

CHAPTER

INTRODUCTION

1.1 Background of the study

Remittances are largely personal transaction from migrants to their families and friends. They tend to be well targeted to the needs of their recipients. Migrants' remittances are important and growing sources of funds for several developing countries. At present there are more than double of the official aid received by developing countries. Remittances remain a key source of external resource flows for developing countries, far exceeding Official Development Assistance (ODA) and more stable than private debt and portfolio equity flows. The central role of remittances to underpinning the balance of payments (BOP) is also evident from comparisons with exports and imports of goods and services. Based on recent data released by the IMF and central bank sources, growth of remittance may accelerate to an annual average of 8.4 percent a year in 2014-2016, bringing remittance to developing countries to \$516 billion in 2016. Global remittance flows, including to higher income countries, are estimated to rise to \$680 billion by 2016. With nearly 1 out of 7 persons in the world being either an international or an internal migrant, there is a growing awareness of the importance of migration in the post-2015 development agenda, especially the need for reducing migration costs (such as recruitment costs) and improving migrant rights. In addition, remittances and savings can be leveraged to boost financing for development.

If remittances are sent through informal channels included total remittance would be as much as 50 percent higher than the official record (World Bank 2010 and IMF 2009). In 2010, officially recorded remittances to the developing countries reached 334 USD (World Bank, 2010). The publication of World Bank (WB) and the UN agencies states the fact that the poor countries receive the relatively in the larger portion. The lower the average income in a country, the more likely that its citizens will seek to migrate be. As of 2010, Low Income Countries (LIC) \$194 billion remittance that is 58 percent of total remittance received by all the developing countries in that year. Middle Income Countries (MIC) received \$72 billion (22 percent of total) remittance. High Income Countries (HIC) received only billion that is 8 percent of the total

remittance in 2010 the group of the transition countries experienced the biggest increase in remittance inflows during this period. Remittance inflows rose from \$4 billion in 1995 to \$42 billion in 2010 a staggering 940 percent increase. The growth in remittance in LIC was also striking increase by 830 percent from 1995 to 2010 (UN, 2011).

While observing the trend of remittance region wise, remittances to developing countries in the East Asia and the Pacific (EAP) region are estimated to have risen by 4.8 percent in 2013 to reach \$112 billion. In Europe and Central Asia (ECA), remittances rebounded from the slowdown in 2012, expanding by 10 percent in 2013 to reach \$43 billion. Remittance flows to countries in the Latin America and the Caribbean (LAC) region grew only by 1.9 percent in 2013 to reach \$61 billion. In the Middle East and North Africa (MENA) region, remittances are estimated to have fallen by 2 percent in 2013, as a drop in remittances to Egypt more than offset modest growth in the rest of the region. Growth in remittances to the South Asia region (SAR) has slowed, rising by 2.3 percent in 2013 compared with the very rapid increases of the previous three years. This was driven by a modest increase in India of only 1.7 percent in 2013, and a decline in Bangladesh of -2.4 percent. Remittances to Sub-Saharan Africa (SSA) grew by 3.5 percent in 2013 to reach \$32 billion.

Remittance flows to the SAR are estimated at \$111 billion in 2013. Growth in remittances to the region has slowed, due to modest growth in India and a fall in Bangladesh. Still, remittance inflows are critical to underpinning the balance of payments in many countries of the region. The Pakistan Remittance Initiative, which was launched in 2009, remains a central part of the government's efforts to encourage inflows from the Pakistani diaspora, while Nepal is exercising greater prudence in managing liquidity generated by the current growth in remittances. The price of making remittances is falling, but faster progress in the Europe and Central Asia region mean that South Asia is now the second lowest cost destination for remittances.

Growth in remittances to the SAR is projected to moderate to 2.3 percent in 2013, after averaging 14.1 percent in 2011 and 2012. Remittances to India increased by only 1.7 percent to reach \$70 billion in 2013, as the impetus from the depreciation of the Indian rupee during much of 2013 appears to have attracted inflows mainly for investment purposes, as indicated by the surge in non-resident Indian deposits. In Bangladesh, the third largest recipient of remittances in

the region, inflows decreased by 2.4 percent, largely due to the combined dampening effect of fewer migrants finding jobs overseas (lowering net migration), the appreciation of the Bangladeshi taka, and difficulties in resolving the status of migrant workers in the Cooperation Council (GCC) countries. Growth in remittance flows to Nepal and Sri Lanka, which were equivalent to 25 percent and 10 percent of GDP, respectively, was more robust. Remittances to Pakistan grew rapidly in the second half of 2013, and continue to provide essential support to the balance of payments, and they were equivalent to 284 percent of international reserves in 2013.

Region wise also, it states that all the developing regions received higher remittances between 1995 to 2010. Asia and Pacific is the largest remittance receiving region during the period. In 2010, this region received \$177 billion. This is, of course, 53 percent of the total global remittance received by the developing economies that year. After followed by Latin America and the Caribbean which received \$58 billion which was 17percent of total global remittance to developing economics). Similarly, ECIS region received \$43 billion, Arab states \$38 billion and Africa received \$18 billion which were 13percent, 11percent and 5percent of global remittance the respective region (WB, 2010).

The relative importance of remittance receiving economics is strongly correlated with the developing state of the country. Now income in the developing countries is mere depended of remittances while high income developing economics are less depended due to the growing tendency of the developing countries to get dependence on the remittance and increasing share of remittance in the GDP of the developing economics are turning to be remittance economy from previously known agricultural of economics.

Nepalese economy has been passing through the critical phase of low level of equilibrium circumscribed by poverty and stagnation. The economy is facing recession more ravaged by political transition, low level of productivity and production, energy crisis, indecisiveness increasing inefficiency and mounting corruption. This has resulted low employment opportunities, labor absorption and degrading performance of economy. It is shown by the facts that annually 4 lakhs and 50 thousands new labor force enters into labor market but employment growth rate is only 2.9 percent (NPC, 2014). In this situation foreign employment is not only an option for the youth but a harsh compulsion.

As Nepal being the LIC, it is also moving same trend. Over the years, remittance inflows—received by 55.8 percent of households in 2011 (CBS, 2011)—have grown to an estimated 25.5 percent of GDP in 2013, up from just 1.7 percent of GDP in 1996 and 10.7 percent of GDP in 2001. Nepal’s Gross National Disposable Income has been increasing along with the increasing remittance inflow. Such income is estimated to grow by 20.4 percent to Rs. 2,652.17 billion in current fiscal year 2013/14, which is 137.5 percent of GDP of the same fiscal year (CBS, 2013). As a share of GDP, in 2012, Nepal was the sixth highest remittance recipient in the world. According to official statistics, on an average, 1,243 workers left the country each day in 2013 (DOFE, 2014).

Nepal has made the foreign employment negotiation with 109 countries up to the end of the fiscal year (FY) 2012/13. 3 million people have been to foreign employment except India through legal permission and under official record (NPC, 2014). The remittance received by Nepal also ever growing due to the contribution of the 1500 Labor migrants which grow for foreign employment is day. The volume of remittance receipt is ever growing each year. Which was 100.14 billion in fiscal year 2006/07, 142.68 billion in fiscal year 2007/08, 209.70 billion in 2008/09, 231.73 billion in 2009/10, 253.55 billion in 2010/11, 359.55 billion in 2011/12(NRB 2012) with the end of the month of June 2013 the inflow of remittance has reached to 388.46 billion (MOF 2013). Remittance inflow has attained higher growth of 34.1 percent to Rs. 356.72 billion in the first eight months of current fiscal year as compared to 22.2 percent rise in the same period of the previous fiscal year (MOF, 2014).

A study of WB (2006) showed that remittance inflows to poor households accounted for one-third to one-half of the overall reduction in absolute poverty between 1996 and 2004. Additionally, the latest Multidimensional Poverty Index (MPI), published by Oxford Poverty and Human Development Initiative (OPHI) and used by the United Nations Development Program (UNDP) in its annual Human Development Report (HDR) publication, shows that the decrease in multidimensional poverty from 64.7 percent in 2006 to 44.4 percent in 2011 can be attributed mostly to the contribution of remittances in improving asset ownership, access to electricity and better nutrition (OPHI, 2013). Migration and remittances are having profound impact on structural transformation in Nepal (ADB, 2013a).

While analyzing the situation of the foreign employment and remittance, it has become a way of living at household level and at the national level it has become a significant source for maintaining foreign exchange reserve, management of unemployed labor force, maintaining balance of payment and as a whole a significant component of GDP formation. The government since fiscal year claimed that it has maintained favorable macroeconomic stability because the flow of remittance from the official source alone totaled 80 billion equivalent to 17 percent of GDP (Karna, 2004).

The number of active population i.e. age between 15 to 59 is 56.9 percent approximately 30 percent of the total population is unemployed or underemployed. On the very context 4 lakhs and 50 thousand new labor force enter up to labor market each year. It is reflected in the preliminary findings of latest census conducted by CBS in 2011 that 1.9 million people are absent from nation (CBS, 2011) and 3 million people have been to foreign employment except India through legal permission and under official record (NPC, 2014). Each day 1500 youths are compelled to go foreign land for foreign employment and formally or informally about 4.5 million people are compelled to live out of the country for foreign employment. Out of which 74 percent are unskilled, 25 percent are semi-skilled and only 1 percent are skilled (NPC, 2014). Which has been contributing inflow of remittance by 100.14 billion in fiscal year 2006/07, 142.68 billion in fiscal year 2007/08, 209.70 billion in 2008/09, 231.73 billion in 2009/10, 253.55 billion in 2010/11, 359.55 billion in 2011/12 (NRB). With the end of month of June 2013 the inflow of remittance has reached to 388.46 billion (MOF, 2013). Remittance inflow has attained higher growth of 34.1 percent to Rs. 356.72 billion in the first eight months of current fiscal year as compared to 22.2 percent rise in the same period of the previous fiscal year (MOF, 2014). From the above all discussion, it shows emergence of our economy as the ***Remittance Economy***.

Nepalese economy has been passing through the critical phase of low level equilibrium trap circumscribed by poverty and stagnation. The economy is facing recession more ravaged by political transition, low level of productivity and production, energy crisis, indecisiveness, increasing inefficiency and mounting corruption. This has resulted low employment opportunities, labor absorption and degrading performance of economy. In such situation, foreign employment is not only an option for the Nepalese youth rather it is a compulsion.

For the international labor migration pull and push factors are responsible. Lack of the employment opportunities, low paid jobs, high and increasing price level and the trend or fashion etc. are considered as the push factors and the high labor demand from industrialized countries, high paid jobs, etc are the push factors for the foreign employment. Primarily the basic destinations for the Nepalese labor force have become all around world. Generally, the main destination for the skill labor are USA, UK, Australia, and the Northern and European countries while the semi-skilled and unskilled are migrating to countries as Malaysia, Qatar, UAE, Saudi Arabia, Kuwait, India, Korea etc.

Although the inflow of remittance seems to be very significant and in the huge amount for country but the prosperity of the nation rest on the utilization and scale up of the domestic investment and domestic consumption level. Thus, the study attempts to access the impact of remittance on the domestic household consumption expenditure, domestic investment expenditure and GDP of the country.

1.2 Statement of the Problem

Nowadays remittance and foreign employment are hotly discussed subject matter in the field of economics and they have become the central issue of the discussion in case of the developing economies, which is also true for the Nepalese economy. Actually, Nepal is receiving approximately Rs 500 billion remittance inflow even with the growing trend. From the both household level and at the macro level role of the remittance have been realized significant. At the household level it has helped to reduce poverty. Regression analysis across countries worldwide indeed shows significant poverty reduction effect of remittance. The household data shows the remittance have reduced poverty head count ratio significantly. In Nepal, remittances may explain quarter to half of the 11 percent reduction in the poverty head count ratio (Ratha, 2007). Even from the macro level the effect of remittance has been realized significantly. Effect of inflow of remittance over the growth is not realized. Although, remittance is recorded as 19.8 percent of GDP, 89 percent of foreign reserve and 292 percent of total foreign aid in Nepal, 22.9 percent of GDP (MOF, 2010 and NRB, 2010).

In case of international scenario, various scholars have conducted different research and have explored and analyzed the different dimensions of remittance. In such research both the remittance and its impacts has been analyzed both quantitatively and qualitatively. Even empirical researches are sufficient and sound. But in case of our country there are very limited researches conducted on this field. Even if we go with the quantitative research and empirical type of research then we can say there is dearth of research. As this research is purely an academic research it has attempted to explore a new dimension of remittance. This research has attempted to analyze the relation between remittance, consumption and investment by using regression model. Basically this thesis work attempts to analyze the current situation of remittance along with searches the answer of the question, what is the relationship between remittance and private consumption?

1.3 objective of the study

The major objective is to analyze the relation of the remittance and its utilization into the consumption and investment. The specific objectives are:

- a) To analyze the current pattern and composition of remittance in Nepal.
- b) To analyze the concentration of remittance in terms of its utilization.
- c) To analyze the relation between remittance and private consumption.

1.4 Significance of the study

Nowadays remittance is hotly discussed subject matter in the field of economics as being a significant measure for the private capital flow in the developing economies. In case of international scenario, various researches have been conducted, explored and analyzed different dimensions of remittance and its importance in the household and macro level. Even the international organization like UN, IMF, WB etc have conducted researches on the topic of remittance based on the different countries as well.

Although the remittance is an important issue and the hot agenda to discuss in our country but still there is dearth of strong literature on the same field and related research as well. The study will be conducted to analyze the relation between the remittance and consumption and investment with the consideration of its impact on the domestic consumption expenditure and investment expenditure.

By analyzing the most recent cross-sectional national level household survey data this work attempts to analyze the recent situation of remittance from its various dimensions and fills the gap by specially analyzing the relationship of remittance, private consumption and private investment by using last 21 years of data. So, this research will be helpful to identify and analyze whether the inflow of remittance in our country is consumed or invested and it will also be helpful for the analysis of relation between the remittance and growth. Moreover, it will be a policy suggestion to the concerned - how the remittance is being utilized and how it can be better utilized for the productive purpose by diverting the unproductive use if any. Also, it is helpful the other researcher for the same field. Therefore, it is an attempt to investigate and explore the issue and facts of the same field. It explores the new foundation on the relationship among the remittance, consumption and investment. Therefore, this thesis has its distinct significance in the field of remittance.

1.5 Limitation of the study

This study is based on the following limitations:

- a) Remittance is considered only which is entered through the formal channel.
- b) The analysis is made using only simple statistical tool, complex models are not used for the analysis.
- c) Due to unavailability of remittance data in Nepalese Rupees (NRP), figures of remittance have been converted into NRP by using average exchange rate between United States Dollar (USD) and NRP.

- d) Though the time series data has been used for empirical model, time series properties has not been checked.
- e) Time constraint
- f) Resource constrain.

1.6 Organization of the study

The study is organized in total five chapters. The first chapter of the study is the introductory chapter. This chapter includes the general background, statement of problem, objective of the study, significance of the study, limitation of the study, and organization of the study. In the second chapter, review of literature is presented. The third chapter includes the research methodology. The model is also presented on the model chapter. The fourth chapter covers the analysis of current situation of remittance and its utilization situation in Nepal. The very chapter four includes the analysis of the result of the regression model. And finally, the fifth chapter summarizes the major findings, conclusions and recommendations.

CHAPTER

LITERATURE REVIEW

2.1 Theoretical Review

It is argued that remittance propels economic growth mainly through three different channels. First, remittance may increase the investment in physical capital and domestic investment rate. Besides this, family members of the remittance receiving household possess some informational advantage or expertise with respect to formal financial intermediaries and no-how the through the foreign employ directly and indirectly help promote growth. Secondly, remittance might help physical capital accumulation and increase factor productivity. Besides consumption and residential investment, a productivity spillover effect of remittance improves factor productivity of remittance receiving household that foster growth. And, thirdly, remittance may also have a positive impact on growth through their effect on the recipient economies financial system. By increasing the recipient countries demand for money, remittance is likely to expand the supply of funds to the banking system. This in turn may lead to the enhanced financial development thus to higher economic growth either through the economies of scale effect or through a political economy or both (Neupane, 2011).

While going through the literature related to the remittance and its growth relation and utilization aspect we can find both the positive and negative or optimistic and pessimistic view. Contesting against the arguments for unproductive use of remittance reveals that remittance leads to an excessive consumption, import dependency or unproductive investment in housing and land. Remittance inflows are the source not only for foreign exchange receipt which can be used to finance balance of trade deficit or the current amount deficit but also of the productive investment and social development (Barauh, 2006). Similarly, some literatures have focused on the saving aspect of the remittance; a high propensity to save out of remittance is expected to have positive aspect (Banain and Roberts, 2006). Although, remittance itself is not an evil but its positive and negative effect depends on its uses. Often the research papers have ended with the conclusion remittance inflow is consumption oriented rather than investment oriented. Basically

the remittance receipt is used for daily consumption, land and jewellerys and so on (Oberai and Singh, 1980).

Remittance may not promote economic growth if the functional channels of the very economy are unfavorable. Firstly, remittance might cause 'Dutch Disease Effect' by enhancing the productive capacity of traded goods sector of remittance receiving economy. It might ultimately appreciate the real exchange rate that hampers economic growth. Secondly, remittance might hamper economic growth inviting 'Moral Hazard' (Chami Fullenkamp and Jahjah, 2003). Similarly, while talking about the negative literature, it may invite 'Ghost Town' phenomenon with possible collapse of small local economy due to vicious circle of remittance dependence, Easy Money Hazard, widen the inequality and hamper the real economic growth in the developing countries (Trital, 2008).

2.2.1 Review of the national empirical studies

While going through the national literature contributed by the previous researchers, it is found that remittance has long history in Nepal and it has contributed in the Nepalese society from the various aspects but it got room to discuss only before two decades. Remittance became an important feature of Nepalese economy after 1990s and the debate of remittance and its impact on the national economy came to the floor. Then the issue of remittance came into discuss at the academics and nationally it became a hot issue to discuss. In this chapter, the various research, articles, paper, study etc. contributed by the national scholars is presented.

Karna (2004) argues that after the Second World War, employment opportunities in India grew significantly and increasing number of Nepalese went there to find work, mainly in lower paid and menial jobs. This was widely considered a manifestation of Nepal's lack of development and helped encourage an emerging critique of Rana's failure to promote development in Nepal, after Indian independence (1947) and Treaty of Friendship (1950) with India.

Panta (2006) makes a study on his article defines that remittance refers to that portion of migrant earnings sent from the migration destination to the place of origin. The term 'remittance' is normally limited to denote monetary and other cash transfer transmitted by the migrant's worker

to their families and communities. Remittance fall under the BoP standard measures based on the items in report as incorporated in the form of

- a) workers remittance (money sent by workers living abroad for greater than a year)
- b) compensation of employees (gross earning of foreigners living abroad for less than a year) and
- c) migrant transfer (net worth of migrants moving from one country to another)

Remittance is one of the major sources of income of the country can be further increased if new potential destination of foreign employment like Korea apart from the traditional employment destinations such as Arab countries could be explored and utilized (MOF, 2006/07).

Shrestha (Malla) (2009) has studied on to review the trend of foreign employment and remittance in Nepal using the analytical approach taken the data during 1990-2006/07. Especially she tries to show the situation of remittance to GDP ratio. Her study shows that the remittance to GDP ratio was only 0.5 percent in 1990/91. Recently the remittance to GDP ratio increased from 10.34 in 2001/02 to 15.11 accounted highest in 2005/06. However, the share of remittance to GDP has decreased to 14.83 as compared to previous year. It indicates that contribution of remittance in Nepal is immense justifying the fact that Nepal's economy if 'remittance economy'.

Dahal (2010) makes with the objectives to highlight the importance of youth and remittance in Nepalese economy and suggest some measures to maintain youth and remittance. For this purpose, he used the data from 1995/96 in his study. This study shows about 2 million youth worker abroad and send foreign currency as remittance, which is being mostly used in buying land and investing agriculture and industries. Finally, he found that 37 percent of Nepalese remittance receipts are used on consumption, 21 percent on loan repayment and 16 percent on education. 6 percent is saved, housing absorbed 8 percent and 8 percent spent on health.

Niroula(2009) states that foreign employment and remittances is one important component of national economy . Remittances have opened a new area of research to the economists and politicians. As its share and volume keep on growing, economic and financial model builders

have got strong ground of empirical testing of hypothesis as "remittance Led Growth". So, remittance has a greater scope of expansion for a "role play" in the socio-economic development of developing country like Nepal. Nepal has an encouraging picture toward this direction. However, because of the lot of traditional or emerging new reasons, the remittance sector also would go in jeopardy if timely and proper policy measures and strategic actions are not adopted. Temporary inflow of such remittance cannot serve the long-term objectives of a country. For this, all the responsible bodies' initiations and drives need to be directed to a safe, reliable, diversified and sustainable remittance system.

Rajkarnikar (2009) have analyzed the case study of in Siddipur VDC of Lalitpur district with purpose of examine the socio-economic consequences of foreign employment on household level and national economy using both primary and secondary data among the 936 households, 104 households were selected for sample. The major finding of the study an impact on household level due to male migration were loneliness, adverse effects on children's education, added responsibilities, financial gain not up to expectation and insecurity feeling and anxiety etc.

Thapa (2009) has discussed on the topic remittance became focal issue of research and discussion in 1990's decade. In 2001, worker's remittances represented some 42 percent of total Foreign Direct Investment (FDI) flows. South Asia is also one of the premier remittance recipient regions, remittances amount to her GDP has stood at 2.5 percent. Of the total remittances flow in the world, South Asia received nearly 20 percent. Among the South Asian nations, India is receiving the largest amount of remittances followed by Pakistan, Bangladesh, Sri Lanka and Nepal.

Parajuli (2011) in his article by using the data of domestic investment, consumption and GDP from 1974/75 to 2010/11 and by applying Two Stage Least Square have analyzed the concentration of remittance whether it is consumed or invested. With the algebraic expression and mathematical explanation he reaches to the conclusion that we are exporting cheap labor force at the cost of stagnant domestic production. It has been evidently proven that remittance income is consumed but insignificantly invested. Though positive, its contribution to growth is meager. Thus, remittance is necessary but not sufficient for growth in Nepal because it is

consumed but not invested. Besides it, he has recommended to formulate those policies to check high domestic consumption expenditure and divert it into productive investment.

Shrestha (Malla) (2010) analyzes the increasing importance of remittance over a decade in Nepalese economy identifying it as a Remittance Economy. The contribution of remittance to the different sector economy is much more than what official figure and information reflects because large portion of remittance come through non-officials channels especially from India. Due prevailing political instability which is in weak investment opportunities that has aggravated unemployment problem with in the country. Accordingly, GON has shown the commitment to institutionalize the foreign employment regime to reap the benefits from those working abroad at the same time to protect the right and welfare of the employees. Taking the reference of Global Crisis 1930s and 2009 researcher has pointed the situation of curtailing in the demand of labor for foreign employment. Also Nepalese labors have started coming back and their demand in the employment generating country has also been decreased. As a result, the inflow of remittance is soon to be reduced that certainly will have adverse impact on the economy at the macro level.

ADB(2014) analyzes the migrant workers' remittance income has emerged as one of the most important components in the Nepalese economy, influencing not only household consumption and investment patterns, but also the overall economic structure and dynamics. Over the years, remittance inflows—received by 55.8percent of households in 2011 (CBS, 2011)—have grown to an estimated 25.5percent of GDP in 2013, up from just 1.7percent of GDP in 1996 and 10.7percent of GDP in 2001. As a share of GDP, in 2012, Nepal was the sixth highest remittance recipient in the world. According to official statistics, on an average 1,243 workers left the country each day in 2013. A study of WB (2006) showed that remittance inflows to poor households accounted for one-third to one-half of the overall reduction in absolute poverty between 1996 and 2004. Additionally, the latest Multidimensional Poverty Index (MPI), published by Oxford Poverty and Human Development Initiative (OPHI) and used by the United Nations Development Program (UNDP) in its annual Human Development Report (HDR) publication, shows that the decrease in multidimensional poverty from 64.7 percent in 2006 to 44.4 percent in 2011 can be attributed mostly to the contribution of remittances in improving

asset ownership, access to electricity and better nutrition (OPHI, 2013). Migration and remittances are having profound impact on structural transformation in Nepal (ADB 2013a).

2.3 Review of international empirical studies

Adams Jr., Cuecueha and Page (2008) conducted research by using nationally representative household survey from Ghana to analyze how the receipt of internal remittances (from within Ghana) and international remittances (from African or other countries) affects the marginal spending behavior of households on a broad range of consumption and investment goods, including food, education and housing. One principal finding emerges. Contrary to other studies, which find that remittances are either spent disproportionately on consumption (food and consumer goods/durables) or investment goods (education and housing), we find that households receiving remittances spend their remittance income just like any other source of income. When we control for endogeneity and selection bias, we find that any differences in the marginal spending behavior between remittance-receiving and non-receiving households are explained completely by the observed and unobserved characteristics of the households. The relevance of our instrumental variables in the expenditure functions leads us to conclude that any evidence from the OLS regressions of differences in expenditures in food, education and housing between households receiving and not receiving remittances can be accounted for by the correlation between unobserved components in the expenditure equations and the decisions of the households to receive remittances.

ILO (2003) surprisingly found that the larger share of international population movement is in developing countries. The refugee burden is particularly heavy in developing countries, which receive nearly three-quarters of all officially-designated refugees and untold numbers of other forced migrants. In addition, the developing world contains numerous magnets for economic migrants, including the newly industrializing economies of Asia; the oil-producing Middle East States; West Africa and – increasingly – South Africa; and the Southern Cone, Venezuela, and Mexico in Latin America. While international migrants represent only a small fraction of the world's population, the impacts of these movements can be larger if compared to the numbers who move.

Arif (2009) found in his research migrants usually remit a major part of their earnings while they are abroad, and recipient households primarily spend these funds. The households, especially those in rural areas, may not have information about investment opportunities; so there is a need to explore these in high-migration areas. It is also important to provide migrants' families with investment-related information, and women in particular to encourage their empowerment. In addition, there is a need to further determine which are as could benefit from investments. Training in the creation of small and medium enterprises in high-migration districts could be organized in collaboration with organizations active in this sector, including the National Rural Support Program and the Pakistan Poverty Alleviation Fund.

Khoudour (2007) recommended government should strive to reduce remittance costs, promote financial democracy and steer remittances towards investment in production, it should not be forgotten that the key to development lies in domestic structural reforms. The experience of other countries has shown that, generally speaking, migration is not a development solution. Some countries, such as Morocco, Algeria and even Mexico, have received remittances for decades and yet have failed to offer their people viable development options. Migration has thus become a perverse process, creating "poverty traps" whereby flawed economic and social policies lead to increased migration to industrialized countries, which in turn makes it so governments do not feel the need to undertake the types of reforms required to overcome underdevelopment. In contrast, countries that have successfully jump-started their economies have all carried out profound reforms. The achievements of Ireland, Spain or the Republic of Korea cannot be attributed to the massive outflow of migrants they experienced at a given time in their history, but rather to sound development policies. As a result, these countries, which used to be exporters of manpower, are now net receivers of migrants.

IOM (2009) found that one out of two households in the Republic of Moldova does not use any banking service 48.4 percent at the present moment,. The most used bank services are foreign currency exchange and monetary transfer services, and the average number of services accessed by a household amounts to 0.98 percent. When comparing the present-day situation with the situation registered one year ago, the highest drop of users was registered for bank services related to remittances, the foreign currency exchange– 31.2 percent (-2percent of the users as

compared to 2008), and monetary transfers – 10.8 percent (-2.6percent); The world economic crisis has resulted in a sharp reduction in trust for the financial banking system. In July 2008, at least in case of the commercial banks, the percentage of the population trusting the banks was higher than the percentage of the population with distrust, but at the moment there is already a skeptical attitude even towards the commercial banks. When asked about the following 2-3 years, only 14.9percent of the respondents do not expect any instability within the banking sector, while in 2008 about 25.9 percent of the population had such a perception. The most widespread modality of personal savings is keeping the money at home in Moldovan lei (when interviewed, 52.4percent of households indicated they had some savings), and also in foreign currency – 21.4percent. During the last six months, a significant increase in the number of people who keep their savings at home in MDL (from 45.5percent in July 2008 up to 52.4 percent in March 2009) was registered, while the share of population preferring to invest savings in long-term durable goods and business has decreased. A reduction in the number of families who keep their money at Credit and Savings Associations was also registered. The households benefiting from remittances apply some more specific models in this respect. These households prefer, to a larger extent, to keep their savings in foreign currency (30 percent of households benefiting from remittances, and only 16.3percent of households not receiving remittances, keep money at home in foreign currency). These households also are more inclined to keep the savings in commercial banks (20.5 percent as compared to 12.4 percent of households not benefiting from remittances), and to procure long-term durable goods as a modality of savings investment – 8.5 percent as compared to 4.75, respectively.

Gray and Gutierrez (2008) found the causes like temporariness of the employment in the fields and the low productivity of agricultural activities, the mobility of the population of San Juan Union has lasted more than sixty years. With the insufficiency of revenues from agriculture, demographic growth has made the inhabitants look for other complementary activities outside the community; after some time, the families from San Juan Union have succeeded in progressing thanks to employment in the U.S.; the experiences of the adults encourage the illusions of children and youths in the community, who only await to be legal age to migrate. What is worrisome about this migration is the loss of potential workforce and the tendency to non returning migration. Out of all the interviewed migrants, both in Chicago and San Juan

Union, none expressed their desire to return to Mexico immediately; some say they rather spend their last days in their hometown, once they cannot work in the U.S. any longer.

Ratha (2007) by using regression analysis across countries worldwide indeed shows significant poverty reduction effects of remittance. For instance, household survey data shows that remittance have reduced the poverty head count ratio significantly in several LICs by 11percent in Uganda, 6percent in Bangladesh, and 5 percent in Ghana. In Nepal, remittance may explain a quarter to a half of the 11 percent reduction in poverty head count ratio. With updated data of 2007/08 report has used the comparative situation in Asia and Latin America. In case of Latin America, remittance and migration situation is analyzed inflow of remittance to United States of America. Their existing migrants are unwilling to return as the employment situation back home is not very good and re-entering the US, in case they return, has become more difficult with tighter border controls. Also many migrants are staying on even after losing employment in the formal sector. Such migrants are either unable to afford the higher fees or lack the proper identification for sending remittances through the formal channels. Increasing use of informal channels by such migrants would imply that official statistics understate the true size of remittance flows. While in case of the Asia there is fall in the remittance received from United States in Bangladesh and Pakistan but the remittance from the countries has remained strong due to there is not slash in labor demand in the countries which is the major destination of the South Asian migrant workers.

Diaz (2007) proposes two different channels, a direct and an indirect investment channel, for remittance to influence economic growth. By using data from Giuliano and Ruiz-Arranz(2006) employing path analysis to test these channels analyzes the causal relationship between worker's remittance and economic growth. This paper indicates that remittance only influence growth indirectly through investment. Finally, while concluding researcher explains the paper providing two different channels and has positive causal relation among the remittance and indirect channel investment. This is consistent with the hypothesis forwarded by the various researchers, so the countries having high levels of remittance should be aware to invest the very monetary inflow to have positive impact on their GDP.

CHAPTER

RESEARCH METHODOLOGY

Research methodology is the systematic and planned process of getting solution of the mentioned problem which deals with the collection, analysis and interpretation of the study area. It includes research design, sources of data, method of data collection, sampling methods, instruments of data collection and techniques of data analysis.

3.1 Research Design

This study has been presented with both the qualitative and quantitative analysis. In the qualitative research design, descriptive analysis is made to show the current situation and pattern of remittance in Nepal. By using the secondary data from the recent household survey NLSS III, it has been presented in the table and figure. This study has described the current situation and pattern of remittance.

Similarly, the quantitative research design has been used for regression analysis. In this research design, the relationship between private consumption and inflow of the remittance is analysed.

3.2. Nature and Source of Data

The data has been taken from the secondary sources. fundamentally the study is be based on the recent household survey NLSS survey 2010/11 for analysis of the foreign employment and remittance, this is based on the survey conducted by Central Bureau of Statistics (CBS) and for the remittance figure it has used the data from the various publication of Nepal Rastra Bank (NRB), National planning commission (NPC), WB etc have been used. NLSS 2010/11 is the third round survey conducted by the CBS as followed up of previous two rounds. All these survey followed the Living Standards Measurement Survey (LSMS) methodology developed by WB. The sources of data have been taken from the publication of Nepal Rastra Bank various issues, economic survey published by Ministry of finance (MOF), Central Bureau of Statistics (CBS), National Planning Commission (NPC) World Bank reports, International Monetary Fund reports, blogs of the senior researchers and publications and websites.

3.3 Population and Sample of the study

Total remittance inflow into Nepal and total consumption is considered as the population of the study. As the remittance inflow into Nepal through formal channel i.e. official record is considered as the sample for the study. The study is fundamentally related with the macroeconomic variables: remittance inflow, nominal GDP, private consumption of Nepal. Sample period is chosen from the FY 1992/93 to FY 2013/14. Here in the study before the FY 1992/93 is not taken into account due to lack of the official record and also only after 1990 formally migrant workers started to get legal permission and the country started to enjoy remittance in remarkably. Therefore, the sample period FY 1992/93 to 2013/14 has been considered.

3.4 Variables

The study is presented quantitatively and qualitatively. In the quantitative analysis regression analysis is made, so, the variables are explained in brief for the simplicity of the study. The variables are explained as:

3.4.1 Dependent variable

Theoretically, a dependent variable is defined as the variable which value is predicted by other variables or the explanatory variables. Here in the regression analysis to analyze the effect of the remittance over the private consumption, private consumption is considered as the dependent variable. Its value is determined by number of the variables, but here hypothetically the private consumption is considered as the function of the remittance inflow and nominal GDP. So, here in the study private consumption is considered as the dependent variable in the study.

3.4.2. Independent Variables

The independent variable is understood as the variable which is used to estimate the value of the other variable of interest. For the analysis following variables are used as the independent variables.

- I. Remittance inflow (R_t) : Inflow of the remittance into country through the formal channel is considered as one of the independent variable in the model. Whenever remittance enters into county, such remittance is used for the various purpose such as daily consumption, education, capital formulation, business, household property, saving, repay loan and others. So, the remittance inflow affects the private consumption.
- II. Nominal GDP (Y_t) : GDP is defined as the market value of currently produced final goods and services within boundary of the economy. It means GDP is the unduplicated monetary value of all final goods and services produced within the geographical boundary of the economy during the specified time of one year. There occurs positive relationship between consumption and GDP of the economy. So, the GDP is considered as the independent variable.

3.5. Data Analysis Techniques

Here for the analysis of the data statistical tool liner regression analysis is used in the study. For result and analysis of the regression model the statistical software SPSS is used. In this study both descriptive and empirical methods have been used to analyze the results and data. In qualitative results on secondary data, the analysis is done with the help of table and graph.

3.6. Model Specification

This study specifies a model to explain the relationship between private consumption and remittance inflow with the help of OLS regression analysis. Here in the model, private consumption is the function of remittance inflow (R_t) and nominal GDP at the same time period (Y_t). To show the effect of remittance in private consumption, R_t has been used in the model as the independent variable.

For analysis of the relationship between remittance, consumption here multiple regression is used and the time series data for 22 years is used from FY 1992/93 to 2013/14.

The private consumption function is given by:

Model :

$$C = F(\text{Rem}, \text{GDP})$$

Where,

C = private consumption

Rem = remittance inflow

GDP = nominal GDP

Here, the private consumption is considered as the function of remittance inflow and GDP of the same time period. It is due to whenever remittance enters into economy it becomes the part of the disposable income which is one of the dominant determinants of private consumption. According to CBS (2011), approximately 79 percent of the remittance income is found to be spent on daily consumption. Similarly, hypothesizing GDP of the same time period is also such determinant which positively affects the private consumption. Here both the remittance inflow and nominal GDP is assumed to have positive effect on private consumption.

The regression model is given by:

$$C_t = \alpha + \beta_1 R_t + \beta_2 Y_t + u_t$$

Where,

C_t = private consumption at time t

R_t = remittance inflow at time t

Y_t = nominal GDP at time t

α, β_1, β_2 = parameters

u_t = error terms

Further analysis has been made with the attained output from the SPSS programme. The results are explained accordingly.

CHAPTER V

FINDINGS AND ANALYSIS OF THE STUDY

This chapter analyzes the current situation of remittance in Nepal and its utilization by households. This chapter includes the remittance from its various dimensions such as number and size of remittance received by households, source of remittance origination, means of transferring remittance, its share in income and finally its utilization in details.

4.1 Current Situation, Pattern and Utilization of Remittance

Foreign employment has become a way of life and it has been developed as the major source of income as well. 55.8 percent of the household in Nepal receive remittance. Nepal has received Rs 434.6 billion remittances in the fiscal year 2013/14 and it is expected to reach Rs 560.6 billion in the fiscal year 2014/15. Such remittance receipt was only Rs 54.2 billion in the FY 2002/03. This shows sharp increase in remittance receipt. It has also increased the remittance to GDP ratio remarkably, it was 25.7 in the last FY and it has expected to reach 29.1 by FY 2013/14. Number of the migrant labors has also increased significantly each year. It was 1243 per day in 2013 AD (annually 453543) and it has reached to 1500 in 2014, surprisingly it was 150 in 2000 AD. Nepal's Gross National Disposable Income has been increasing along with the increasing remittance inflow. Such income is estimated to grow by 20.4 percent to Rs. 2,652.17 billion in current fiscal year 2013/14, which is 137.5 percent of GDP of the same fiscal year. Remittance also seems to be significant for reducing poverty significantly, it is accounted for one-third to one-half of the overall reduction in absolute poverty between 1996 and 2004 and so it is for forth. Nepal has been ranked as the third nation in the world in terms of contribution of remittance to GDP and first in the south Asia. Migration and remittances are having profound impact on structural transformation in Nepal as well. Up to this date Nepal has made negotiation with 109 nations for foreign employment and diplomatic relation with 139 nations. So, there are chances for expanding the destinations for foreign employment gradually. More than 30 lakhs labors are in foreign employment in the different countries except India.

4.2 Current Pattern of the Remittance

In this section to analyze the current pattern of the remittance in Nepal, it has been analyzed from the different aspect. This is explained below:

4.2.1 Number and size of remittance received by Development Region

Development Region	Percentage of HH receiving remittance (percent)	No of remittance receiving by household	Average no of remittance among recipient HHs	Average amount of remittance among recipient HHs (Rs.)	Average per capita remittance received
Eastern	56.4	1,142	1.7	67,114	7,886
Central	49.5	1,571	1.6	95,941	9,804
Western	66.6	1,358	1.8	100,930	14,480
Mid-west	51.9	587	1.5	51,902	5205
Far-west	60.0	493	1.6	43,468	5,194

(Source: NLSS Report, CBS 2010/11)

The table 4.2.1 shows the number and size of remittance received. It shows that HHs in the western development region receive remittance most where two out of three HHs receive remittance i.e. 66.6 percentage receive remittance which receives 1.8 number of remittance with average more than 1 lakh contributing Rs. 14480 per capita remittance received . It is followed by far-west, eastern and mid-west development region. The HHs from the central development region receives least where 49.5 percentage of the HHs receive remittance which receives 1.6 number of remittance with average remitted amount almost 96 thousands contributing 9804 per capita remittance received.

These facts show that in each development at least 50 percent of the households receive remittance indicating foreign employment has developed as a major souse for earning to the Nepalese HHs. Even the average number of remittance received by HHs also shows the more than one person from the HH being involved in the foreign employment which is further strengthened by the per capita remittance received ranged from 5 to 14 thousands. These facts sufficiently reveal Nepalese households' dependency on foreign employment and dominance of

remittance in household level. This reality shows emergence of remittance in both the household and national level remarkably.

4.2.2 Number and size of remittance received by ecological zones

Ecological zone	Percentage of HH receiving remittance	No of remittance receiving by household	Average no of remittance among recipient HHs	Average amount of remittance among recipient HHs (Rs.)	Average per capita remittance received
Mountain	55.0	393	1.7	45,380	5,075
Hill	49.2	2,215	1.5	96,911	10,525
Terai	62.7	2,543	1.7	71,713	8687

(Source: NLSS Report, CBS 2010/11)

Table 4.2.2 shows the remittance received by HHs by ecological zones. On the basis of categorization of HHs by ecological zones, more than 62 percentage of the HHs in the Terai receive remittance which is the highest percentage among all zones; it indicates that Terai region receives highest percentage of remittance. This region receives 1.7 average number of remittance with average 71 thousands which contributes almost 9 thousands of per capita remittance received.

While comparing the situation of mountain and hilly region it is found higher percentage of HHs receive remittance by mountain even with larger number of remittance but hilly region receives larger amount of remittance on average and that contributes more than double per capita remittance received in hilly region that of mountain. This may be the result of higher population density in hilly region than that of mountain and easy access of foreign employment facilities, information and urbanization that helps the labor from hills to get better paid job, but it is just opposite in case of mountain region. This situation also shows that labor are involved in low paid jobs even due to lack of information, access to the facilities and communication gap.

4.2.3 Number and size of remittance received by Rural/ Urban

Rural/ Urban	Percentage of HH receiving remittance	No of remittance receiving by household	Average no of remittance among recipient HHs	Average amount of remittance among recipient HHs (Rs.)	Average per capita remittance received
Urban	46.7	1,433	1.6	126,049	13,333
Rural	58.2	3,718	1.7	70,759	8,285

(Source: NLSS Report, CBS 2010/11)

While observing the number and size of remittance received by rural and urban Nepal, it is found that more HHs from the Rural Nepal receives remittance than in the Urban Nepal, where almost 6 HHs out of 10 HHs receive remittance. But in the Urban Nepal less than 50 percentage of HHs receive remittance. Although the Rural Nepal has higher percentage and no remittance received but the average amount of remittance received and average per capita remittance received is significantly higher in the Urban Nepal than in the Rural Nepal. It may indicate the situation high discrepancy between the labor from Urban and Rural Nepal. This may be the outcome of poor information for the labor in the Rural Nepal and not attracting quality in them.

4.2.4 Number and size of remittance received by Analytical Domain

Analytical Domain	Percentage of HH receiving remittance	No of remittance receiving by household	Average no of remittance among recipient HHs	Average amount of remittance among recipient HHs (Rs.)	Average per capita remittance received
Mountain	55.0	393	1.7	45,380	5075
Urban Kathmandu Valley	33.7	395	1.4	186,806	15,281
Urban Other Hills	50.2	368	1.5	136,122	16,120
Urban- Terai	54.1	594	1.7	95,570	10,841
Rural Hills-eastern	42.5	217	1.3	72,346	6525
Rural Hills-central	42.9	321	1.6	119,234	11,037
Rural Hills-western	65.5	539	1.7	89,048	13,721
Rural Hills-Mid and Far western	52.3	375	1.4	36,190	3,703
Rural Terai-eastern	63.5	551	1.8	64,118	8,343
Rural Terai-central	62.7	517	1.7	63,475	7,134
Rural Terai-western	71.6	461	1.9	89,638	11,245
Rural Terai - mid and far western	65.2	420	1.6	57,648	7,534

Source: NLSS Report, CBS 2010/11)

Table 4.2.4 shows that low percentage of HHs from the Kathmandu Valley receives remittance in comparison of other analytical domain where one out of three HHs receive remittance but with the highest average amount of remittance receive contributing largest per capita remittance received and the highest percentage HHs from the Western Rural Terai receive remittance where more than 7 out of 10 HHs receive remittance where each HHs receive almost 2 number of

remittance on average, it receives almost 90 thousands remittance contributing more than 11 thousands per capita remittance receive.

The facts also reveal that more HHs from the Rural area receive remittance but in small size but the HHs in the urban areas like Urban Kathmandu, Urban other hills, hills central receive remittance by low percentage but in large size. Even if we observe the situation of rural hills, the stated situation is similar i.e. eastern, central and western rural hills receive remittance in large size but the Mid and Far western region receive remittance in smaller size. The situation in the Rural Terai region is also very similar as of rural hills. This shows the typically similar trend of foreign employment and inflow of remittance in these rural Terai and hills. This situation shows the similar trend of remittance inflow in the rural areas and in the urban areas. Although, in the urban areas less household receive remittance in comparison to the rural areas but higher average number of remittance is enjoyed by the same, this shows engagement of the rural labor in low paid job than the labor of the urban.

4.2.5 Number and size of remittance received by consumption quintile

consumption Quintile	Percentage of HH receiving remittance	No of remittance receiving by household	Average no of remittance among recipient HHs	Average amount of remittance among recipient HHs (Rs.)	Average per capita remittance received
First	47.6	584	1.5	34425	2630
Second	53.5	781	1.6	45075	4286
Third	58.8	926	1.6	60889	7112
Fourth	59.7	1215	1.7	78833	10783
Richest	56.6	1645	1.7	143183	21433

(Source: NLSS Report, CBS 2010/11)

Table 4.2.5 shows the distribution of remittance received by consumption quintile. In which, the poorest more than 47 percentage of the HHs receive remittance with 1.5 average number of remittance which receives 34 thousands remittance on average that shows two thousands and six hundred per capita remittance received. While the richest 57 percentage of the HHs receive

remittance with 1.7 average numbers of remittance and on average this group receives one lakhs and 43 thousands of remittance that contributes 21 thousands per capita remittance received.

In the above table as we move down from the poorest quintile to the richest one, average number of remittances received by HHs increases along with average amount of remittance received by the HHs. Even with the per capita remittance received even there is wide gap between the fourth and the richest one.

4.2.6 Distribution of number of remittances received by source

NLSS 2010/11 estimates NRs 259 billion of remittance entry in our country in nominal term. In internal source accounts for 20 percent of this amount, countries contribute 26 percent of the remittance only by Saudi Arabia, Qatar, 8 percent by Malaysia, 11 percent by India and rest by other countries (CBS, 2011). This is further explained and analyzed below with the help of the inflow of the remittance in the different regions from the different source countries with help of the following as:

4.2.7 Distribution of number of remittance received by sources by development region

Development Region	Urban Nepal	Rural Nepal	India	Malaysia	Saudi Arabia	Qatar	United Kingdom	other country	Donor Agency
Eastern	18.2	43.5	8.7	5.1	6.3	10.5	0.8	6.9	0.0
Central	24.7	39.2	13.7	4.2	4.1	5.4	1.1	7.4	0.2
Western	16.1	32.0	22.9	4.3	5.1	8.1	1.2	7.4	0.0
Mid west	13.8	43.2	28.5	5.2	3.1	3.6	0.2	2.4	0.0
Far west	15.1	41.8	39.2	2.0	0.4	0.4	0.2	0.8	0.0

(Source: NLSS Report, CBS 2010/11)

Table shows the eastern development region receives 18 percent of remittance from Urban Nepal and 43.5 percent of remittance from Rural Nepal. In total Eastern Development Region receives 62 percent of remittance from the internal source. Central development region receives 64 percent of the remittance from the internal source and rest 36 percent from the external source which is followed by eastern mid- west and far west and western development region. As we move to west from the eastern development region, the remittance received from India increases where eastern development receives only 8.9 percent of remittance the far west development

region receives 39.2 percent from countries (Saudi Arabia, Malaysia and Qatar seems significant. remittance received from the UK seems insignificant. Remittance enters more from the other country to eastern, central and western development region and least to the mid west and far west region. Only 0.2 percent of the remittance is received b central development region by Donor Agency.

4.2.8 Distribution of number of remittance by ecological zone:

Ecological Zone	Urban Nepal	Rural Nepal	India	Malaysia	Saudi Arabia	Qatar	United Kingdom	other country	Donor Agency
Mountains	25.6	47.3	10.1	5.2	3.8	2.7	0.4	4.9	0.0
Hills	21.3	32.5	17.8	5.1	4.4	7.3	1.4	10.1	0.1
Terai	16.5	42.6	20.3	3.8	4.6	6.8	0.6	4.9	0.0

(Source: NLSS Report, CBS 2010/11)

Table 4.2.8 shows the Distribution of number of remittance by ecological zone. Mountain region receives 72 percent of the remittance from the internal sources and rest 38 percent of the remittance from the external sources which is followed by the Terai and the hilly region. Terai region receives one fifth of the remittance from India which is followed by Hills and Mountain region. In all regions, the share of remittance from the countries seems significant. Hilly region gets 10 percent of remittance from other countries and the remittance received by the mountain and hilly region is almost same. These facts show that the people have higher tendency to involve in the internal remittance generating activities in comparison to rest. High Indian remittance in the Terai region shows people from Terai region have higher tendency to go to India than in others.

4.2.9 Distribution of number of remittance by analytical Domain

Analytical Domain	Urban Nepal	Rural Nepal	India	Malaysia	Saudi Arabia	Qatar	United Kingdom	other country	Donor Agency
Mountain	25.6	47.3	10.1	5.2	3.8	27	0.4	4.9	0.0
Urban Kathmandu Valley	24.6	24.8	1.3	2.5	3.5	25	8.4	32.1	0.3
Urban Other Hills	32.8	21.5	10.9	4.3	5.1	6.8	1.6	16.9	0.0
Urban- Terai	24.3	36.4	16.1	3.5	3.7	4.6	2.3	9.1	0.0
Rural Hills-eastern	19.5	35.5	4.6	12.4	5.5	15.2	1.4	5.9	0.0
Rural Hills-central	34.6	37.1	4.9	4.4	2.5	6.2	0.3	9.3	0.6
Rural Hills-western	15.8	30.2	24.1	4.6	6.3	9.8	0.7	8.6	0.0
Rural Hills-Mid and Far western	10.6	41.2	38.9	4.1	2.2	1.9	0.7	1.1	0.0
Rural Terai-eastern	15.5	46.2	11.1	3.3	6.7	10.9	0.0	6.0	0.0
Rural Terai-central	16.1	45.4	21.9	3.9	4.4	6.4	0.4	1.7	0.0
Rural Terai-western	10.9	39.0	27.8	4.1	4.1	6.3	0.2	7.4	0.0
Rural Terai mid and far western	16.0	40.7	31.3	4.5	2.5	2.8	0.2	1.9	0.0

(Source: NLSS Report, CBS 2010/11)

The above table 4.2.9 shows the Distribution of number of remittance by analytical Domain. It shows all of these analytical domains receive more amount of remittance by internal sources than external sources. In which central rural hilly region receives approximately 72 percent of the remittance from the internal source and rest by external sources and Urban Kathmandu valley, rural hills, western and Rural western Terai receives almost 50 percent of the remittance from the

internal sources and remaining 50 percent from the external sources. Remittance received from India is high in the mid and the far western Rural hills, which receives almost 39 percent of the total remittance from India. Remittance received from is higher in the western Nepal than the eastern, where there is high contribution from the countries.

4.2.10 Distribution of number of remittance by consumption quintile

consumption Quintile	Urban Nepal	Rural Nepal	India	Malaysia	Saudi Arabia	Qatar	United Kingdom	other country	Donor Agency
First	12.0	39.2	32.5	5.4	2.9	6.2	0.0	1.8	0.0
Second	16.3	38.2	27.4	3.8	4.1	7.3	0.1	2.9	0.0
Third	16.2	39.1	20.2	5.3	5.6	8.9	0.3	4.4	0.0
Fourth	20.5	42.4	13.3	4.7	5.7	7.2	0.3	5.9	0.1
Richest	24.5	36.3	10.5	3.3	3.4	4.6	2.8	14.6	0.1

(Source: NLSS Report, CBS 2010/11)

Table 4.2.10 shows the distribution of number of remittance received by consumption quintile. In which the remittance received from the internal sources is least by the poorest quintile by 51 percent and the highest by the richest and the fourth quintiles both of these quintiles receive 60 percent that shows as we move from above from the poorest quintile to the richest one then we can find that remittance received from the internal source increases and that of from external source decreases. Specifically, remittance received from India also decreases and contribution of other nation increases. Also the richest quintile has high number of remittance received from the UK and other country while in the poorest and bottom three quintiles receive more remittance from India and countries. If we observe the choice of the countries based on the consumption quintile than it is found that as we move to upward from the poorest consumption to the richest one then the people have left to choose India and countries and have chosen UK and other countries. This shows the better consumption situation of those people involved in UK and other countries.

4.2.11. Number, size and share of remittances received by source

Source of remittance	No. of remittance received	Mean amount of remittance received (Rs.)	Total amount of remittance received (Rs.)	share of remittance amount received
Internal source				
Urban Nepal	1024	25,454	25,713,539,244	9.9
Rural Nepal	1,923	12,127	25,172,505,886	9.7
External Source				
India	919	29,499	29,197,865,199	11.3
Malaysia	223	93,474	21,776,508,833	8.4
Saudi Arabia	221	108,561	25,770,996,309	9.9
Qatar	322	115,794	41,327,887,124	16.0
UK	70	164,842	7,719,576,662	3.0
Other country	446	224,609	82,362,803,100	31.8
Other(Donor)	3	16,547	46,795,183	0.0

(Source: NLSS Report, CBS 2010/11)

Table 4.2.11 shows the number, size and share of remittances received by source. In the table source of remittance is presented separately by internal and external sources. In which the internal sources of shares 19.6 percent of total remittance where no. of remittance the share of urban Nepal is quite higher. Remaining more than 80 percent of the total remittance is shared by the external source and less significantly by the donor agency. If we observe external sector, 11 percent of the total remittance received amount is from India with 919 number of remittance with mean remitted amount 29 thousands.

In the external source, the share of countries seems remarkable. Which contributes more than 34percent of total remittance with 476 numbers of remittance, and mean remitted amount is above more than One Lakhs. This is four fold of mean amount of remittance received from urban Nepal, approximately, nine times of remittance received from rural Nepal and more than three times higher than the mean amount of remittance received from India. Out of total 259 billion of remittance received during this period, the countries contribute approximately 90 billion. Specifically, even within the countries the share of Qatar is dominant which alone contributes 16 percent of total amount received. This also indicates that Qatar has become most referred destination for foreign employment than rest.

Similarly, only 70 number of remittance has been received from UK but with the higher mean amount of remittance received by 164 thousands. It shares 3 percent of total remittance received. Other countries have share of one third of total remittance received. 446 number of remittance has been received from these countries, during this period, with highest mean amount of remittance received. More than 82 billion of total amounts of remittance are contributed by these countries while the role of donor agency is significant.

4.2.12 Percentage share of remittance in income by development region:

Development Region	No. of HHs receiving remittance	Percentage of HHs receiving remittance	Share of remittance of income
Eastern	696	21.9	29.3
Central	1,008	31.7	32.3
western	765	24.1	32.4
Mid west	397	12.5	30.3
Far west	312	9.8	26.6

(Source: NLSS Report, CBS 2010/11)

Table 4.2.12 shows the Percentage share of remittance in income by development region wise. Which shows that 31 percent of the HHs in the central development region i.e. one HH out of three HHs receive remittance which shares 32 percent in the income. While in the Far western development region only 9.8 percent of the HHs receives remittance that shares more than one fourth of income. In the western development region, remittance has the highest share of income where 32.4 percent of the income is shared by remittance, which is followed by central, mid west and eastern development region.

4.2.13 Percentage of share of remittance in income by ecological zones

Development Region	No. of HHs receiving remittance	Percentage of HHs receiving remittance	Share of remittance of income
Mountains	229	7.2	28.2
Hills	1,483	46.7	32.7
Terai	1,466	46.1	29.8

(Source: NLSS Report, CBS 2010/11)

Table 4.2.13 shows that remittance has the highest share in income in the hilly region where approximately one third of the income is shared by remittance. In this region, 32.7 percent of the income is determined by remittance. It is followed by Terai region, where 30 percent of the income is determined by remittance. And in the mountain region 28 percentage of the income is determined by remittance. This shows that all of the regions have high dependency on remittance in income but the hilly region has higher dependency than that of Terai and Mountain region.

4.2.14 Percentage of share of remittance in income by Urban/ Rural

Rural/Urban	No. of HHs receiving remittance	Percentage of HHs receiving remittance	Share of remittance of income
Urban	932	29.3	32.9
Rural	2,246	70.7	30.4

(Source: NLSS Report, CBS 2010/11)

Table 4.2.14 shows that although there is significant difference between the percent of remittance receiving HHs in these two areas but the percentage of the share of remittance in income is not significantly different. In the Rural Nepal, more than 70 percent of the HHs i.e. 7 out of 10 HHs receives remittance and it shares 30 percent in their income. While in the Urban Nepal, receives only about 30 percent of the HHs receives remittance but it shares one third of the income. This reveals the fact that in the Rural Nepal, people receive remittance more than double of the urban Nepal but the share of remittance in income is quite similar.

4.2.15 Percentage of share of remittance in income by analytical domain

Analytical Domain	No. of HHs receiving remittance	Percentage of HHs receiving remittance	Share of remittance of income
Mountains	229	7.2	28.2
Urban Kathmandu Valley	290	9.1	38.0
Urban Other Hills	241	7.6	38.7
Urban- Terai	355	11.2	27.8
Rural Hills- eastern	163	5.1	29.1
Rural Hills-central	205	6.5	34.8
Rural Hills- western	314	9.9	32.6
Rural Hills- Mid and Far western	270	8.5	26.9
Rural Terai- eastern	304	9.6	30.5
Rural Terai-central	300	9.4	29.2
Rural Terai- western	249	7.8	30.2
Rural Terai - mid and far western	258	8.1	31.2

(Source: NLSS Report, CBS 2010/11)

Table 4.2.15 shows Percentage of share of remittance in income by analytical domain. In which, from the mountain region 7.2 percent of the household receive remittance and it shares 28.2 percent in the income while in the Urban Kathmandu valley 38 percent of the income is shared by remittance. It is also similar in Urban other hills. The share of remittance in income, in the different analytical domains is almost similar, where remittance share more than one fourth to one third of total income. Remittance has less share in the rural hills of mid and far western region and highest in the urban other hills which is 38.7 percent. It reveals the truth that all over in Nepal remittance has been developed as the significant source of income even with the

remarkable share in income in each and every region in Nepal. It is revealed by the fact that more than one fourth to one third share of total income is determined by remittance.

4.2.16 Percentage of share of remittance in income by consumption quintile

consumption Quintile	No. of HHs receiving remittance	Percentage of HHs receiving remittance	Share of remittance of income
First	383	12.1	28.8
Second	483	15.2	22.6
Third	590	18.6	31.0
Fourth	718	22.6	33.3
Richest	1,004	31.6	34.8

(Source: NLSS Report, CBS 2010/11)

Table 4.2.16 shows that as we move above from the poorest quintile to the richest quintile, the percentage of the HHs receiving remittance and the share of remittance in income both increases exception of second quintile. In the poorest quintile 12 percent of the HHs receives remittance and in this quintile 28.8 percent of the income is determined by remittance. In the richest quintile 31.6 percent of the HHs receive remittance that contributes 34.8 percent in the income.

4.2.17 Distribution of Donor age group by gender and origin of remittance

Age group of Donor	Urban Nepal	Rural Nepal	India	Malaysia	Saudi Arabia	Qatar	UK	Other Country
Male								
<15	1.1	0.5	1.3	0.0	0.0	0.7	0.0	0.2
15-29	39.4	18.3	38.0	56.8	46.3	54.2	35.1	42.3
30-44	42.2	32.6	35.9	40.1	46.7	39.9	38.5	51.5
45-59	12.3	30.1	17.7	3.1	7.0	5.0	24.2	5.6
60+	4.9	18.5	7.2	0.0	0.0	0.2	2.2	0.5
Female								
<15	0.9	0.5	0.0	0.0	0.0	0.0	0.0	0.0
15-29	36.8	26.1	34.0	69.4	59.9	44.0	54.0	48.0
30-44	35.5	36.3	35.5	30.6	20.1	56.0	28.8	39.8
45-59	20.3	22.5	18.0	0.0	20.1	0.0	17.2	11.4
60+	6.4	14.6	12.5	0.0	0.0	0.0	0.0	0.9
Total								
<15	1.1	0.5	1.1	0.0	0.0	0.7	0.0	0.1
15-29	38.7	21.2	37.5	57.2	46.7	54.0	41.2	43.6
30-44	40.3	34.0	35.9	39.8	45.9	40.3	35.4	48.9
45-59	14.6	27.3	17.7	3.0	7.4	4.9	21.9	6.9
60+	5.3	17.0	7.8	0.0	0.0	0.2	1.5	0.6

(Source: CBS 2010/11)

Table 4.2.17 shows the distribution of Donor age group by gender and origin of remittance even with the totality including both the genders. In the male section age group below 15 and the age group after 60 has less contribution in the remittance. But the age group below 15 is contributing 0.7 percent in both the internal and external sources states situation of existence of child labor. In the sector of remittance, the age group of 15 to 29 and 30 to 44 has the most remarkable contribution. Where these two groups contribute 74 percent and the age group of 45 to 59 has a bit less contribution. If we observe, the contribution of productive age group 15 to 59 then it reaches to 90 percent.

Similarly, in case of female age group below 15 has quite little contribution in the remittance this age group contribute 0.5 percent this also reveals the fact that child labor is little bit in case of females than that of males. But the age group after 60 has more contribution in remittance in female than males. This age group contributes 11.3 percent. If observe the Productive age group 15 to 59 then this age group contributes 88 percent. Also the age group 30 to 44 has highest

contribution, it is 36.2 percent. When we compare it to male incase of male early age group 15 to 29 has greater contribution than female but in the age group of 45 to 59, female has greater than that of male.

Even in totality, the situation is quite similar. The dependent age group contributes 10 percent in the remittance where the contribution of the age group below 15 is less significant. And the productive age group 15 to 59 has vital contribution it contributes more than 90 percent. Specially, the age group of 30 to 44 contributes 37.8 percent followed by 15 to 29 that contribute 34.2 percent and 45 to 59 by 18.2 percent. It reveals the fact that the productive age group in Nepal has higher inclination for remittance generation whether within the internal; or external source. Whether it is in case of male or female it is found that contribution of the productive age group on the remittance. This is even giving strong proof for claim of the pathetic situation that compulsion of the youth to involve in the foreign employment for income generation and for the survival by various sectors.

4.2.18 Distribution of number of remittance by means of transfer and origin of remittance

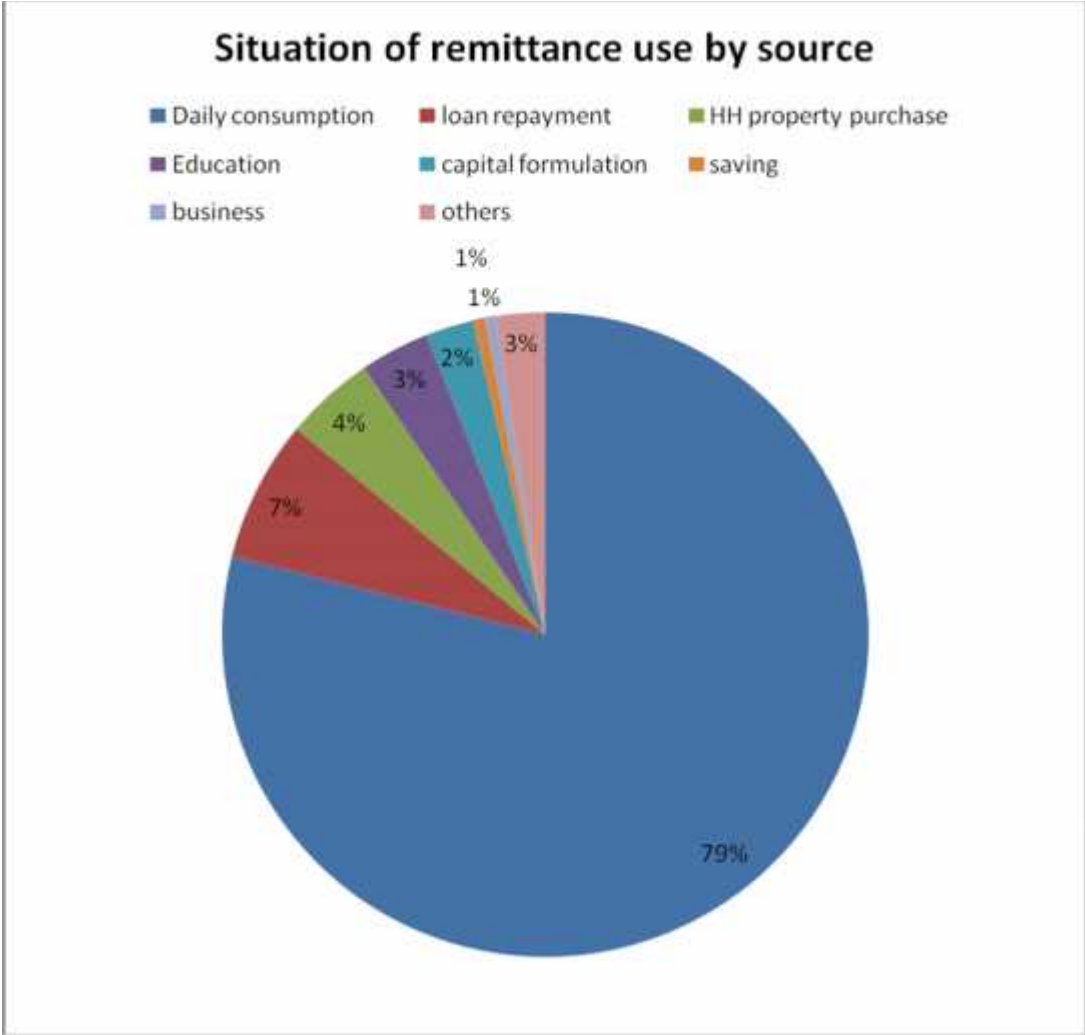
Share of remittance	Financial institutions	Hundi	Self	Friends	Family members Other relatives	Other
Internal source						
Urban Nepal	4.6	1.6	76.6	8.4	6.0	2.9
Rural Nepal	2.0	0.3	87.7	3.3	4.9	1.8
External Source						
India	8.5	1.8	52.5	27.4	7.1	2.7
Malaysia	81.0	7.4	4.9	3.3	3.4	0.0
Saudi Arabia	72.6	3.8	11.1	7.3	4.4	0.9
Qatar	63.9	11.6	13.2	8.5	1.7	1.2
United Kingdom	41.5	5.4	21.6	15.1	12.0	4.4
Other Country	61.3	5.5	16.4	11.2	4.3	1.2
Other						
Donor Agency	0.0	0.0	100	0.0	0.0	0.0

(Source: CBS 2010/11)

Table: 4.2.18 shows the distribution of number of remittances by means of transfer and origin of remittance, which shows in case of internally originated remittance, the donor themselves have been significant means of transfer. In the Urban Nepal 77 percent and in Rural Nepal 88 percent of the remittance has been transferred by donor self. Similarly, friends and family members have been next remarkable means of transfer of remittance and then the financial institutions which transfer 2 percent in the Rural Nepal and 5 percent in the Urban Nepal. This situation shows the reality that remittance has been transferred with the informal means and has complexity in computation of inflow of remittance. This may be due to lack of financial literacy, availability of financial services and geographical situation. If we observe the means of transfer in case of externally originated remittance, the share of financial institution seems significant except in case of India. Where donor themselves and friends transfer almost 80 percent of remittance and share of financial institutions is only 8 percent. This situation seems similar as in case of the internal remittance. But in case of the externally originated remittance such as countries financial institutions has significant share in transfer of remittance, which transfers more than 60 percent of the remittance and up to 80 percent and the means like self, friends, families and hundi has less share for transferring remittance. This situation is even true for UK as well. This shows strong presence of financial institutions and services, financial literacy and geographical distance. But as we observe in case of other, total remittance has been transferred by the donor themselves.

4.3.1 Distribution of remittance by primary uses and origin of remittance:

Remittance has become a source for income generation and way of living for the common people at micro level and significant component of GDP at macro level, as a whole remittance has been developed as the significant macroeconomic variable. Remittance has is hotly discussed subject matter in the economy not only from the ground of inflow but also from its utilization. This chapter has presented the utilization of remittance in detail with figures.



(Source: CBS 2010/11)

Chart (1): Distribution of remittance by primary uses and origin of remittance:

The chart (1) shows utilization of remittance for different primary uses: daily consumption, education, capital formulation, business, household property, saving, repay loan and others while origin of remittance by source is categorized by internal including urban and rural Nepal, external (India, Malaysia, Saudi Arabia, Qatar, UK and other countries) and others (Donor Agency).

It describes in case of internally originating remittance most of the part of remittance is used for daily consumption. More than 84.5 percent of remittance originating from Urban Nepal and 86.6 percent of remittance originating from Rural Nepal is utilized for daily consumption. It shows that less than 20 percent of the internal remittance is used for other purpose than daily

consumption and rest is used for education, household property purchase, capital formulation and loan repayment. Fact also shows that internal remittance is saved insignificantly i.e. only by 0.5 percent and almost 1 percent is used for business. It states that insignificant portion of internally originated remittance is utilized for income generating activities. If we categorize the primary uses education, capital formulation both being long term investment and saving as the short term investment then it shows less than 5 percent of the internally originated remittance is used as the investment and huge portion of remittance is consumed. If we consider business and saving as the short term income generating activity then only approximately 1 percent of internal remittance is used for short term income generating investment which is shocking condition.

In case of externally originated remittance, utilization of remittance is different to different source country. In case of remittance originated from India, it is quite similar to internally originated remittance. It is slightly concentrated to loan repayment that covers 4.5 percent. Utilization of remittance up to 85 percent on daily consumption and loan repayment obviously shows that the poor section of Nepalese go to India for subsistence.

Similarly, when we analyze the situation of remittance originating from countries it is divided into daily consumption and rest of the primary uses. Almost such division is about 50 percent. As we compare it with the internal remittance, 4/5 of the total remittance is used for daily consumption. Even in the case of countries, other primary uses except loan repayment is quite similar as in case of internal remittance. In this case, almost quarter to one third of total remittance is used for loan repayment. This may be due to expensive cost foreign employment and services: travelling to capital city for passport, consultancy services, VISA processing, agent and other charges. Similarly, if we analyze situation of remittance originating from UK, third forth of the remittance is used for daily consumption purpose remaining is used significantly for loan repayment which covers 10 percent and rest is used for capital formation, business, purchase of household property and saving. If we analyze saving condition of all, 3.2 percent of remittance from UK is saved which is the highest saving of all cases in remittance. There is an interesting thing in case of remittance originating from UK is not using remittance for education purpose. In case of remittance originating from other country, it is similar to the case of countries while in case of the remittance originating from other source i.e. Donor Agency is

approximately 41 percent is used for daily consumption and highly used for education other primary uses.

As a whole, while analyzing overall situation of remittance, it is found that 78.1 percent of remittance is used for daily consumption and rest is used for other purposes: education, education, capital formulation, business, household property, saving, repay loan and others. Even out of them loan repayment and household property purchase covers significant proportion. Utilization of remittance for business, capital formation and saving is negligible. This shows the harsh reality that 80 percent of total remittance inflow is consumed and remaining is utilized in either productive or semi-productive activities.

4.3.2 Findings and Analysis of the Empirical Model

This part of the report includes the findings and analysis of the empirical model used in the study.

4.5.1 Remittance inflow and Private consumption

Result of the regression model

Model 1:

$C = f(\text{rem}, \text{gdp})$

```

-----
      con |      Coef.      Std. Err.      t      P>|t|      [95% Conf. Interval]
-----+-----
      rem |   .3598856   .1760604      2.04   0.055   -0.008613   .7283842
      gdp |   .07523     .0067252     11.19   0.000   .0611541   .0893059
      _cons | 2138.654    1965.065      1.09   0.290  -1974.274   6251.581
-----

```

Number of obs = 22

$F(2, 19) = 2388.44$

Prob > F = 0.0000

R-squared = 0.9960

Adj R-squared = 0.9956

Here above information show that the private consumption is positively associated with the inflow of remittance in Nepal and nominal GDP. If inflow of remittance increases, private consumption also increases. As model shows, if one unit of remittance inflow increases on an average private consumption also increases by 0.36 units. This means if one million of remittance enters into Nepal, private consumption increases by 3.6 lakhs, on an average. If GDP increases by one million, private consumption increases by 75 thousands. Here, remarkable thing is that remittance inflow is positively related with private consumption.

The constant or the intercept term is 2138.65 shows the autonomous private consumption is 2138.65 units (ten million). This shows there occurs 2138.65 units of private consumption even if GDP and Remittance inflow is null. In the obtained result the estimated parameters also seems statistically significant by F- test at 5 percent level of significance

Here, both the R^2 and adjusted R^2 seem to be very high i.e. 0.996 and 0.9956 which shows that 99.6 percent and 99.5 percent variation in private consumption is determined by the independent variables remittance in flow and nominal GDP.

It's important to mention that such variation in private consumption is not sufficiently determined by the independent variables remittance inflow and nominal GDP. There may be number of factors that affect such variation in private consumption besides remittance inflow and nominal GDP. Former research can be done by identifying such determinants and incorporating such determinants in the model.

CHAPTER V

MAJOR FINDINGS, SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary and Findings

Within a short period of time foreign employment and remittance has been developed in Nepal as a bobble. Inflow of remittance has increased by remarkably within last two decades. Migration and remittances are having profound impact on structural transformation in Nepal as well. Well known agricultural economy has been gradually changing into remittance economy. Fro both the household and the national level remittance inflow has imparted its distinct value. At household level it has become a means of survival and source of earning to the unemployed youth and at national level it has become a medium to manage balance of payment, foreign exchange reserve and manage unemployment problem.

Number of the people gone for foreign employment is higher in the rural area than urban area but average amount of remittance received and per capita remittance received seems significantly higher in the urban area than rural area. Number of the people involved in the foreign employment is highest in the Terai region which is followed by hilly region and mountain region. But average amount of remittance received is higher in the hilly region. Households receiving remittance is lowest in the Kathmandu valley and highest in the rural western Terai, but conversely average amount of remittance received is highest in the Kathmandu valley and mid and far west rural hills receives least.

In case of the development region, as we move to west from east the intensity of the labor gone for foreign employment in India increases but if we move opposite intensity to countries increases. Share of remittance received is higher from the countries, which is followed by India and other countries. In each of the development region, quarter to one third of the income is determined by remittance.

The study also shows the strong relationship between age of the donor and the inflow of the remittance. Labors under age 15, 45-59 and above 60 are negligible but the labors age group

between 15-29 and 30-44 is responsible for more than 90 percent of inflow of remittance. This shows the most productive age group is responsible for inflow of remittance.

While observing the distribution of remittance in terms of transfer from its origin, the domination of informal means of transfer seems to be dominant in case of India for transfer of remittance from India and nearer other foreign employment destinations self 52.5 percent, hundi 1.8 percent, friends 27.4 percent and relatives 7.1 percent are used. But in case of the Gulf countries and other countries financial institutions 61.3 percent, self 16.4 percent, 11.2 percent by friends and negligibly from others presence of formal sources like banks and financial institutions minimum 63 percent in Qatar and maximum 81 percent in Malasiya and there is negligible portion of informal sources.

It is obviously important dimension to analyze the utilization aspect of remittance. The recent household data survey shows that approximately 80 percent of the remittance received by household is spent on the consumption, followed by repay loan by 7.1 percent, 4.5 percent to purchase household property, 3.5 percent on the education and negligible for capital formulation by 2.4 percent. This shows that majority of remittance is spent on the consumption and other unproductive sector.

While observing output obtained from the specified model, both the private consumption and private investment are found to be positively affected by the inflow of remittance. Despite of extreme concentration of inflow of remittance to daily consumption, it has some positive effect on the private investment as well. Some remarkable investment on the heading education is really appreciable, it is due to expense on education is considered as long term investment for the human capital formation. It plays significant role for preparing fair human capital for prosperous future of the nation. Also the expense on the household property purchase, capital formulation and business has some positive effect on the economy for it prepares improved life standard, enhances living standard and helps in removing poverty.

Finally, in the context of liberalization and globalization throughout the world ranging from developing to developed economies, foreign employment and remittance has imparted distinct dimension not only in the domestic economy but also in the global economy as well. Foreign

employment and remittance has become hot issues everywhere in the world and even in Nepal after 1990. As in other developing economies, remittance and foreign employment has become significant macroeconomic phenomena in both household and national level. It has become source of funds, foreign exchange reserve and BOP corrective tool and way of living for the common people as well. Although remittance has been growing remarkably resulting structural transformation from agriculture economy to remittance economy, it has appeared with number of problems.

In case of Nepal, there are two problems regarding the foreign employment. First, active labor force is compelled to migrate for foreign employment due to lack of employment opportunities here resulting backwardness in development and second is lack of proper management in the foreign employment; it has appeared with the number of problems: excess concentration to consumption and unproductive expenditure with negligible investment.

Remittance and foreign employment in Nepal seems volatile due to over concentration in the countries and little diversification further poor situation of labor market and foreign employment in case of India with poor record system and lack of management. Also the illegal migration and migration in the restricted destination countries has invited miseries for migrants. Therefore, it is required to address such problems by nation without delay.

As per noticed by the exports, foreign employment and remittance is appeared with some strengths and some with problems, it is not vice itself. Government along with the concerned sector should pay due attention for correcting it and minimize the problems.

5.2 Conclusions

This study concludes based on objective shows the positive relationship between private consumption and remittance inflow in Nepal. The result of the regression analysis clarifies the remittance inflow into country increases the private consumption. Fundamentally, this study explores the relationship of remittance inflow and private consumption, it shows the positive effect of remittance to increase private consumption. The regression analysis using the data from 1992 to 2013 concludes that there is positive relation between private consumption and

remittance inflow and the nominal GDP. Also the pattern of inflow of remittance and private consumption is in increasing trend. The pattern of remittance inflow and migrant worker seems opposite in number, there larger number of migrant worker from rural area while inflow of remittance is larger in urban area. As we move from east to west there is domination of the migrant worker going to India and conversely there is domination of Gulf countries. Higher consumption quintiles are positively related to the migrants to the other countries than India and Gulf countries.

5.3 Policies Recommendations

No doubt remittance has dominant macroeconomic position in Nepal at both the household level and national level. Remittance has become way of life to the Nepalese youth due to lack of employment opportunities within the nation and attractive wage level in the destination countries and it has been the effective medium to overcome the piling international trade loss, maintaining balance of payment, manage unemployment labor force and maintain foreign exchange reserves. There may be numbers of positive and negative factors regarding the remittance and foreign employment situation in Nepal. But remittance inflow and foreign employment are not vice. Although, there are requirements of corrective actions, solid policies and strategy for diverting extremely consumption concentrated remittance inflow into productive sector for enhancing economic growth and creating desirable effects in economy. So, for such purpose government, private sector and concerned sectors have to pay due attention and work actively to make such earned remittance with toil by Nepalese labor force a component for prosperous Nepal. For this purpose following policies are recommended.

- 1. For management of returned migrants workers:** In the present scenario, there is not only outflow of the migrant workers to their destination but also the migrated workers are also returning back to Nepal and started to involve in the various productive activities by using the skills, knowledge, saving earned there. So, the government needs to prepare a solid framework for proper management of returned labor force and utilize such earnings for productive purpose. Which helps in two ways: on the one hand it generates the productive activities by using the skills, knowledge; saving etc of the migrant workers and on the other hand it generates the employment activities within the nation.

- 2. For preparation of skilled and trained labor force:** Basically Nepalese labor force is unskilled and semi-skilled and untrained and involved in low paid manual jobs, so, the government should have due concentration on preparation of skilled and trained labor force so that they can involve in better job with high payment. This really adds value on the Nepalese labor force and even in their earning.
- 3. About search of new destination for foreign employment:** Nepalese labor force has made countries and India as their destination for long period as the major destination for foreign employment with a little diversification of such destinations: USA, UK, Japan, Korea, EU nations, and rests. Also, in the countries and India there is low wage rate for the foreign employers as Nepalese labors but in the EU nations, USA, Japan, etc have higher wage rate, therefore, government should search new destinations with higher wage rate and even with the potentialities for learning foreign skills, technology, knowledge for the migrants labors so that they can start productive activities after returning Nepal.
- 4. About management of foreign employment situation:** Despite of several efforts of the government for improving the situation of the foreign employment, still there is a lot to regarding foreign employment situation. Still there are problems in the processing for foreign employment aspirants and in the foreign land. Still there are several problems to solve in the employment situation of India and countries. So, government should strengthened monitoring and evaluation for performance of the involved parties and more efforts are required for proper management of foreign employment situation. For this strong presence of DOFE is realized. This is possible by reforming, restructuring and proper work division of DOFE.
- 5. About national remittance policy formulation:** Although migrant workers' remittance income has emerged as one of the most important components in the Nepalese economy, influencing not only household consumption and investment patterns, but also the overall economic structure and dynamics and it has been ranked as the third nation in the world in terms of contribution of remittance in the GDP, no doubt it is not the rejecting fact, but also there is lack of remittance policy. Therefore, without any delay government should formulate national remittance policy and execute effectively for creating desirable effects of remittance inflows in nation.
- 6. About establishment of grievance hearing unit and its effectiveness:** Along with the growing trend of inflow of remittance, numbers of grievances are also increasing in the various steps of foreign employment. Within the country and in the foreign country numbers of complains are reported and these have been the national issues as well. For

prompt hearing and acting purpose a sound grievance hearing unit should be established and run effectively. This will be beneficial for the migrant workers.

7. About diversion of high daily consumption to productive investment: As the facts reveal that most of the part of the remittance is used for daily consumption and only negligible part of it is used for productive purpose which is not desirable therefore the government should have due concentration on the channelization of such inflow of remittance into productive investment. For this purpose following measures can be applied:

- I. Subscription of sufficient **Remittance Bond** with low price and reasonable return for incentive tax on return may be rebated. If the price is kept low then even the migrant worker with low earning will also be able to purchase such bond and reasonable return may attract them. For making easy turnover, financial institution can be utilized for discounting purpose.
- II. Concept of **Remittance Coupon** may be developed in which such coupon may be bought from central bank on the behalf of government with certain interest rate and it may be discounted in the financial institution. It makes easy access and investment of such small investment for long term and easy return earning.
- III. Government should motivate the migrant worker through **financial literacy programme** to open fixed accounts in the government banks under special provision and provide higher interest rates for longer period fixed accounts and interest tax may be rebated, for incentive early interest payment may be paid to the fixed capital holders. This helps, on the one hand, to channelize the daily consumed amount of remittance in to long term investment on the desired sector by government with formal financial system. On the other hand, it helps to strengthen the financial sector with extra injection of liquidity and new arena of investment. This may make the mega-projects requiring huge financial investment feasible with domestic investment.

8. About preparation of women friendly environment:

Nowadays, along with the male migrant workers number of female migrant workers is also remarkably increasing and their contribution on remittance is also significant. Unfortunately, numbers of complains and grievances are heard regarding difficult work place, gender discrimination, sexual harassment, abuse, punishment etc. so there is requirement of women friendly policy and employment opportunities are realized. Therefore, government should prepare such gender friendly environment in the foreign employment.

9. About apprentice worker program:

Although lots of youth are going for foreign employment in the different parts of the world even they are making better earning and even country enjoying huge inflow of remittance. But there is little possibilities of transfer of skills and technology which is primarily significant for entrepreneurship after returning to Nepal which is due to differences in the technological adoption between two countries. In this context, practice of apprentice worker is preferred. Government should make apprentice policy and prepare favorable environment for skill and technological transformation.

10. About practicing remittance diplomacy:

Nepal has diplomatic relations with 139 countries throughout the world ranging from underdeveloped to highly developed nations. As Nepal has huge number of labor force as aspirants for foreign employment. In search of new destinations for foreign employment, such relations may be helpful for making negotiations for foreign employment. Nepal may practice diplomacy for expanding horizon of foreign employment and remittance.

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Appendix :

Table (1) : Data used in the empirical model

Date	remittance	GDP	consumption	investment
1992/93	268.643	17147.4	13340.2	2550.9
1993/94	254.101	19927.2	15406.5	2865.2
1994/95	321.048	21917.5	16644.3	3330
1995/96	251.713	24891.3	19146.9	3845.7
1996/97	335.82	28051.3	21636.4	4140.2
1997/98	462.409	30084.5	23139.2	4280.2
1998/99	591.751	34203.6	26494.4	4138.1
1999/2000	840.0	37948.8	28794.7	4688.8
2000/01	1151.01	44151.9	30910.7	4676.3
2001/02	5095.209	45944.3	32919.9	4956.9
2002/03	5995.862	49223.1	35553.5	5579.6
2003/04	6073.88	53674.9	37405.7	7849.1
2004/05	8737.246	58941.2	45953.0	7803.8
2005/06	10506.86	65408.4	52781.4	8844.8
2006/07	12223.7	72782.7	57691.1	12869.2
2007/08	17726.41	81565.8	64108.5	14545.3
2008/09	22955.1	98827.2	77276.2	16676.1
2009/10	25843.14	119277.4	91,699.3	21,122.3
2010/11	30488.31	136695.4	102,212.6	22,892.4
2011/12	38826.7	152734.4	116,786.1	24,562.9
2012/13	48853.44	169264.3	132,436.3	31,109.9
2013/14	61728.65	192851.7	150,580.3	35,583.0

[Note: all the figures are in ten million]

(Source: MOF, NRB, WB)