cent annual growth of the labor force is not matched by additional

job creation; moreover, the low salary structure in the economy, insecurity in the rural areas, and higher demand for the labor in the industrialized Asian and Middle-east countries are the other contributing factors. The Government's liberal policies, accompanied by mushrooming growth of the manpower agencies have also played instrumental roles.

Currently, almost 700 manpower agencies are operating in Nepal. Furthermore, food scarcity, distorted peace and social order are strong push factors for increasing out-migration. The poor people from the Mid-West and Far West are migrating to India and those who can manage the funds are migrating beyond India (Shrestha, 2008).

#### **4.1.3.3 Economic Growth**

The official record shows a dramatic increment in the incoming remittance. It increased considerably from Rs. 549.7 million in 1990/91 to about Rs. 97,688.5 million in 2005/06. Despite the huge trade deficit, the country is having surplus in the current account because of the growing remittances. The share of remittances in the current account receipts soared from 27.4 percent in 2000/01 to 33.6 percent in 2005/06 (Pant, 2006). Even with the widening export import gap and with mounting burden of debt servicing, it appears that remittance is saving the country from the balance of payment crisis. Remittance has relaxed the foreign exchange constraint of the country. The share of remittance in total foreign exchange increased quite considerably over the years from less than 2 per cent in 1991/92 to more than 60 per cent in 2005/06. Remittances have surpassed the export as the top contributor in terms of foreign exchange earnings, particularly after 2000/01. Similarly, the share of travel receipts in the total foreign exchange earnings went down drastically with the rapid rise in the remittances and slow growth of the tourism industry.

External debt is growing at a rapid tempo resulting in an alarming growth in debt servicing. Nepal's present-day challenge is the ever-increasing outstanding debt and increasing burden of debt servicing. In 2005/06 a sum of Rs. 14.3 billion was utilized for meeting the principal repayment. Of this, 49.0 per cent was for servicing the external debt which was to be paid in terms of foreign exchange. External debt servicing increased by 17.4 per cent compared to the previous year (Ministry of

Finance, 2015). However, Nepal has been able to handle debt servicing comfortably due to the increased inflow of remittances.

#### **4.1.3.4 Macroeconomic Stability**

Remittances contribute substantially to maintaining macroeconomic stability. It is one of the six pillars of the economy, the others being investment, trade, agriculture, water and tourism. At the household level, it helps to smoothen consumption and investment in human and physical capital. Remittances also generate benefits to the community, if they are spent on locally produced goods and services, and help poverty reduction since the money is utilized for rural development. In Nepal's case, the penetration of remittances into the remote villages has helped in poverty alleviation. The IMF country report states that in the absence of remittance, the present level of poverty would be 36 to 37 per cent (IMF, 2006). Poverty reduction and income distribution effects of remittance are significant (Burhan and Bocher, 1998). Generally, the recipients of the remittance in the poor countries are often from low-income households. It permits the households to increase their consumption level and enables better health care, nutrition, housing and education (NRB, 2001, World Bank, 2005). Migration and remittances influence consumption through different mechanisms such as higher local wages, higher demand for the services and locally produced goods, higher investment in family health and education. During the period between 1995/96 and 2003/04, the average annual GDP growth was slightly higher than the population growth. The poverty level decreased by 6 percentage points from 38 per cent in 1995/06 to 32 percent in 2003/04. The regional pattern of remittance helps to explain the regional pattern of poverty trends. Even though the proportion of households receiving remittance increased in all regions, the actual amount of remittance has declined in the rural eastern hills of Nepal And the rural eastern hill is the only region where the poverty level increased between 1995/96 and 2003/04. The rest of the region experienced positive growth in remittance inflows, and this was accompanied by a fall in poverty level.

#### **4.1.3.5 Poverty Reduction**

An estimate based on data for 72 districts indicates that the higher the increase in the average amount of remittances in a district, the faster is the rate of poverty reduction. The regression analysis indicates that the increase in remittances accounts for a 6.2 per cent decline in poverty (Lokshen et al, 2005). The study shows that remittances from abroad played a significant role in reducing poverty. The analysis concluded that if the number of remittances remained unchanged, the aggregate poverty rate would have declined by 3.9 percentage points rather than 6.2 percentage points. A cross country model relating growth, poverty and remittance predicts that on average 10 per cent increase in total remittance should reduce the poverty by 0.9 per cent (Mambo and Adams, 2005). The model has used the data for Nepal and other South Asian countries. The study found that the decline in poverty in response to an increase in per capita consumption expenditure is quite low in Nepal as compared to other countries. This calls for a detailed investigation of the relationship between migration and remittance and between remittance and poverty. There are also other effects of foreign employment and remittance inflows.

Besides the positive impact, they create inequality in the distribution of income. During the period between 1995/96 to 2003/04, the Gini Coefficient rose from 34.2 to 41.4, because the growth was not equal across the groups and the regions. For example, though the proportion of remittance-receiving households increased in the lower quintile households compared to higher quintile households, the per capita remittance increased at a higher rate amongst the higher quintile households. The higher quintile groups have relatively wider access to high paying foreign jobs (NPC, 2015).

#### **4.1.3.6 Use of Skill from Returned Migrants**

The major portion of the remittance is used for meeting household use and to pay back loans borrowed earlier to go abroad (Seddon et al 1999 & NRB, 2001). A survey of 832 households in eight districts (which includes four districts of the Far Western Development Region) of Nepal found that the majority of the families were dependent on remittance money (MOF, 20017).

The utilization of remittances for the improvement of the living standard is documented by several studies (Seddon et al, 1999). Remittances are typically spent on land and housing. These are safe investments for the households, but in macroeconomic terms, they are non-productive assets, with no lasting impact on the country's real income. Thus while the remittances are beneficial at the household and community level, they cannot help the long term development of the country without its strategic management. The total saving out of remittance was about 8 per cent which is very low compared to other Asian countries (Amjad, 1989). The saving rate amongst the Nepalese workers is lower as the majority of them are employed in low paying jobs and their marginal propensity to consume is relatively higher. Only a small proportion of the migrants uses the remittance directly for productive investment like agriculture, manufacturing and trade. The major forms of investments are in the education of the children, reinvestment of the remittance for further migration and for lending money. The resources and expertise of the returned migrants could also be a good resource for the country's economic development. Nepal does not have authentic data on the numerical dimension of the returned migrants. The study by NRB reveals that 47 per cent of the returned migrants had learned new skills while working abroad, but only 16 per cent had used the skill for income-generating activities after their return (NRB, 2011).

#### **4.1.3.7 Challenges of Foreign Employment and Remittance**

Nepal is receiving billions of rupees sent by Nepalese workers from different parts of the world. It could be many times higher even with the existing number of Nepalese workers abroad if Nepal can strategically and systematically manage the foreign employment process and remittance transfer. The Nepalese migrant workers face a host of hurdles in their home country and their destinations (NRB, 2007, Bhattarai, Gurung, 2002 & Pant, 2006). The major problems are poor working conditions, lower wage levels and the rising cost of living in the destination countries, fraud recruitment and lack of social protection. Another principal challenge is migrating through illegal channels, thereby losing the legal status in the labor importing countries. The international provisions are there to protect the right of migrant workers. But both the

government and receiving countries do not seem to be sincere in the implementation of the spirit of international provisions.

Ratification of the UN convention by Nepal will create moral pressure on the labor receiving countries. The bilateral agreement has not taken place even with some major labor importing countries pertaining to the safety and welfare of the migrant workers. Another problem is the lack of a working mechanism to address the issues related to international migration like demand verification. The provision of labor attaché in the potential labor receiving countries is still lacking.

#### **4.1.3.8 Adverse Investment Climate and Remittance**

The inadequate investment climate is one of the factors for decreasing private sector investment and that ultimately confined the job opportunity in the nation. As a result, people are compelled to go for international migration and that enhances the level of remittance income in the home country (Srivastava & Chaudhary, 2007). Remittances can produce long term impact only if it is channeled into productive investment. Going with the current trends of consumption in Nepal, if the remittances are soaked up by consumption only and are not turned into investments, the short term boost provided by it in the economy will not be sustainable. Productivity will decline and the economic choices get tougher if the situation is not addressed in time and is stalled being momentarily content with the remittance based income. Unfortunately, these remittances are not properly channelized and people have failed to use remittances in a productive manner. Nepal Living Standards Survey (2011) reflects that 48.9 per cent of total remittances are spent on daily consumption whereas 7.1 per cent on repaying loans, 4.5 per cent on household property, 3.5 per cent on education and 2.4 per cent on capital formation. This is also largely related to the investment environment of Nepal. It is one of the serious issues for the improvement of the investment scenario of Nepal to encourage more capital formation. Without remittances being used in capital formation, the symptom of "Dutch Disease" is inevitable. Due to an increase in revenues from remittances, the currency of a country becomes stronger compared to that of other nations resulting in exports becoming more expensive for other countries to buy. This can make the manufacturing sector less competitive. Thus, with the increase in the purchasing capacity of households receiving remittance, there is a high

demand for consumption and imported goods. There has been an appreciation of the real exchange rate due to the rise in the price of non-tradable with respect to tradable. Furthermore, there has been an erosion of the manufacturing sector entailing to their reduced competitiveness. The phenomenon of "Dutch Disease" basically explains a vicious policy cycle as explained by (Shrestha, 2008).

## **4.2 Major Findings of Study**

From the statistical analysis of data, it was found that remittance is a significant determinant of the Nepalese economy and remittance played a vital role in the economy's growth of Nepal. It is also found that remittances income in Nepal has been increasing rapidly during the last decade, especially since 2008. The share of remittances to the ODP of Nepal has been increased from 14,9 percent in 2005 to 24.08 percent in 2020. This percent was 2.02 percent in 2000 and this increasing volume of remittances has shown that remittance is a significant determinant of the economic growth of Nepal. This data also showed that if there is any disturbance in the inflow of remittances, then the Nepalese economy will be imbalanced. The research also showed that the rate of growth of GDP is very low whereas the rate of growth of remittance is very high which implies that a huge amount of remittances is used in household consumption and there is no saving and investment. For the sector-wise analysis of the remittances, it was found that remittances have a significant effect on the growth of Agricultural, Industrial and Service sector nominal GDP. The major findings of the research are given below.

- The share of remittances to the ODP has been increasing and currently it is one-fourth of the GDP.
- There is a continuous increment in remittance flow beside the COVID-19 outbreak from 2019.
- GDP is the positive function of remittance.
- Remittance plays a major role for a BOP.
- The natural growth of GDP is positive and there is a significant role of remittance in the GDP

- The increment of remittance is more than that of GDP.
- As the remittances inflow has increased significantly, the import has also increased in a similar trend which might be due to the higher demand for consumer goods in the domestic market. At the same time, due to the very low supply capacity of the domestic economy, a huge part of the remittance comings has been spent on imported goods.
- The long-run relationship between GDP per labor and remittances is positive but weak. However, there is a negative impact of human capital on GDP per labor.
- Remittances inflow to Nepal has increased dramatically in size over recent decades. It is one of the largest sources of financial flows for the Nepalese economy. It is being a major source of foreign exchange caring's to sustain the surplus balance of payment in Nepal.
- Even though there was no favorable investment environment in Nepal during the last one and a half-decade, the economic growth remained not so bad. It is only due to the strong contribution of the services sector that has been expanded by remittance earnings. Since income is a key indicator to represent economic activities, it can be concluded that there is a significant impact of remittances on the economic growth of Nepal
- Finally, this study concludes that the remitted earning has helped to maintain macroeconomic stability by being a key driver of foreign exchange earnings and balance of payment of Nepal. And it becomes the major means to enhance the livelihood security of poor and marginalized people who are lacking alternative sources of income. But it has not invested in the productive sector. Thus it can be said that the positive relationship between remittance and economic growth in this study is due to the indirect impact of service sector investment

## CHAPTER V

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter is divided into three parts. The first part deals with the summary of the research; the second part deals with the findings of the research, the third with the conclusion and the fourth with the further recommendations of the research.

#### 5.1 Summary

This research was on the topic "Role of Remittances on the Economic Growth of Nepal". The research included the analysis of 21 years of data on remittances and the GDP of Nepal from 2000 to 2020 AD. For the purpose of research, the secondary data of remittances and GDP of Nepal were collected from the various issues of the quarterly economic bulletin of Nepal Rastra Bank and the Economic Survey of Nepal. Then the data were restructured into a suitable form and analyzed by using the EViews-7 statistical software.

To study the trend of remittances inflow in Nepal, the share of remittances in the GDP of Nepal from the year 2000 to 2020 was calculated. To make this research more illustrative, the trend line of the remittances and GDP were presented in graphical and diagrammatic form. To find the role of remittances in the economic growth of Nepal, a simple linear regression model was studied. GDP was taken as the dependent variable of workers' remittances and found that GDP is the positive function of remittances. Also, it was found that remittance has a significant effect on the contribution of GDP.

#### 5.2 Conclusions

Based on the findings of the research, the following conclusions were made. Since remittance is the determinant factor of GDP, it should be used in the productive sector. Otherwise, the increasing volume of remittances increases imports which affects the BOP. As the import increases, ultimately the increasing volume of remittances increases the trade deficit and the current account will be the deficit.

The rate of dependence of the Nepalese economy on the GDP should be minimized by increasing the domestic goods and services and increasing the level of employment in

the domestic economy. Otherwise, if there is any shock in the inflow of remittance, then the Nepalese economy faces a vulnerable situation and it will be very difficult to re-correct it. A significant amount of remittance is still entering through the informal channel which should be discouraged. If not so, it will increase unnecessary consumption and help to increase the trade deficit. GDP is the positive function of remittances but the elasticity of remittance is only 4 percent. So GDP should be increased in accordance with the increase in remittances. To increase GDP, the remittances should be used in the productive sector like agriculture, tourism, education, industry, hydroelectricity and so on. The autonomous increase in GDP is very low. This can be improved by increasing remittance income in investment and decreasing household consumption. There is a significant role of remittance on the GDP implies that an increase in remittances increases the GDP. The explained variable GDP is best estimated by the explanatory variable Remittance.

The magnitude of the goodness of fit of the regression line is best estimated by the remittance. Also, there is a high percentage of the explained variation from the total variation to be explained. This also indicates that there is a 95.26 percent of the total variation in GDP by the regressed variable i.e. remittances. The coefficient of determination is very high which implies the higher explanatory power of the explanatory variable remittance.

### **5.3 Recommendations**

Based on the conclusions derived from the findings of the research, the researcher would like to recommend to policymakers, researchers and other stakeholders.

- The increase in remittance income is not a sufficient condition to support the economic growth and production capacity of the nation. Thus, priority should be given to encourage productive utilization for economies growth and development.
- Nepal needs to further formulate policies that a) send more remittances through official rather than unofficial channels. b) increase the levels of remittances by encouraging migrants to hold their savings in financial assets in the country rather than holding them abroad, or e) encourage migrants to become an investor in productive assets in the country

- Policymakers should welcome the returnees who will come back with skills, entrepreneurship and capital instead of treating them as a burden. Policies to reintegrate the returnees can include improving self-employment opportunities, support for small and medium-enterprises (SMEs), and budget support to districts facing large returns.
  - The government should encourage the employees to invest their remittance income in productive sectors like industry, agriculture, health, education and hydropower etc.
  - The government should encourage the export of goods and services by increasing production in the domestic economy.
  - Tax should be increased on imports on the consumption of household goods and services.
  - The dependence of the Nepalese economy on remittances should be minimized by developing the level of employment in the domestic economy.
  - Similar research can be conducted by taking multivariable affecting the GDP of the country so that more reliable results can be obtained.
  - More advanced technologies should be applied so that the results obtained from the research can be generalized in other settings.
  - More than 50% of the remittances are entering into the country through illegal channels which are not recorded in the remittances data. Also, the remittances from India are not included in the worker's remittance of the current account of the country. So the government should make the policy to overcome such problems.
- The government of Nepal should develop a website to make available information to migrants on remittances transfer mechanisms, prices, and speed and reliability that could improve transparency and further competition in the remittance industry. The website could also give information on investment opportunities, returnees to the country of origin, immigration policies in destination countries and links to websites of the Nepal government and non- government institutions.

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## **APPENDICES.I**

### **Appendix - I**

#### **Questionnaire**

Dear Sir/Madam,

I am Prashanta Ghimire student of Master in Management of Shanker Dev Campus, Tribhuvan University. I am conducting a research CONTRIBUTION OF REMITENCE TO NATIONAL REVENUE OF NEPAL which is a part of my academic requirement. I shall submit this report to my Campus and declare that all the information collected shall be highly confidential.

I cordially request you to provide your views on below mentioned questions.

#### **Respondent's Details**

Name(optional) :-

Profession: Businessman / Consumer

Sex :- Female/Male/Others

Address(optional)

#### **Household survey questionnaire**

##### **1.Detail About the respondent's Details**

Name

Age

Religion

Education

Marital Status

## 2. Detail about the family member involved in foreign employment

Name

Age

Religion

Education

Marital Status

## 3. In which country your family member has gone to foreign country and when?

<b>Name of country</b>	<b>Time of stay</b>	<b>Amount of money sent</b>

## 4. What is the purpose for the foreign employment?

a. Unemployment

b. less income

c. political instability

d. other reason(if any specific)

## 5. Do they sent money regularly in a month? Yes/ No.....

If No when.....

## 6. What are the main sources of income?

<b>Source of income</b>	<b>Estimated amount</b>
Agriculture	
Service	

Business	
Other(if any)	

7. Do you know about covid?

- a. Yes
- b. No

8. Are they skilled worker, unskilled, semi -skilled worker?

- a. skilled worker
- b. unskilled worker
- c. semi-skilled worker

9. Before, what they used to do ? .....

10. By which medium, they sent money?

- a. Ime
- b. by bank
- c. other specify....

11. What are the sources of income before ?

Source	Estimated amount

12. Have you invested the remittances?

- a. Yes
- b. No

If yes in which sector?

- a. Business ( Specify).....
- b. Agriculture (Specify).....

13 After covid-19 , how much remittance you received ?.....

14. Household consumption before covid-19 and during covid-

<b>Household consumption</b>	<b>Response</b>
Daily consumption	Yes/No
Education	Yes/N
Medical treatment	Yes/No
Other specify	Yes/No

15. Expenditure on facilities

<b>Particular</b>	<b>Before covid</b>	<b>After covid</b>
Led television		
Vehicles		
Electronic gadgets(Laptop,mobile phone etc		
Other specify		

Impact in Education

<b>Particular</b>	<b>Befor covid</b>	<b>After covid</b>
Government to boarding		
College		
Foreign country for high education		

16. How do find the covid in your remittance?

a. Positive

b. Negative

If positive why.....?

If negative why.....?

17. Have any family member return from foreign employment during covid permanently?

a. Yes

b. No

18. Expenditure on acquisition of asset

a. Yes

b. No

If yes in which sector.....?

19. Your expenditure rs .....?

a. Before covid

b. After covid

20. Your income rs.....?

a. Before covid

b. After covid

21. Dependency on remittance

a. Mild

b. Full dependency

c. No dependent

# CONTRIBUTION OF REMITTANCE TO NATIONAL REVENUE ...

By: PRASHANTA GHIMIRE

As of: Jun 21, 2024 10:30:24 AM  
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**paper text:**

CHAPTER - I INTRODUCTION 1.1Background of the Study A bank is a type of financial intermediary that takes deposits from the general public and uses loan operations to distribute the funds to various economic sectors. The growth of the banking sector is essential to a nation's success and prosperity since banks are seen as essential parts of the financial system. The founding of Nepal Bank Limited on April 30, 1994 B.S. marked the beginning of the country's modern banking sector. On Baisakh 14, 2013 B.S., Nepal Rastra Bank was founded following the formation of Nepal Bank Ltd., which had existed for 12 years. Up until Nepal Rastra Bank's founding, Nepal Bank Limited served as both a commercial bank and a central bank. There are twenty commercial banks in Nepal as of Poush 2080. The portion of a company's profits or free cash flows that is given to shareholders in the form of cash or equity is known as the dividend. The choice to pay dividends has a significant impact on both the value of the firm and shareholder wealth. The decision of

**whether to pay cash dividends now, increase** payouts **later, or pay** dividends **in the form of stock dividends**