

RESEARCH ARTICLE

REMITTANCE IN NEPAL: STATUS, TREND AND ECONOMIC IMPACTS

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ABSTRACT

This study assesses the trend, status, and economic impact of remittance in Nepal by using twenty years of data from 2002 to 2021. Remittance is the part of household income sent by individuals through their earnings from the foreign economy. Remittances are one of the major international financial resources in developing countries contributing significantly to national Gross Domestic Product. The data required for the study were obtained from secondary sources such as official reports of many organizations, research papers published in various journals, and other scientific documents. The data were analyzed with the use of descriptive statistics and correlation through MS-EXCEL. The trend of remittance inflow in Nepal is increasing. In terms of the amount of remittance received and share of remittance to Gross Domestic Product Nepal is in 19th rank in the world. Remittance shows a strong positive association with the national gross domestic product ($r=0.9817$), trade deficit ($r=0.96$), final consumption expenditure ($r=0.985$), and gross capital formation ($r=0.954$). Remittance and agricultural gross domestic product were negatively correlated ($r=-0.7715$) and with inflation, remittance showed a positive but low association ($r=0.315$). Though remittance is becoming an important source of income and is increasing household consumption levels, less use of remittance in the productive sector shows negative impacts on long-run economic welfare and sustainability. So, the government needs to formulate the plan, policies, and programs to encourage the use of remittance in long-term investment in productive sectors to promote the long-run economic growth of the country.

KEYWORDS

Economic growth, Economic indicators, Consumption, Trade deficit, Inflation

1. INTRODUCTION

Remittance is the part of household income sent by individuals through their earnings from foreign economies arising mainly from their temporary or permanent movement of them to those economies (IMF, 2009). Remittance includes all the monetary and non-monetary transactions made by an individual from a foreign economy. It is hard to estimate the exact amount of remittance received by the country as most of the transactions may take place through unofficial channels (Ratha, 2017). Worldwide, officially recorded international remittances have reached 672.46 billion US\$ in 2021 which is 2.18% more than that of 2020, with most part flowing to developing economies (World Bank, Data: The World Bank, 2022a).

Remittances are one of the major international financial resources (Meyer and Shera, 2017). Remittances provide enabling environment for the development of the capital market and monetary policies, especially in developing countries. They are more constant sources of income in developing countries than Foreign Direct Investment (FDI) and other private flows and also they are emerging as new strategies for poverty alleviation in those countries (Pant, 2008). The impact of remittance is not limited to households receiving remittance; it has wider impacts on the welfare of the whole community as well (Chhetri, Kc, and Dhakal, 2020). Remittance flow serves to develop remittance-receiving societies including increased consumption level, increased availability of health and education services, and promotion of business investment (Dhungana and Pandit, 2014).

Remittance helps in uplifting the national economy by providing foreign

exchange, raising national savings and investment, and providing a monetary source to finance essential imports (Pant, 2008). In most developing countries it is reported that most of the remittance received is invested in real estate and the consumption of goods and services. This may have a positive impact on the economy by stimulating the demand and supply of goods and services. But, on the other hand, the concentration of remittance mostly in the unproductive sector shows a deleterious impact on the economy (Pant, 2008). Increased inflation rate, reduced labor supply, and increased dependency are some negative impacts of remittance inflows, especially in developing countries where remittance has a significant share of the country's GDP.

Remittance has emerged as the backbone of the Nepalese economy in the last two decades and is becoming an important factor in the economic development of Nepal (Sah, 2019). Nepal is one of those developing countries receiving a high flow of remittance in South Asia by sending a large number of economically active populations to foreign countries for employment (Acharya and Poudel, 2021). In the past years, India was the major destination for Nepalese migrants, and most of the remittance used to come from India (Pant, 2008). But now a larger share of remittance comes from countries other than India. Nepal receives the highest amount of remittance from Malaysia and other gulf countries like Qatar, Saudi Arabia, and UAE (MoF, 2022). In Nepal, the remittance flow in 2021 has reached 8.2 billion US\$ amounting to 22.61% share of the GDP of the country (World Bank, 2022a). Since 2005, Nepal has earned more foreign exchange from remittance than export and foreign direct investment combined (World Bank, 2022b). Remittance has contributed 27% to the reduction of poverty in Nepal and has increased the access of Nepalese households to necessities (World Bank, Nepal Development Update, 2022b).

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Dependency of the Nepalese economy is now shifting from the agriculture sector to remittance (MoF, 2022). According to MoF (2022), Around 5.7 million Nepalese workforce is abroad in the search of employment opportunities as of 2021/22. Increased dependency on the Nepalese economy in remittance has reduced agricultural production in the country and the population engaged in agriculture has also reduced drastically over the years. Most of the remittance flow in Nepal is being used in fulfilling basic needs such as food, education, health care; loan repayment, and real estate (Poudyal and Bhaskar, 2020). Even though the volume of remittance received has increased over the years in Nepal, the use of the received remittance in the productive sector has not increased much (Chhetri et al., 2020). On top of that brain drain, increased dependency on remittance, slow economic growth, and inadequate agricultural labor availability are some serious issues in the Nepalese economy.

Remittance has a significant share in Nepalese GDP and the amount of remittance received is growing year after year. It has both positive as well as negative impacts on the country's economy but very few studies have been done to assess and analyze its impact on the Nepalese economy. The broad objective of the study is to examine the status, progress, and financial impact of remittances in Nepal. The specific objectives are to analyze the trend of remittance inflow in Nepal, assess the contribution of remittance to the GDP of Nepal over the years, and analyze the impact of remittance on various economic indicators in Nepal.

2. METHODS AND METHODOLOGY

The study is mainly based on secondary data obtained from official reports of the World Bank, International Monetary Fund (IMF), Asian Development Bank (ADB), Ministry of Finance (MoF); research papers published in international and national journals, and other scientific documents. The collected data was examined using descriptive statistics in MS-EXCEL and SPSS. The status and trend of remittance inflow in the

world, South Asia, and Nepal is presented using bar charts and line diagrams. Similarly, the relationship between remittance and other economic indicators (GDP, Agricultural GDP, Gross Capital Formation, Consumption Expenditure, Inflation, and Import-Export) is analyzed using trend analysis, line diagram, and correlation analysis.

3. RESULT AND DISCUSSION

3.1 Status of Remittance Inflow in The World

In the year 2021, the total remittance inflow is estimated to be 672.46 billion US\$ which is 2.12% higher than that of the year 2020. India is the highest remittance-receiving country for the year 2021 with a total remittance inflow (remittance received at current price) of 89.37 billion US\$. Other countries under the top five are Mexico, Philippines, France, and Egypt respectively. The total remittance received by Nepal in 2021 is 8.20 billion US\$ which is 1.2% higher than the previous year's remittance received by Nepal which was 8.10 billion US\$.

3.2 Remittance Received as A Percentage Share of GDP

The contribution of remittance to national GDP was found highest in Tonga where remittance covers 45.49% of national GDP making the country highly dependent on remittance. Other countries with the highest contribution of remittance to GDP are Tajikistan, Kyrgyz Republic, Samoa, and Gambia respectively which fall under the top 5 countries of the world with the highest contribution of remittance to national GDP. In Nepal, the share of remittance to the national GDP for the year 2021 is 22.60%. Nepal comes under the top 15 countries with the highest contribution of remittance to national GDP. The rank of Nepal in terms of remittance received to national GDP is 9th. This shows that Nepal is also one of those countries in the world whose economy is highly dependent on remittance received.

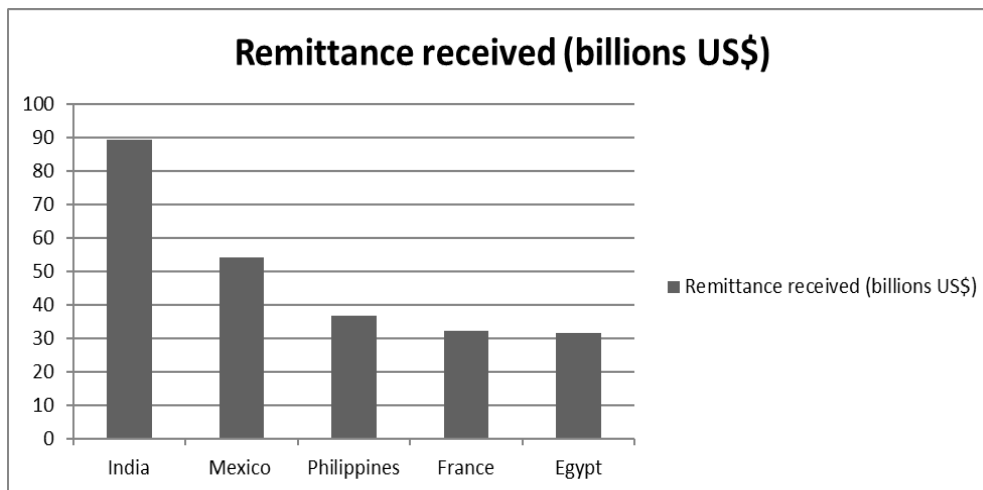


Figure 1: Top five remittance-receiving countries in the world, 2021
Source: World Bank, 2022

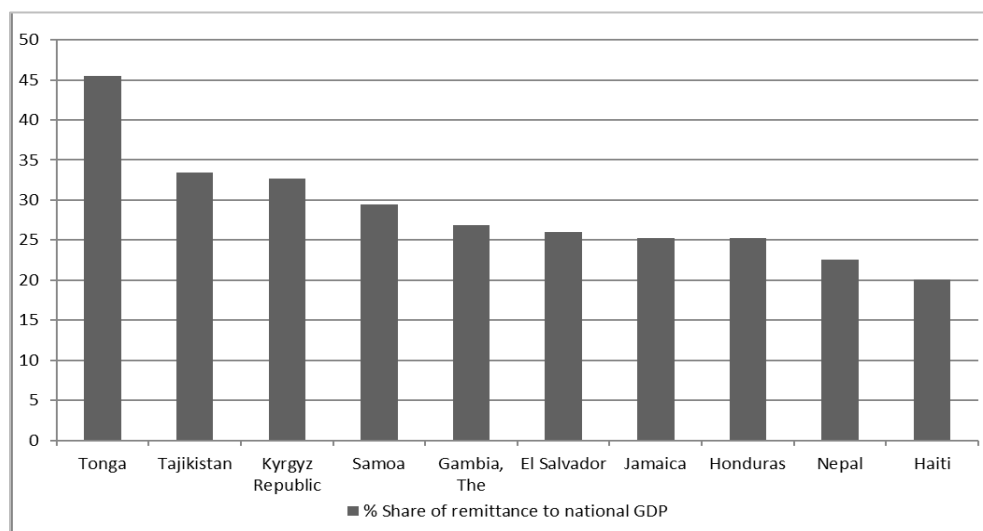


Figure 2: Top five remittance-receiving countries by their contribution to national GDP
Source: World Bank, 2022

3.3 Status of remittance inflow in South Asia and Nepal

India is the largest remittance receiver among the South Indian countries followed by Pakistan. India received a total of 89.37 billion US\$ in 2021. Nepal is the 4th largest remittance receiver in South Asia with a total of

8.20 billion US\$ remittances received in the year 2021. Though the amount received seems small as compared to that of India, its contribution to the national GDP of Nepal is higher. In terms of the percentage of remittance share to national GDP, Nepal comes at the rank of 1 in South Asian Countries followed by Pakistan and Srilanka.

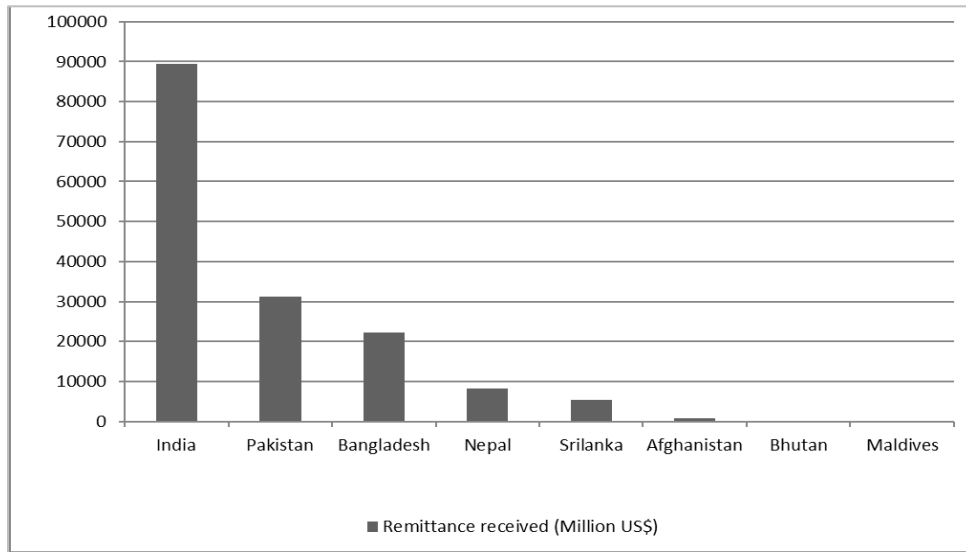


Figure 3: Remittance inflow in South Asia
Source: World Bank, 2022

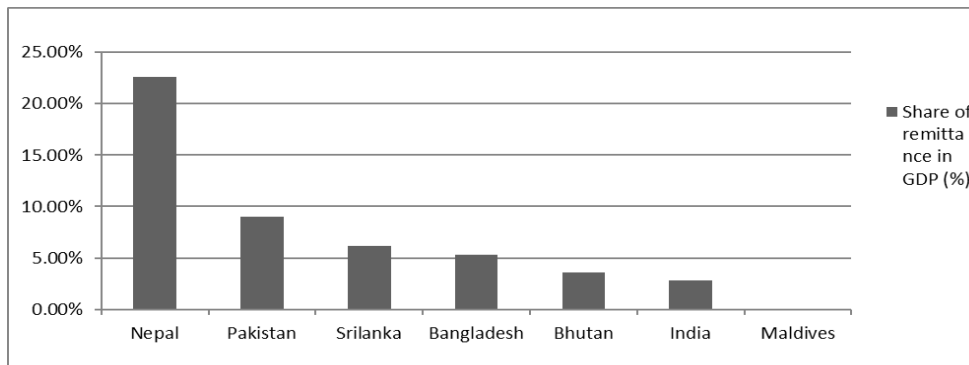


Figure 4: Share of remittance in GDP in South Asia
Source: World Bank, 2022

3.4 Destination of Nepalese Labor Force Earning Remittance

Most of the Nepalese labor force is moving towards foreign countries in search of better employment. Malaysia, Qatar, the United Arab Emirates, Kuwait, Bahrain, and Oman are the most prime locations for Nepalese

laborers. Malaysia ranks first among the destinations of Nepalese migrants engaging 27.6% of the Nepalese labor force followed by Qatar (26.7%), Saudi Arabia (20.8%), UAE (14%), and Oman (14%). Besides these countries, India is also one of the destinations for Nepalese migrants engaging a significant workforce.

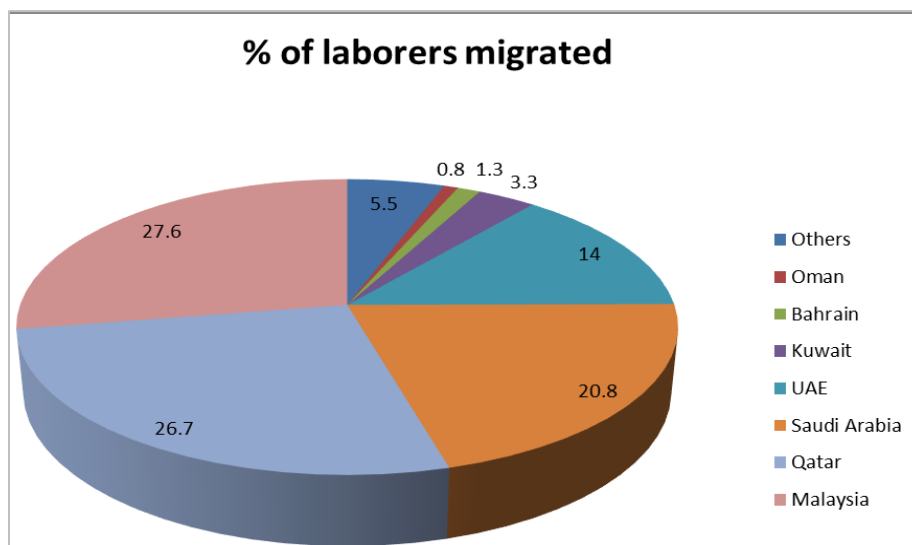


Figure 5: Nepalese workers in foreign employment by country
Source: MoF, 2022

3.5 Trend of National GDP And Remittance Inflow in Nepal

Twenty years of data from 2002 to 2021 shows the remittance received in increasing trend along with national GDP. In the year 2021, the total GDP of Nepal is 36.29 billion US\$ which is 8.5% more than that in 2020 whereas Nepal received 8.2 billion US\$ remittances which are 1.2% higher than the previous year. The rise in remittance from 2017 to 2018 is steeper than in the other years whereas there is a fall in GDP from the year 2019 to 2020 and remittance from the year 2018 to 2020. From 2020 to 2021 there is a rising trend in GDP and remittance though the rise in remittance received is slower than in the previous years.

Correlation analysis between national GDP and remittance received shows a positive and strong correlation ($r=0.9817$) at a 10% level of significance (α). This shows that with an increased amount of remittance inflow economic growth of the country also accelerates. According to Ekanayake and Moslares (2020), in developing countries remittance is one of the most stable sources of household income. Remittance affects economic growth by improving credit constraints on the poor, raising national savings, and contributing to the development budget of the country (Ekanayake and Moslares, 2020). Remittance improves economic growth due to its positive impact on consumption and investment (Meyer and

Shera, 2016). The remittance received has shown a positive impact on the Nepalese economy as it is a major source of household income for most households (Ojha, 2019). In a study conducted by Uprety (2017), increased investment does not change investment but increases consumption in the country leading to the deterioration of national GDP in long run. According to Pant (2019); productive use of remittance in entrepreneurial activities and investment enhances long-term economic growth by creating better job opportunities and increasing the income of the people.

3.6 Relationship Between the Share of Remittance And Share of Agriculture In GDP

The figure shows the trend of the contribution of remittance and agriculture to the National GDP. The share of remittance in GDP is increasing over the years whereas that of agriculture is decreasing from 36.15% in 2002 to 21.32% in 2021. In the year 2015, the share of remittance was the highest (27.62%) The period from 2013 to 2016 shows the period with the highest share of remittance to the national GDP. In the latest years from 2020 to 2021 remittance share has been reduced by about 2% through the amount of the remittance received is higher in 2021 than in 2020.

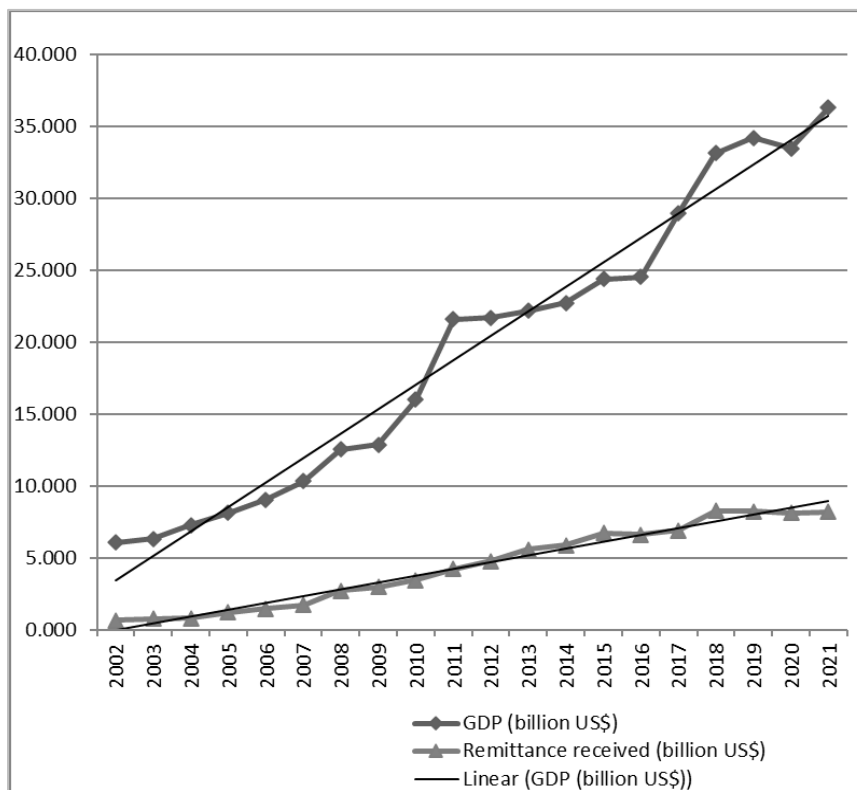


Figure 6: Trend of national GDP and remittance inflow in Nepal
Source: World Bank, 2022

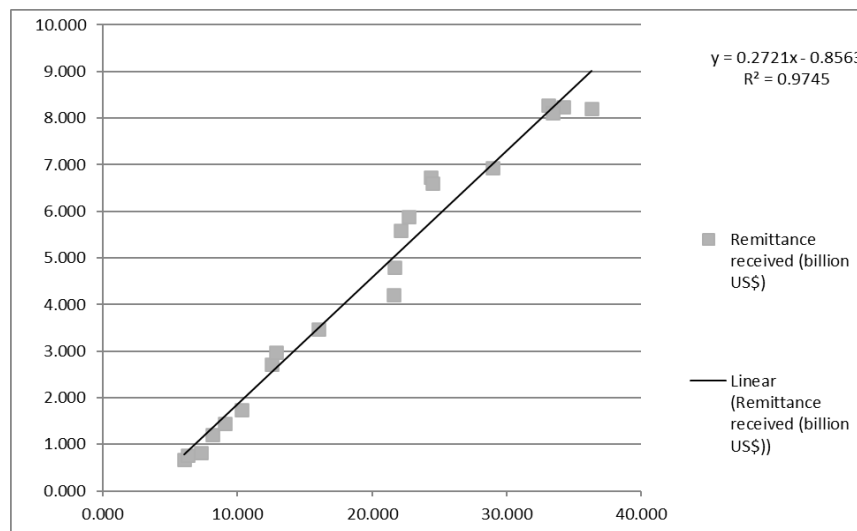


Figure 7: Scatter plot diagram showing the relationship between remittance and GDP

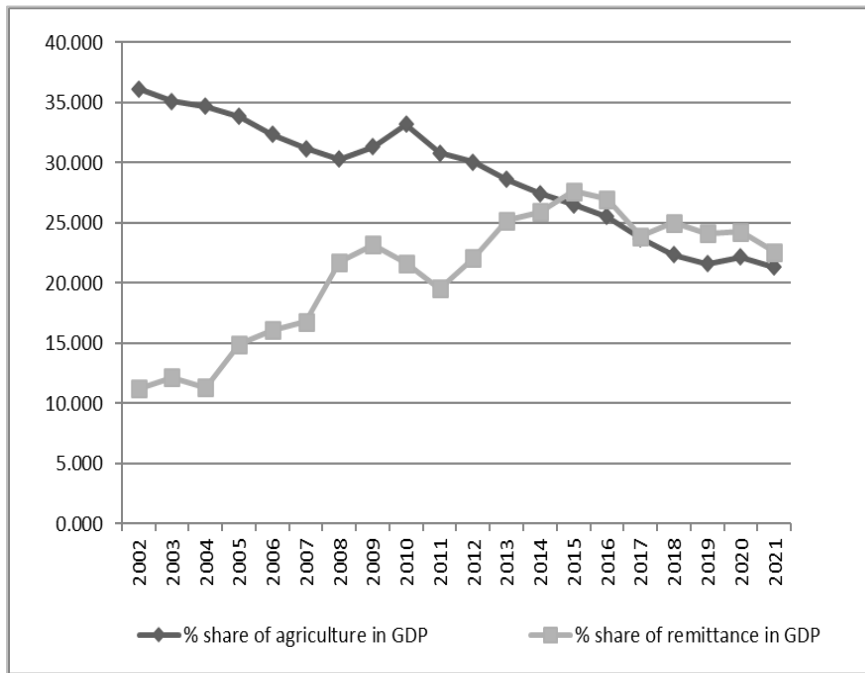


Figure 8: Relationship between Agricultural GDP and remittance
Source: World Bank, 2022

Correlation analysis between the share of remittance in GDP and the share of agriculture, fisheries, and forestry in GDP shows a negative association between these variables with a correlation coefficient (r) value of -0.7715 ($\alpha=0.1$). This illustrates that there is an opposite relationship between AGDP and remittance GDP in Nepal, which means that when one rises, the other drops. According to Tuladhar, Sapkota, and Adhikari (2014); remittance has resulted in decreased agricultural production as migration induces agricultural labor shortage, and also the remittance-receiving households have shown an increased level of consumption but their investment in the agriculture sector is not increasing. The study conducted by Jaquet, G., Kohler, and Schwilch (2016) has shown an increasing trend of land abandonment, decreased on-farm production, and increased dependency on imported agricultural products with increased remittance received. Remittance-receiving households are not increasing investment in the agriculture sector in most cases rather remittance is being used in the off-farm sector or luxurious consumption of goods in Nepal (Maharjan et al., 2013).

3.7 Relationship Between Remittance and Inflation in Nepal

The trend of remittance is increasing from 2002 to 2021 except in the years 2011, 2009, and 2019 to 2020. However, the trend of the inflation

rate is fluctuating reaching to lowest in 2007 (2.27) and highest in 2009 (11.09). For the year 2021, the remittance-based GDP is 22.61, and the inflation rate is 4.09% in Nepal.

The relationship between the rate of inflation and the share of remittance in national GDP shows a positive but low correlation (0.315) at a 10% level of significance. In Nepal, with increased remittance inflow, the level of consumption has increased but the use of remittance in productive sectors is not significant which ultimately leads to inflation (Maskey et al., 2014). According to there is no significant relationship between the inflation rate and remittances since remittance may not have a direct influence on the size of the economy (Upadhyay and Upadhyay, 2011).

3.8 Relationship Between Remittance Received, Export and Import

Remittance inflow, export, and import are in increasing trend in Nepal. Though the export value is significantly lower than the import indicating a large trade deficit it is increasing from 2002 to 2015 but decreased from 2016 to 2017 and from 2019 to 2021. In 2021 the total import value is 14.008 billion US\$ and the total export value is 1.89 billion US\$ showing a trade deficit of 12.118 billion US\$. The trend shows that the trade deficit is widened with increased remittance over the years.

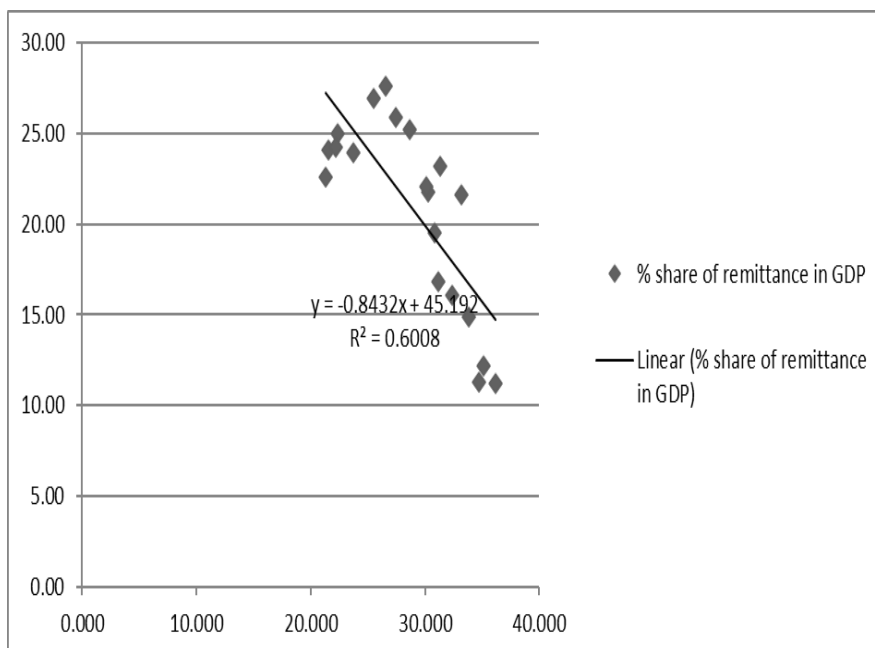


Figure 9: Scatter plot diagram showing the relationship between agricultural GDP and remittance-based GDP

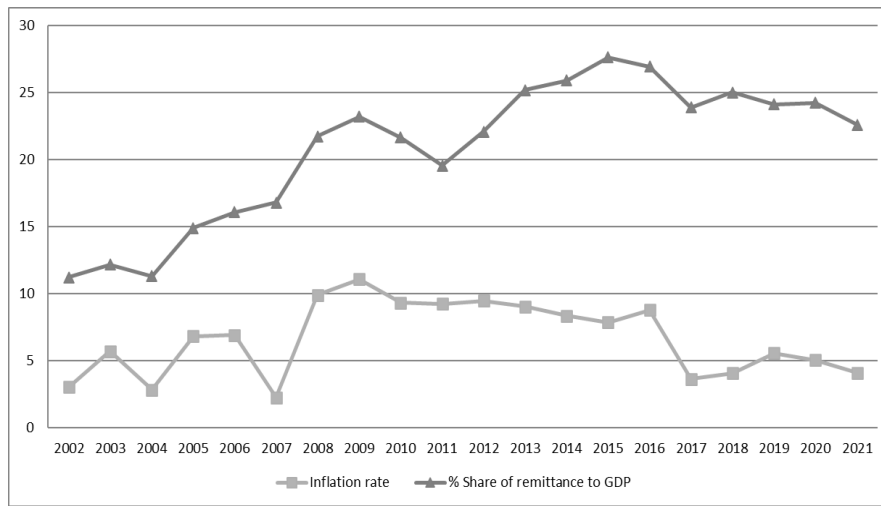


Figure 10: Relationship between inflation rate and share of remittance to GDP
Source: World Bank, 2022

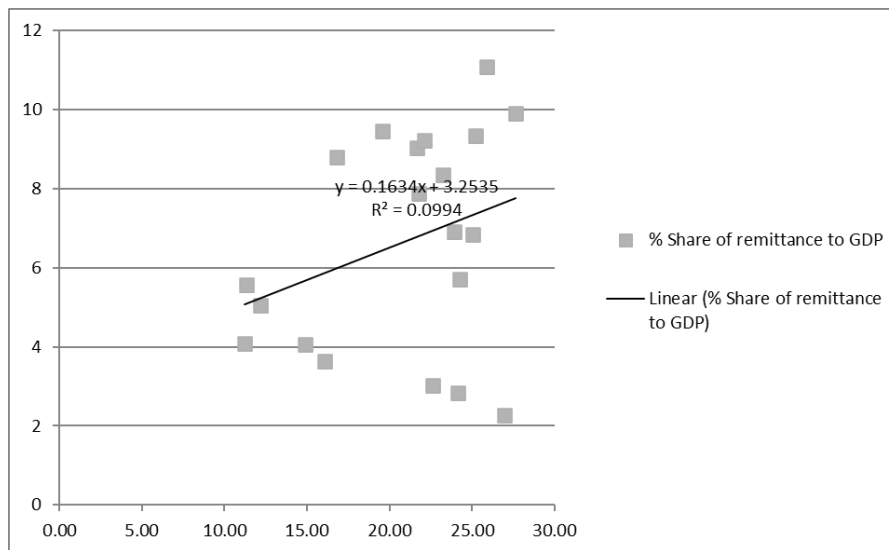


Figure 11: Scatter plot diagram showing the relationship between inflation rate and share of remittance to GDP

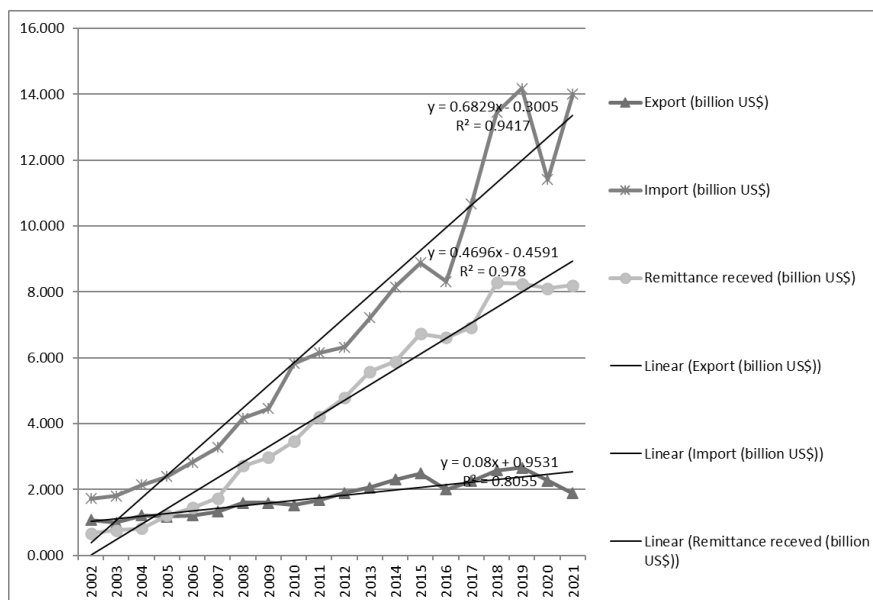


Figure 12: Relationship between Remittance received, Export and Import
Source: World Bank, 2022

The correlation analysis between remittance and trade deficit shows a positive and significant relationship ($r=0.96$) between the variables at a 10% level of significance. This means as the remittance of the country increases trade deficit also increases. In the study conducted by Tung (2018), Remittance has a strongly negative effect on the trade balance of the country as increased income leads to increased consumption of goods

and services. Overdependency on remittance rather than employing youths of Nepal in the productive sector within the country has led to a greater trade deficit and a reduction in export value (Paudel and Bhusal, 2021). Increased consumption led by remittance inflow and lack of investment opportunities in the productive sector has resulted in increased imports in Nepal (Dhungana, 2011).

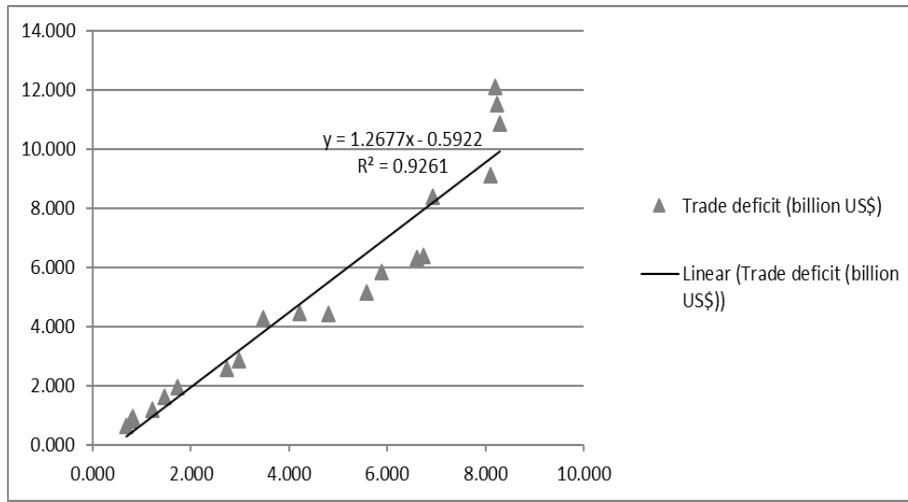


Figure 13: Scatter plot diagram showing the relationship between Remittances received and trade deficit

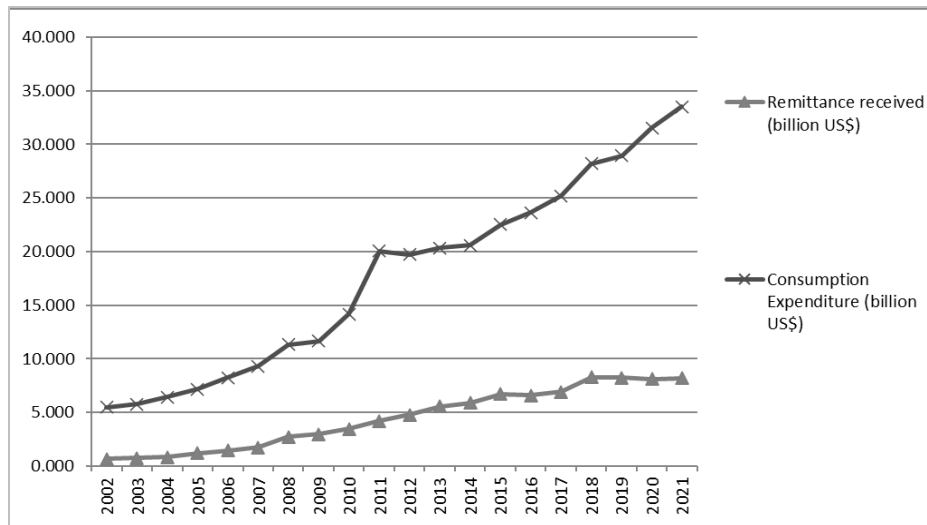


Figure 14: Relationship between consumption expenditure and remittance inflow
Source: World Bank, 2022

3.9 Trend and Relationship Between Consumption Expenditure and Remittance Inflow

Twenty years trends from 2002 to 2021 show both remittance and consumption expenditures increasing in Nepal. In the year 2021, final consumption expenditure has reached 33.5 billion which is 6.3% more than that in 2020.

The relationship between remittance received and final consumption expenditure is strongly positive with a correlation coefficient of 0.985 at a 10% level of significance. This shows that with increased remittance level

of consumption also increases. Remittance increases the level of consumption in individual households as remittance-receiving households tend to spend more on goods, education, and health services (Thapa and Acharya, 2017). In Nepal remittance is being used mostly in household consumption and real estate rather than in productive economic sectors increasing our dependency on foreign countries for income, goods, and services (Dhakal and Oli, 2020). Remittance-receiving households have higher annual consumption expenditure than non-receiving households which may transmit a positive effect on the local economy but with increased consumption, our overdependency on imported goods exerts a negative impact in the longer run (NRB, 2012).

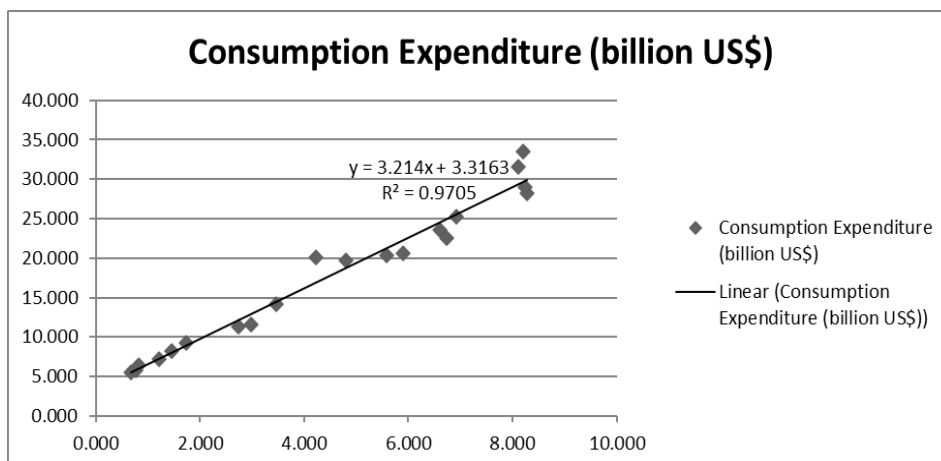


Figure 15: Trend and relationship between consumption expenditure and remittance inflow
Source: World Bank, 2022

3.10 Relationship Between Remittance and Gross Capital Formation

Gross capital formation is growing over the years from 2002 to 2020. In 2021, the gross capital formation is found to be 12.99 billion US\$ increasing from 10.18 billion US\$ in 2020. Remittance and gross capital formation show a strong positive association with a correlation coefficient

of 0.954 at a 10% level of significance. According to Chaudhary (2022), most of the remittance received in Nepal is being used for household consumption rather than in the productive economic sector. Only about 1.1% % of remittance is being used in capital formation in Nepal while above 23.9% of it is used in daily household consumption (Khadka and Adhikari, 2022) .

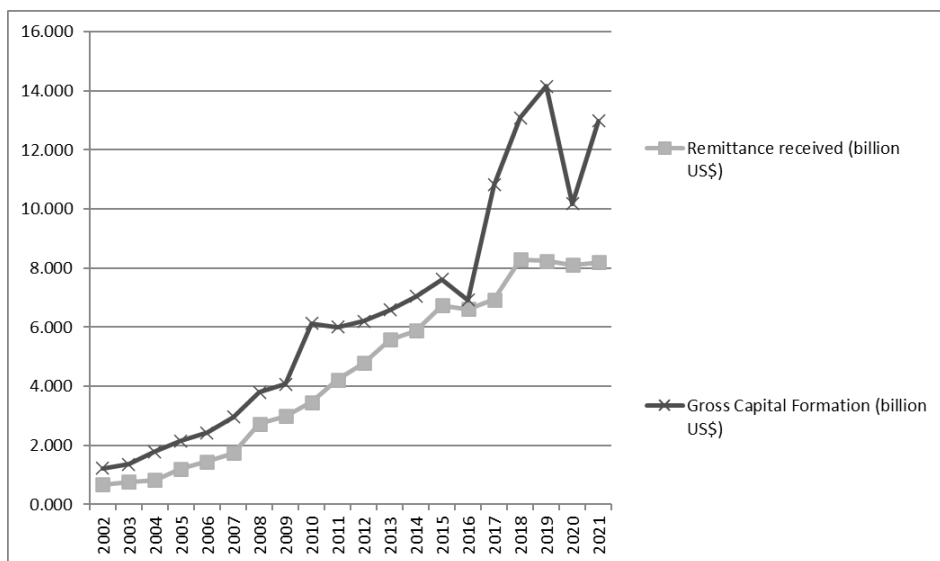


Figure 16: Relationship between remittance and gross capital formation
Source: World Bank, 2022

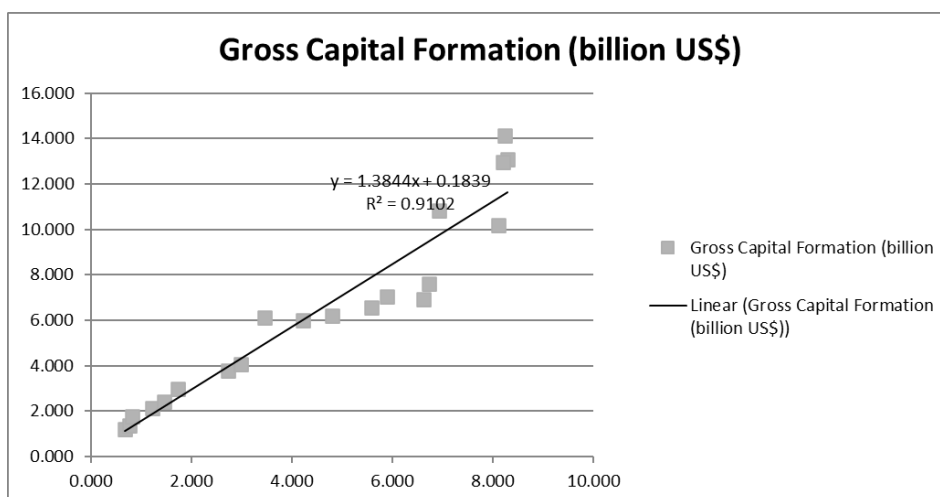


Figure 17: Scatter plot diagram showing the relationship between remittance and gross capital formation

Table 1: Status and Trend of FDI and Remittance Inflow in Nepal		
Year	FDI net inflow (Million US\$)	Remittance received (Million US\$)
2011	94.02	4216.89
2012	91.95	4792.51
2013	74.18	5583.70
2014	30.40	5888.65
2015	51.90	6729.94
2016	106.00	6611.84
2017	196.27	6928.13
2018	68.26	8286.63
2019	185.56	8244.47
2020	126.63	8107.74
2021	196.33	8203.26

Source: World Bank, 2022

3.11 Status of FDI and Remittance Inflow in Nepal

Remittance is found to be the largest source of foreign currency in Nepal even more than foreign direct investment (FDI). Foreign direct investments are the investment made by a country to some foreign countries.

In Nepal, the FDI inflow for the year 2021 is found to be 196.33 million US\$ whereas the remittance inflow is 8203.26 million US\$. Remittance increases FDI inflow also increases by providing relevant information and reducing uncertainty and FDI inflow increases remittance by providing development funds to the country so the relationship can be called complementary (Zardoub and Sboui, 2020).

4. CONCLUSION

With increased globalization trend of migrating abroad in search of better job opportunities and higher studies is increasing in Nepal. As more people are migrating to foreign countries to earn income remittance inflow to the country is increasing. Remittance has become the largest source of foreign currency in Nepal. With increased remittance flow, GDP, Foreign Direct Investment, Gross Capital Formation, Consumption Expenditure, and Trade Deficit are also increasing. While agricultural GDP and land available to agriculture are decreasing with increased remittance. Moreover, a very little portion of remittance received in Nepal is being used in the productive economic sector while most part is being used in daily household consumption. Less investment and more consumption are making us more dependent on a foreign country and increasing the trade deficit of our country. The inflation rate is also increasing in Nepal as the money income is increasing in the form of remittance increasing the level of consumption but production has not increased significantly. All these situations are very conducive to widening the gap between rich and poor. The use of remittance in non-productive sectors may show a positive impact on the economy by raising household consumption levels and reducing poverty in the short run but in long run may lead to economic deterioration. Also, the migration of youths to a foreign country has led to a labor shortage, especially in the agriculture sector leading to low agricultural production in the country. So, the government needs to formulate plans, policies, and programs to encourage the use of remittance in long-term investment in productive sectors to promote long-run economic growth and sustainability. So, the government needs to formulate plans, policies, and programs to encourage the use of remittance in long-term investments in productive sectors to promote the long-run economic growth of the country.

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