Demand Analysis on Remittances in Nepal
Insights into the financial behavior and preferences of migrant families
Remittances in Nepal: an overview

Facts on remittance inflow in Nepal
- Nepal received US$6.9 billion in remittances in 2017.

Remittances account for 28.4% of Nepal's GDP (World Bank, 2017).

Monitoring migration in Nepal
- However, unofficial migration numbers are not included. For example: India and other destinations.

Top destination countries for Nepali migrants
- Malaysia 24.8%
- Qatar 21.5%
- Saudi Arabia 20.3%
- UAE 10.6%

*Source: Labor Migration & Employment Research- GON, 2016-17
## The Problem Statement

How to channel remittances through the formal financial sector for migrants and their families to access remittance-linked use-cases and unlock capital to fuel domestic economic development?

<table>
<thead>
<tr>
<th>What has been done?</th>
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<tbody>
<tr>
<td>Remittances have helped alleviate poverty, increase household consumption and boost investment in human capital. (Damodar Pant, 2017; Sharma et al, CESLAM)</td>
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<td>NRB has rolled out a suite of policies to support the financial sector. (Reimbursement of remittance fees to banks, expansion of branchless banking and licensing more remittance companies) (Source: Approaches to the Productive Use of Remittances, ICIMOD)</td>
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<tr>
<td>50 remittance companies are licensed; Most class “A” banks are in the remittance business.</td>
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<td>Agent banking has been widened to support remittance transactions.</td>
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<table>
<thead>
<tr>
<th>Overall impact of remittances</th>
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<tbody>
<tr>
<td><strong>Macro-level</strong></td>
</tr>
<tr>
<td>✓ Dutch-Disease Symptoms: Appreciation of real exchange rate, increase in prices of non-tradable goods.</td>
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<tr>
<td>✓ Reduced fiscal discipline.</td>
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<td>✓ Reduced incentives for policy reform.</td>
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<td><strong>Micro-level</strong></td>
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<td>✓ Remittances have led to rural impoverishment and low socio-economic development in many cases. (Maharjan et al, Beatrice Knerr, 2017).</td>
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<tr>
<td>✓ Remittances are mostly channeled into household consumption.</td>
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<tr>
<td>✓ Little capital formation and/or asset building has taken place.</td>
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<tr>
<td>✓ Migrant families save little.</td>
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<tr>
<td>✓ Out-Migration costs are funded by informal channels.</td>
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</tbody>
</table>
Our Approach with the Pilot

For UNCDF access to finance is a bridge between remittances and socio-economic development.

UNCDF is partnering with Laxmi Bank, an Class “A” financial institution to develop customer-centric, deposit and credit products for international migrants and their families. Here are the three main objectives of the project:

1. Enable migrants and their families to save remittance income through formal channels, helping them create a wealth stock, capital and social security funds (for returnee migrants as well)

2. Enable low-cost access to credit for migrants and their families to build capital for businesses, create and sustain livelihoods, pay off high-cost existing debt and smooth consumption.

3. The use of digital innovations to streamline technical processes that facilitate seamless cross-border deposit and credit transactions and to create a data bank to build transaction and credit histories.
Content

- Key Research Themes
- Sampling Methodology
- Beneficiary Profile
- Remitter Profile
- Saving Profile
- Credit Behavior
- Product Preferences
- Decisions
- Conclusion
Key Research Themes

To get a broad understanding and some pointers into the financial behavior and preferences of migrant families.

Beneficiary Profile
- Demographic information.
- Income status.
- Knowledge of products/remitter status.

Remitter Profile
- Demographic information.
- Information on remittances (amount, frequency, channels).
- Decisions.

Credit Behavior
- Borrowing patterns.
- Source of borrowing.
- Costing.
- Preferences.

Savings Profile
- Expenditure patterns.
- Savings behavior.
- Use of formal/informal channels to save.
- General purpose of savings.
- Product preferences.

Household
- Decision making.
- Awareness.

This study is not
- An attempt to form cause-effect relationships.
- A statistically robust study.
- A definitive guide to understanding migrant families and their financial lives.

This study is
- A means to pick up on trends/patterns that can act as pointers for further investigation, iteration and testing.
Sampling Methodology

This study relies on convenience and purposive sampling principles. Justifications:

- We are fairly confident that migrants in a particular location more or less behave in homogenous ways as indicated by a multitude of academic studies that have similar findings, and as we will see in our own market research.

- Banepa, Panchkal and Janakpur migrant beneficiaries could be said to represent the target population of migrant families in Banepa, Panchkal and Janakpur respectively.

- Banepa-65, Panchkal-26 and Janakpur-90 respondents were interviewed with a survey questionnaire by Banepa, Panchkal and Janakpur bank branch staff, supervised by Laxmi Bank officials and UNCDF project lead. Respondents were interviewed over 2 weeks (Dec 5th- Dec 18th, 2018).

Target Population: Families of Nepalese migrants who receive remittances

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Population Size</th>
<th>Province</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banepa</td>
<td>55,528</td>
<td>3</td>
<td>65 (30*)</td>
</tr>
<tr>
<td>Panchkal</td>
<td>35,340</td>
<td>3</td>
<td>26 (30*)</td>
</tr>
<tr>
<td>Janakpur</td>
<td>173,924</td>
<td>2</td>
<td>90 (30*)</td>
</tr>
</tbody>
</table>

Source: Nepal Census, 2011

* Minimum sample size recommended by DCED for a MoE of 5% and confidence level of 95%
57% of the respondents are in the age range of **25-39** years, followed by **26%** in the age band of **40-60** years.

58% of the respondents are **women**.

84% of respondents are **married**.

 Majority of respondents are educated up-to **12th class**.
Across the board, respondents own agricultural land and/or residential house. There is regional variation for other assets, however. 16.67% of the respondents in Jankapur owned an automobile whereas fewer than 5% of respondents in Banepa and Panchkal indicated as such.

Gold is predominantly owned by Panchkal respondents.

Janakpur residents also indicated that they owned 23.3% liquid investments(other).
Beneficiary Profile: Occupation

✓ **Panchkal** is largely **agrarian**.

✓ **Banepa** is equal parts **agrarian** and equal parts **business/self employment**.

✓ **Janakpur** is mixed: **Business/self employment** dominates followed by **domestic work** and **agriculture**.
Remitter Profile

- Majority of remitters belong to the age range, **25-35 years**, followed by **35-50 years**.
- The **spousal relationship** dominates the remitter and beneficiary relationship, followed by sibling.
- Overwhelmingly, remitters tend to be **men**.
- **Services industry** is the dominant migrant occupation followed by **manufacturing** and **construction**.
✓ **Banepa and Panchkal** show similar patterns among respondents apropos of **borrowing** for **out-migration**. Sources that dominate are friends and relatives and own savings and income.

✓ **Jankapur**, on the other hand, indicates a different phenomenon. The dominant source for **borrowing** is **local moneylenders**.
Banepa and Panchkal show a diffusion across savings buckets. The 10-20% savings bucket dominates for Banepa whereas Panchkal residents are concentrated in the 20-30% bucket.

Jankapur respondents are heavily concentrated in the less than 5% and 5-10% buckets.
✓ **Smoothing consumption** is more or less a general reason for savings both in Banepa and Janakpur but not Panchkal.

✓ **Purchase of household assets** including land is a dominant purpose to save in both Banepa and Panchkal but not Janakpur.

✓ **Business capital** ranks low for all three locations.

✓ **Health and education** rank moderately high for all three locations.
88.4% of respondents indicated that they own savings accounts already. Recurring accounts and fixed deposits are not popular products.

Account usage is low. 26.5% of respondents indicated that they use their savings accounts ranging from more than once a month to very frequently.
All 90 respondents from Janakpur indicated that the remitter is male.

In the lower savings buckets for Banepa, Panckhal and Janakpur the beneficiary gender gap is quite low.

This gender gap gets wider as we move up the savings buckets. For Janakpur in particular, the reverse gender gap could mean that women are largely left out of the remittances equation.
In the 20-30% bucket, respondents receive high remittance income and also have relatively high income in Nepal, supporting the notion that income is tied to saving.

In the 10-20% bucket, respondents have higher income in Nepal and receive fairly high remittance income (most of them are concentrated in the NPR 60-80k remittance segment).

In the 5-10% bucket, respondents receive moderate remittance income (60-80K segment is the highest for this bucket) and this segment also has moderate income in Nepal. Yet, savings is low.
✓ In the >30% bucket, respondents receive high remittance income and also have high income in Nepal, supporting the notion that income is tied to saving.

✓ However, the results in the 5% and 5-10% buckets shows that higher incomes does not always lead to higher savings.
Savings & Expenditure Patterns

- **Food and education** are important expenses across the board. Spending on education is lower in the higher buckets (Varied reasons: Perhaps as migrants move up the mobility ladder, investment in human capital becomes less of a priority).

- **Health** is a significant expense only in the 10-20% bucket.

- **Repayment of existing loans** is seen across the board but is substantially high for those in the lowest bucket. In fact, it could be one of the reasons why these families save less.

- **Investment in assets** is witnessed only in the 5-10% and 10-20% buckets.

- **Investment in business** is witnessed starting from the 5-10% buckets but is highest for the 20-30% bucket.
✓ **Family size** and **savings** do not indicate consistent correlation. The lower buckets tend to be big families with about 3-4 dependents. However, this is the case with higher buckets as well. In fact, for Janakpur, majority of the respondents indicated 1-2 dependents for their families.

✓ Other factors such as **expenditure patterns** and **income** probably interact with family size.
Credit Behavior: Banepa

**SOURCE OF BORROWING**
- Friends/Relatives
- Group Lending
- Local Moneylenders
- Banks/MFS/Coops

**PURPOSE OF BORROWING**
- Business/Income-Generating Activity
- Smooth Consumption
- To pay for education/health
- To buy property/assets
- Pay off existing loans

**SAVING PATTERNS AMONG BORROWERS**
- >30% of income
- 20-30% of income
- 10-20% of income
- 5-10% of income
- 5% of income

- Only **16.9%** of the respondents indicated they had borrowed at some point in their lives for reasons other than financing out-migration costs.
- About **64%** of them borrow from informal networks such as friends and relatives.
- These borrowers tend to be from the lowest savings segment.
- The dominating purpose for borrowing is business activity, followed by investment in assets.
Credit Behavior: Janakpur

✓ 33.33% of the respondents indicated they had borrowed at some point in their lives for reasons other than financing out-migration costs.
✓ About 57% of them borrow from banks/cooperatives followed by 40% of respondents that borrow from local moneylenders.
✓ These borrowers also tend to be from the lowest savings segment.
✓ The dominating purposes for borrowing are business activity, investment in assets and smoothing consumption.
An overwhelming majority (84.4%) indicated that they prefer using a regular savings account.

Purpose for future borrowing is predominantly investment in long-term assets specifically immovable property followed by short overdrafts to smooth consumption.

A good majority indicated that they do not use their mobiles to transact but would like to use it more. However, most respondents (from Janakpur particularly) indicated they are not interested in digital (mobile) banking.
Household: Decision-making & awareness in Banepa

- Majority of Banepa residents indicated **joint decision-making** in their households apropos of how remittances are spent.
- When asked if they knew about the **remitters’ saving status**, an overwhelming majority indicated they **weren’t aware**.
Household: Decision-making & awareness in Janakpur

- Majority of Janakpur residents indicated **beneficiary-led decision-making** in their households apropos of how remittances are spent.
- When asked if they knew about the **remitters’ saving status**, an overwhelming majority indicated that they knew that the remitter saved abroad.
# Conclusion

## Savings
- Savings is related to income and expenditure on some level.
- Cultural influences and common perceptions around formal financial sector impact income and expenditure patterns.
- Beneficiaries save primarily to smooth consumption, buy household assets, fulfill health and education needs.
- Repayment of existing loans is noticed among low savings buckets.

## Credit
- Low borrowing patterns from banks/ MFIs/ cooperatives overall.
- Significant use of informal networks in the surveyed regions.
- Top reasons for borrowing include purchase of long-term assets, building business capital and consumption smoothing.

## Gender
- Gender gap among remitters is high across regions (predominately male remitters).
- However, the gender gap among beneficiaries in the lower savings buckets is not as stark across regions.

## Product preferences
- Banepa and Panchkal respondents are highly interested in digital finance.
- Janakpur respondents indicated reservations with adopting digital finance.
- Saving account is the most preferred deposit product across regions.
- Long-terms loans to purchase assets and short-term overdrafts to smooth consumption are the most preferred credit products.

## Decision-making
- Joint household decision-making is a common practice among Banepa respondents while beneficiary-led household decision making is the norm among Janakpur respondents.
- Banepa respondents are largely unaware about the remitter’s savings status whereas majority of the Janakpur respondents seemed to indicate the opposite.
We partner with **Private and Public** stakeholders ... ... to leverage **innovation** and **technology** ... to build inclusive digital economies that service the SDGs