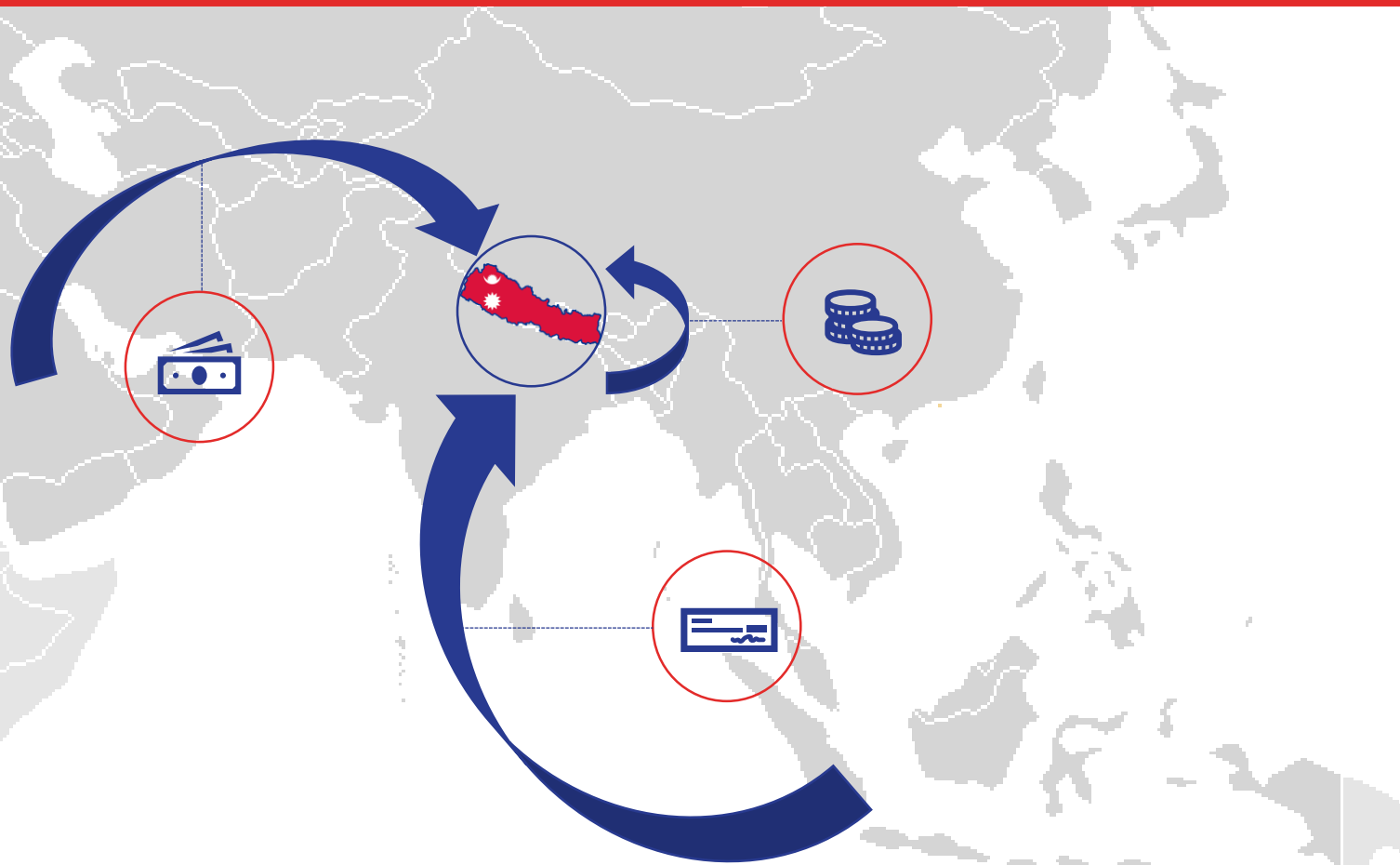



# Demand Analysis on Remittances in Nepal

Insights into the financial behavior and preferences of migrant families

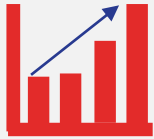


# Remittances in Nepal: an overview

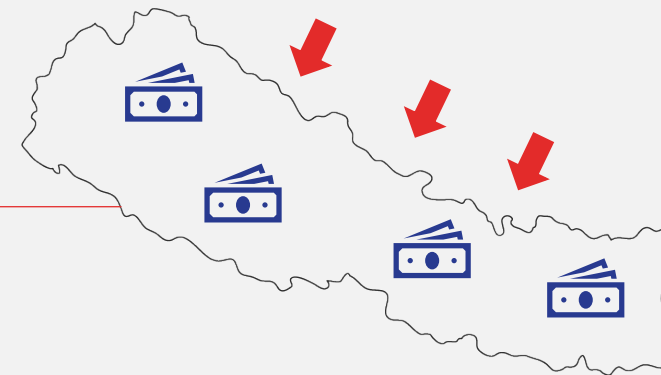
## Facts on remittance inflow in Nepal



Nepal received US\$6.9 billion in remittances in 2017



Growing by a factor of 62 from US\$111 million in 2000 (World Bank, 2017)



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

## Monitoring migration in Nepal



The DoFE issued 382,871 international labor permits in 2016-2017



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?

What has been done?	Remittances have helped alleviate poverty, increase household consumption and boost investment in human capital. (Damodar Pant, 2017; Sharma et al, CESLAM)	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)
	50 remittance companies are licensed; Most class "A" banks are in the remittance business.	Agent banking has been widened to support remittance transactions.
Overall impact of remittances	<p>Macro-level</p> <ul style="list-style-type: none"> <li>✓ Dutch-Disease Symptoms: Appreciation of real exchange rate, increase in prices of non-tradable goods.</li> <li>✓ Reduced fiscal discipline.</li> <li>✓ Reduced incentives for policy reform.</li> </ul>	<p>Micro-level</p> <ul style="list-style-type: none"> <li>✓ Remittances have led to rural impoverishment and low socio-economic development in many cases. (Maharjan et al, Beatrice Knerr, 2017).</li> <li>✓ Remittances are mostly channeled into household consumption.</li> <li>✓ Little capital formation and/or asset building has taken place.</li> <li>✓ Migrant families save little.</li> <li>✓ Out-Migration costs are funded by informal channels.</li> </ul>

# 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.

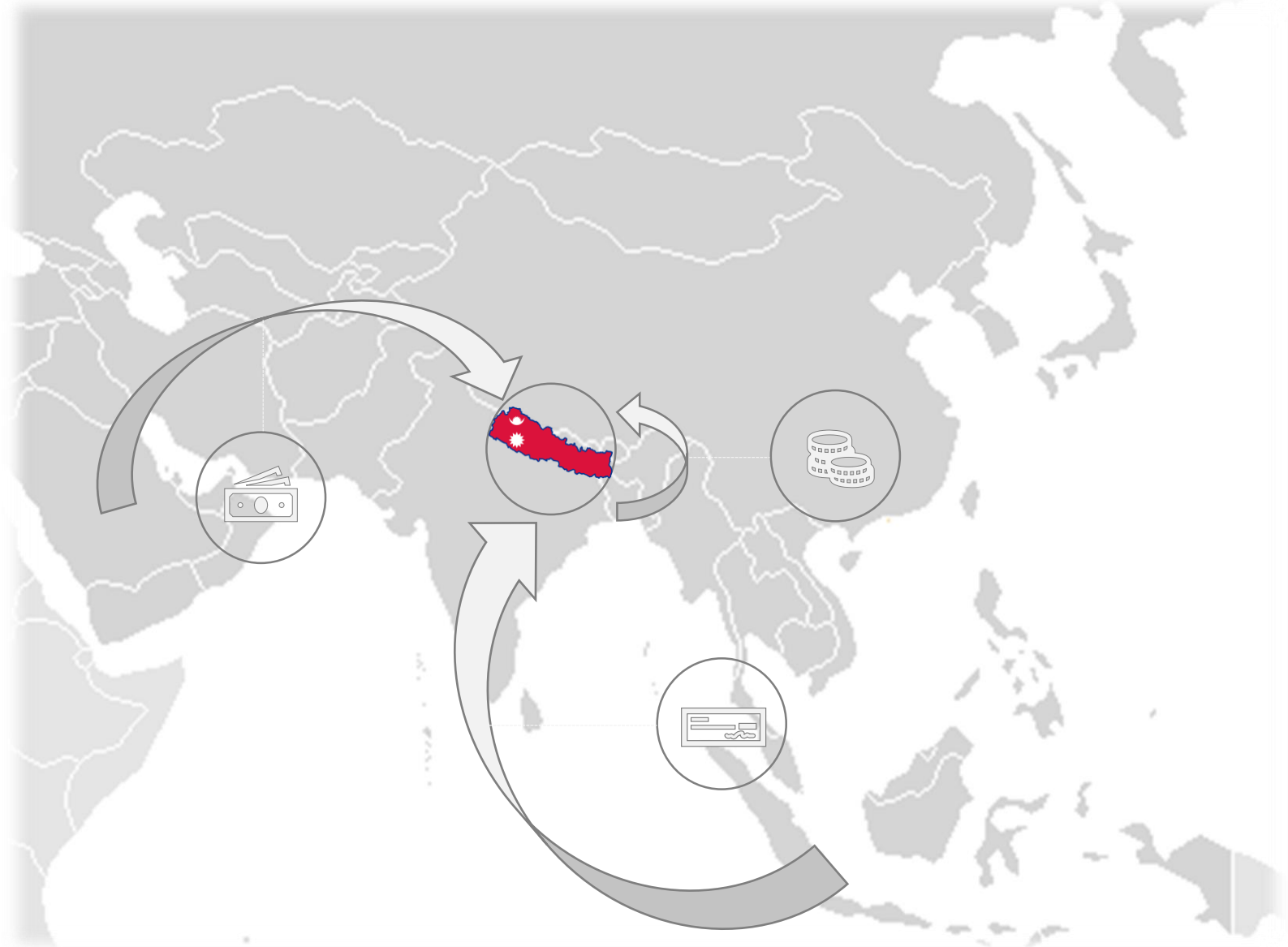
3.



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 5<sup>th</sup>- Dec 18<sup>th</sup>, 2018).

## Target Population: Families of Nepalese migrants who receive remittances

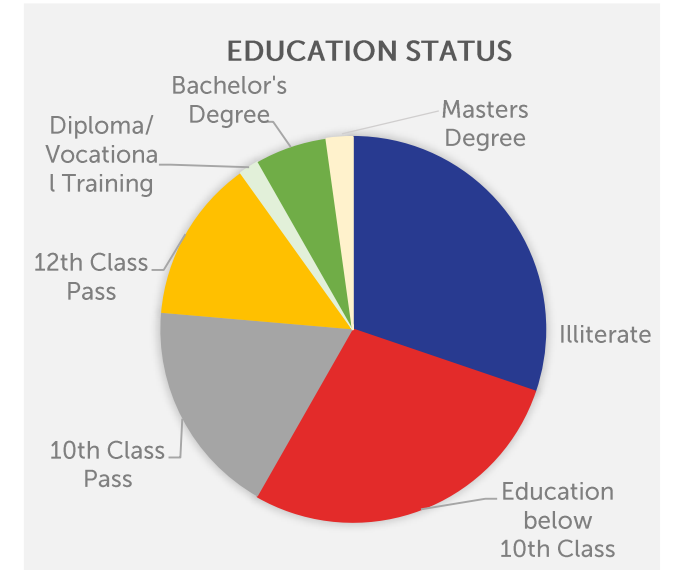
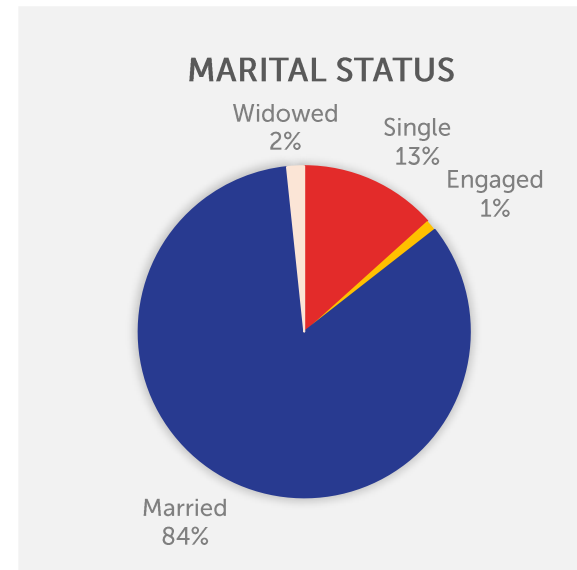
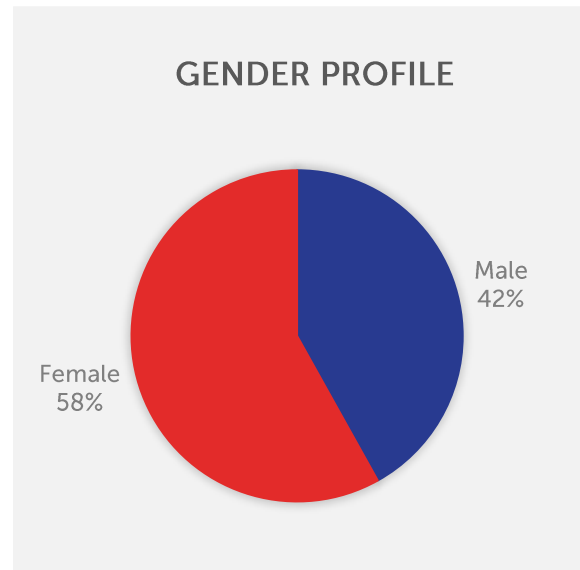
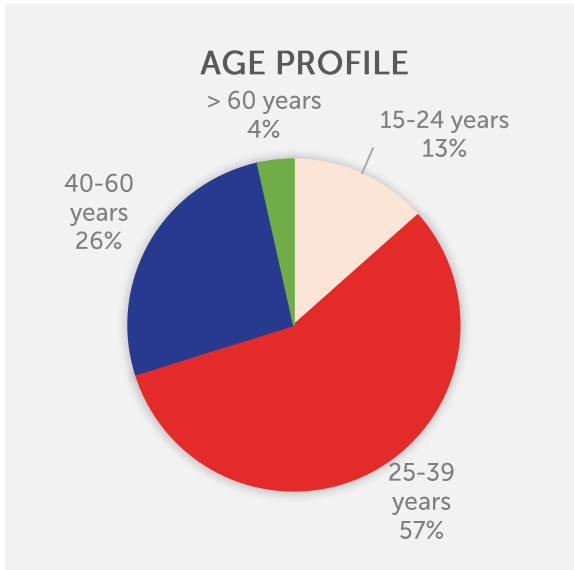
Municipality	Population Size	Province	Sample Size
Banepa	55,528	3	65 (30*)
Panchkal	35,340	3	26 (30*)
Janakpur	173,924	2	90 (30*)

Source: Nepal Census, 2011

\* Minimum sample size recommended by DCED for a MoE of 5% and confidence level of 95%



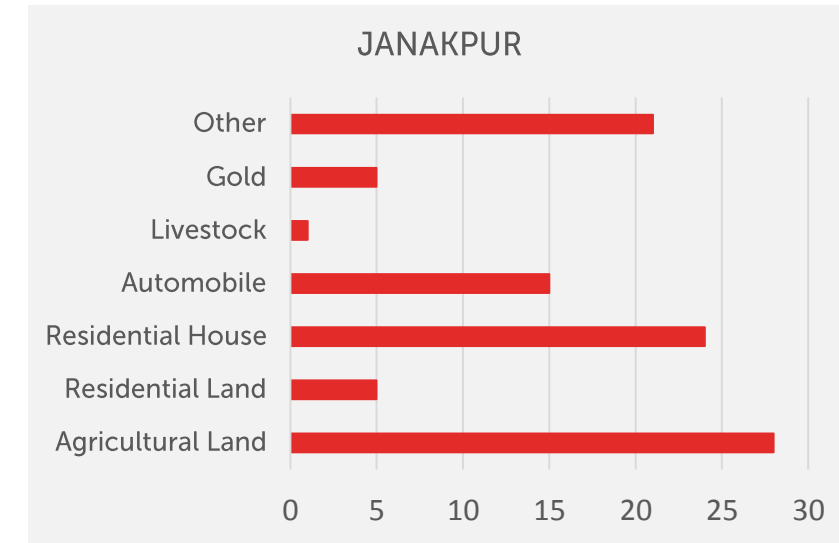
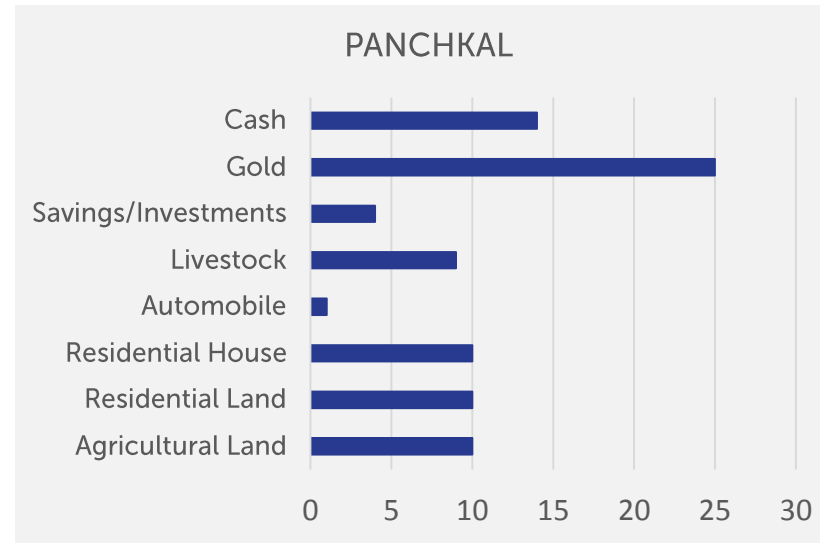
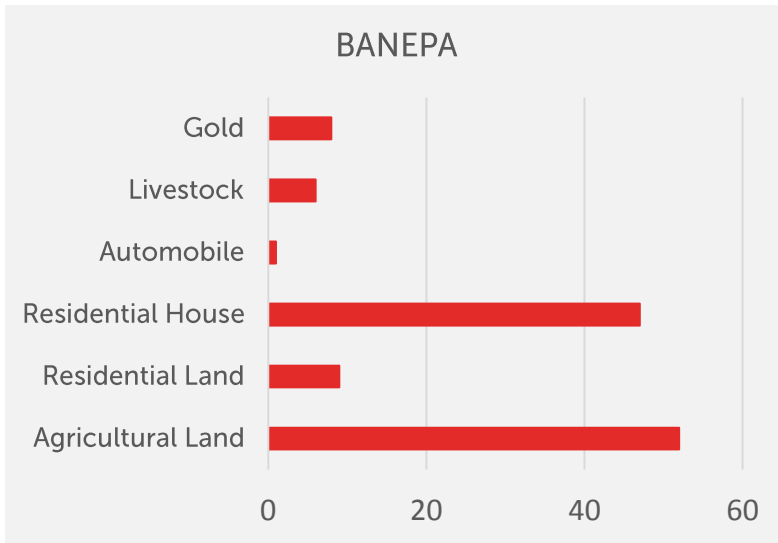
# Beneficiary Profile



- ✓ 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 12<sup>th</sup> class.



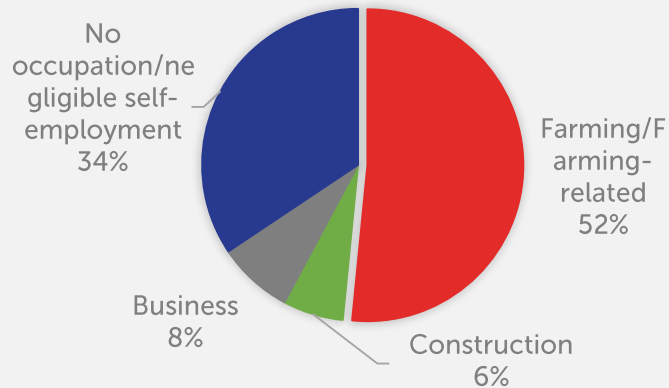
# Beneficiary Profile: Assets



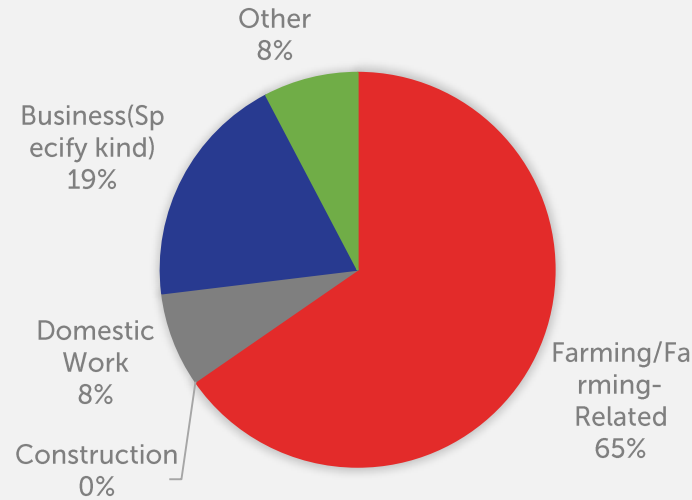
- ✓ Across the board, respondents own **agricultural** land and/or **residential house**.
- ✓ There is regional variation for other assets, however. **16.67%** of the respondents in **Jankapur** owned an **automobile** whereas fewer than **5%** of respondents in **Banepa** and **Panchkal** indicated as such.
- ✓ **Gold** is predominantly owned by **Panchkal** respondents.
- ✓ **Janakpur** residents also indicated that they owned **23.3%** liquid investments(other).

# Beneficiary Profile: Occupation

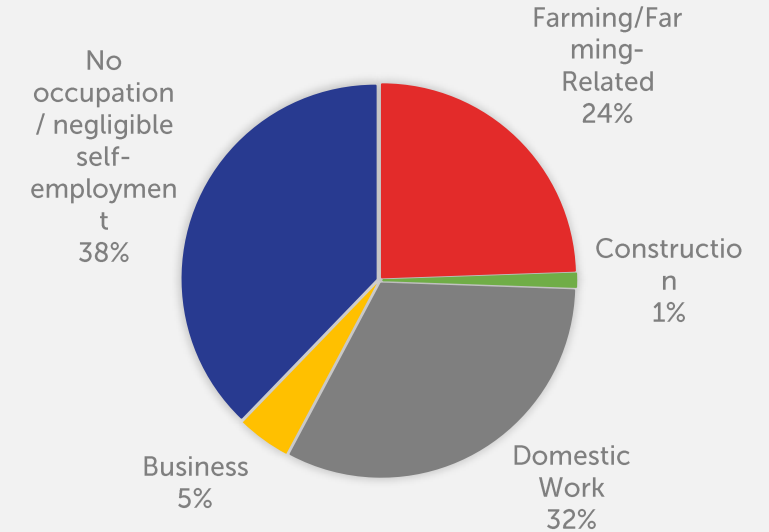
BANEPA



PANCHKAL

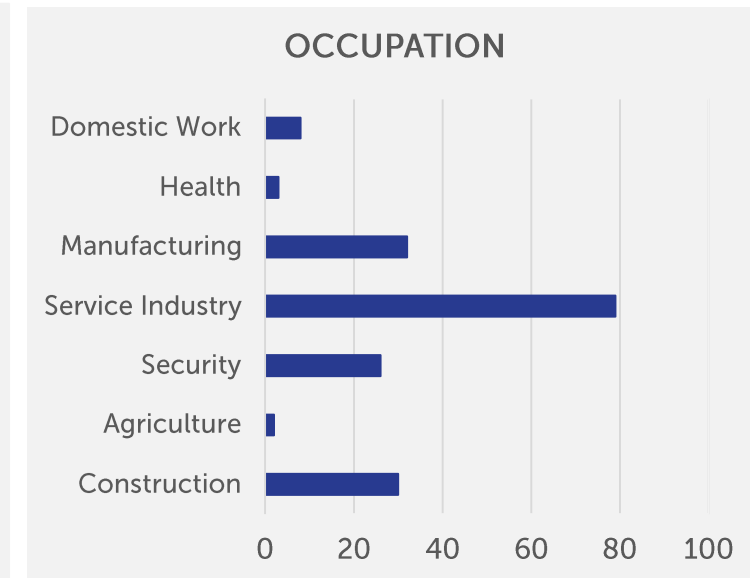
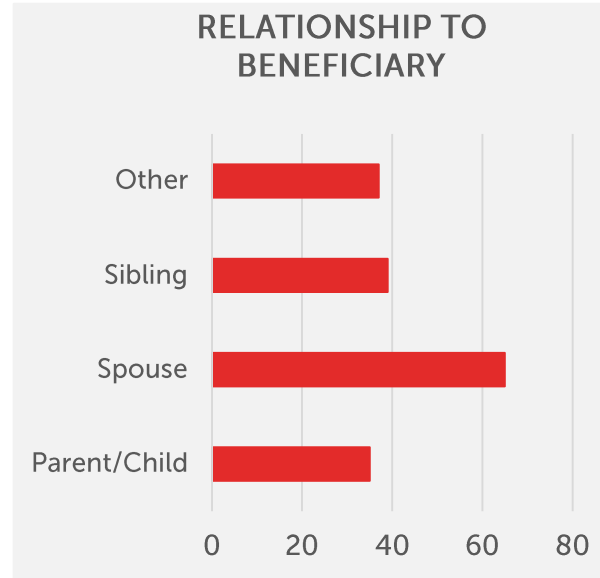
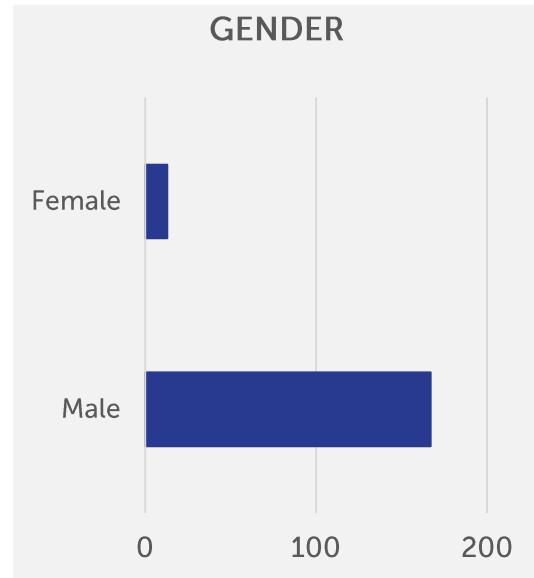
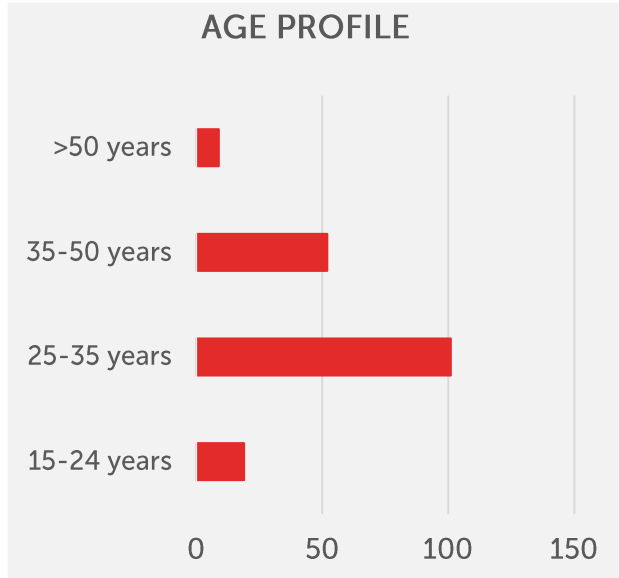


JANAKPUR



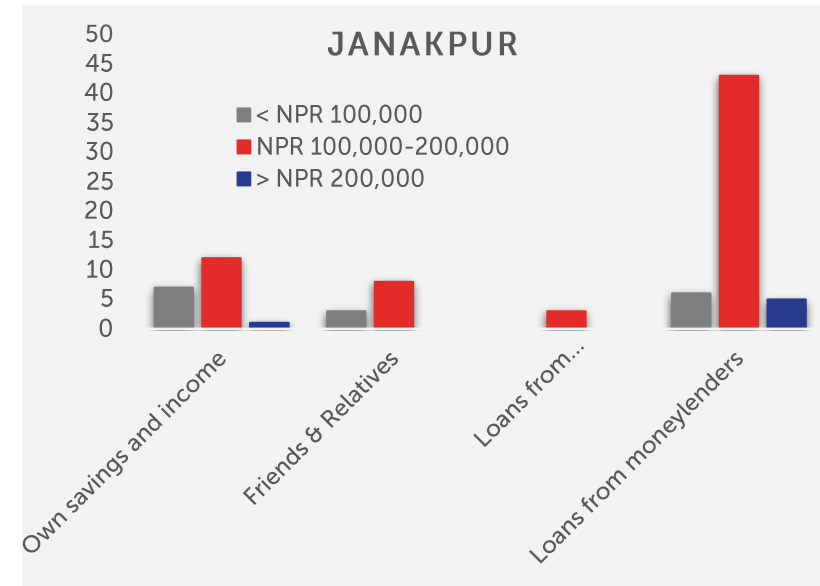
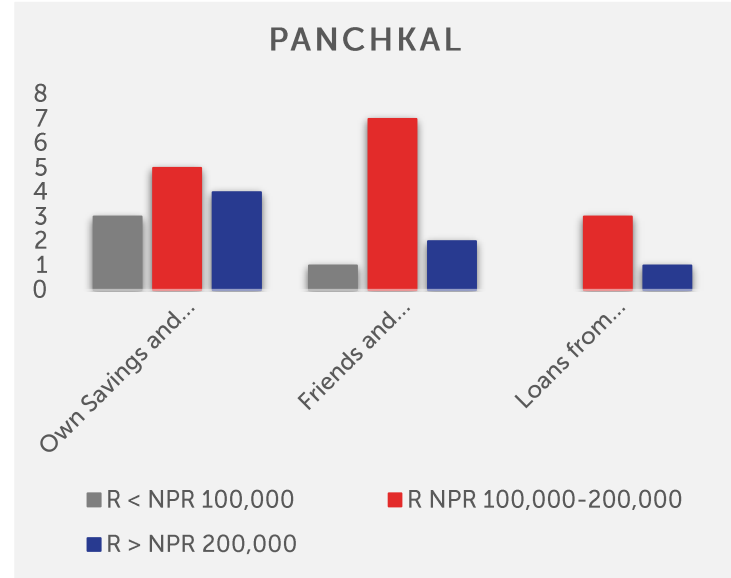
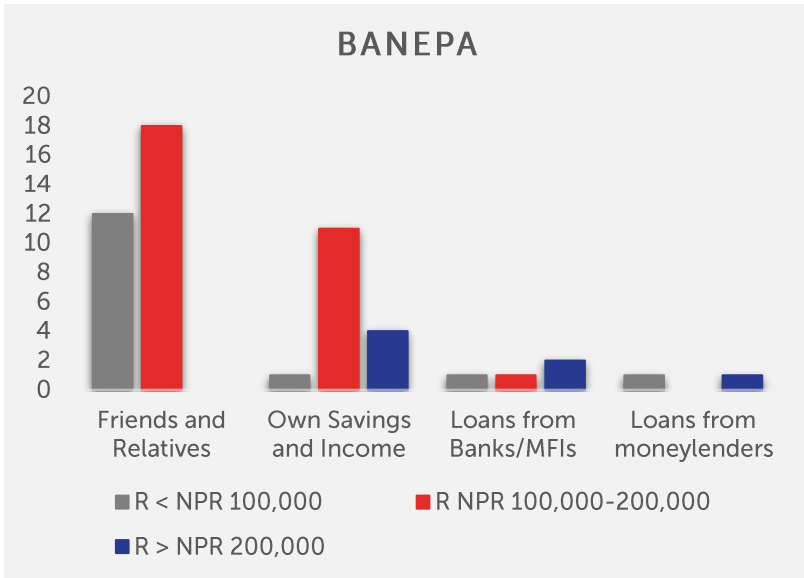
- ✓ **Panchkal** is largely **agrarian**.
- ✓ **Banepa** is equal parts **agrarian** and equal parts **business/self employment**.
- ✓ **Janakpur** is mixed : **Business/self employment** dominates followed by **domestic work** and **agriculture**.

# Remitter Profile



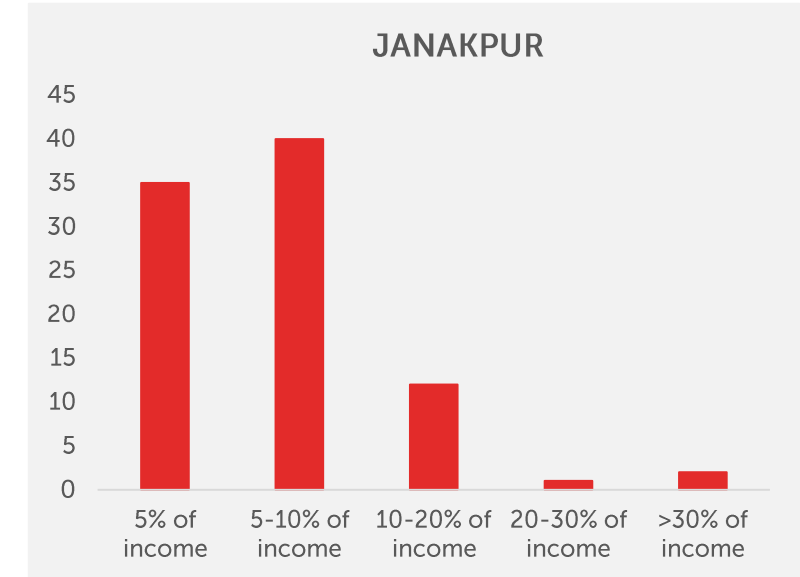
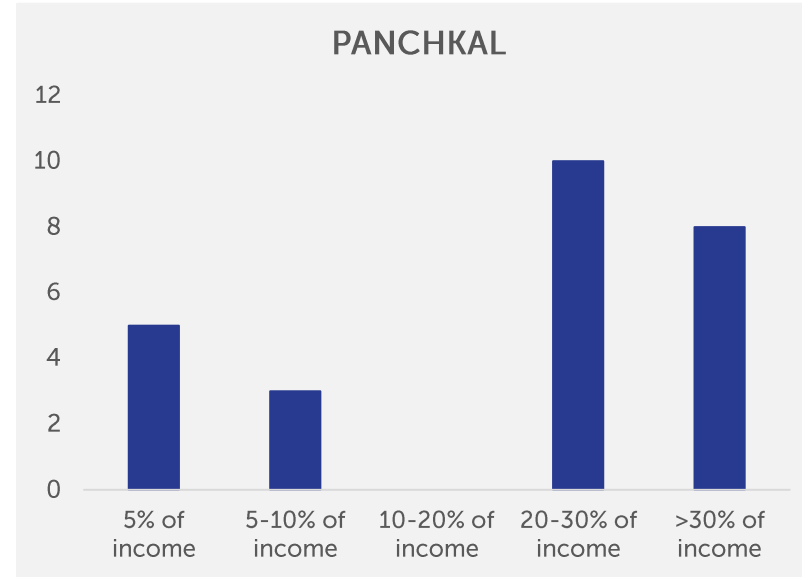
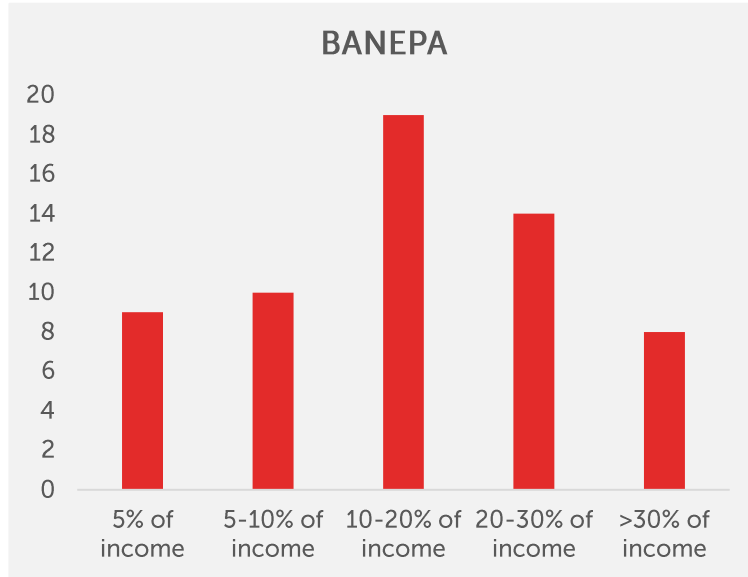
- ✓ Majority of remitters belong to the age range, **25-35 years**, followed by **35-50 years**.
- ✓ The **spousal relationship** dominates the remitter and beneficiary relationship, followed by sibling.
- ✓ Overwhelmingly, remitters tend to be **men**.
- ✓ **Services industry** is the dominant migrant occupation followed by **manufacturing** and **construction**.

# Remitter Profile: Funding out-migration



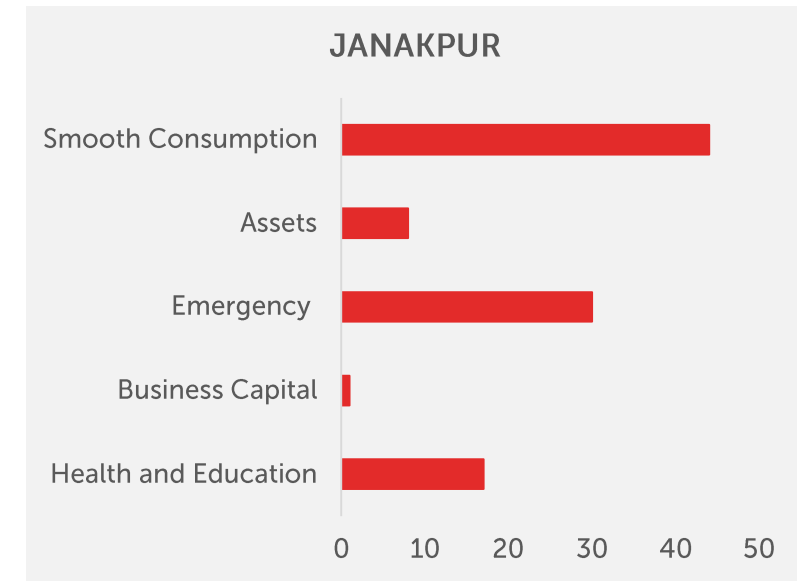
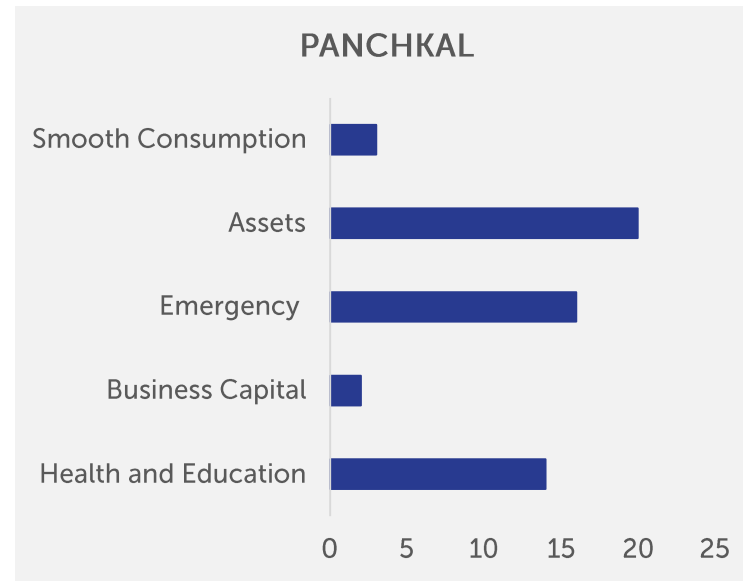
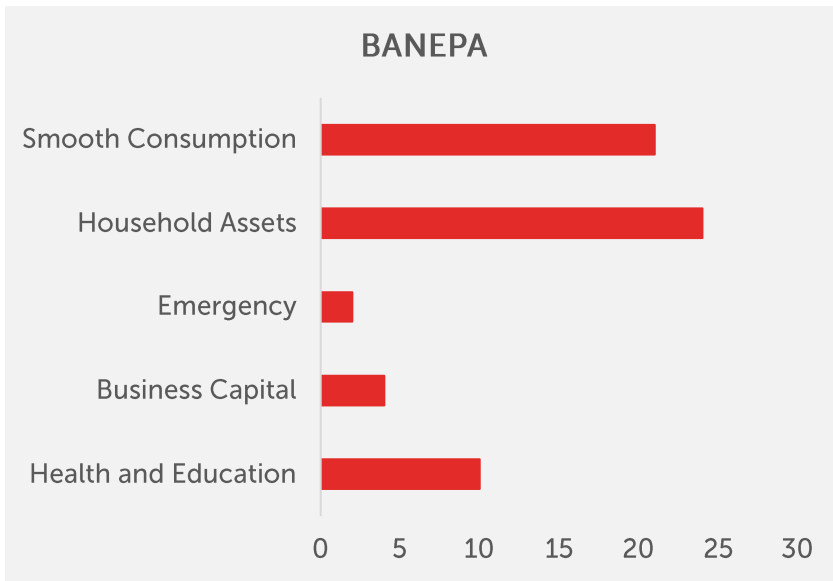
- ✓ **Banepa** and **Panchkal** show similar patterns among respondents apropos of **borrowing** for **out-migration**. Sources that dominate are friends and relatives and own savings and income.
- ✓ **Jankapur**, on the other hand, indicates a different phenomenon. The dominant source for **borrowing** is **local moneylenders**.

# Savings Profile: Savings as % of income



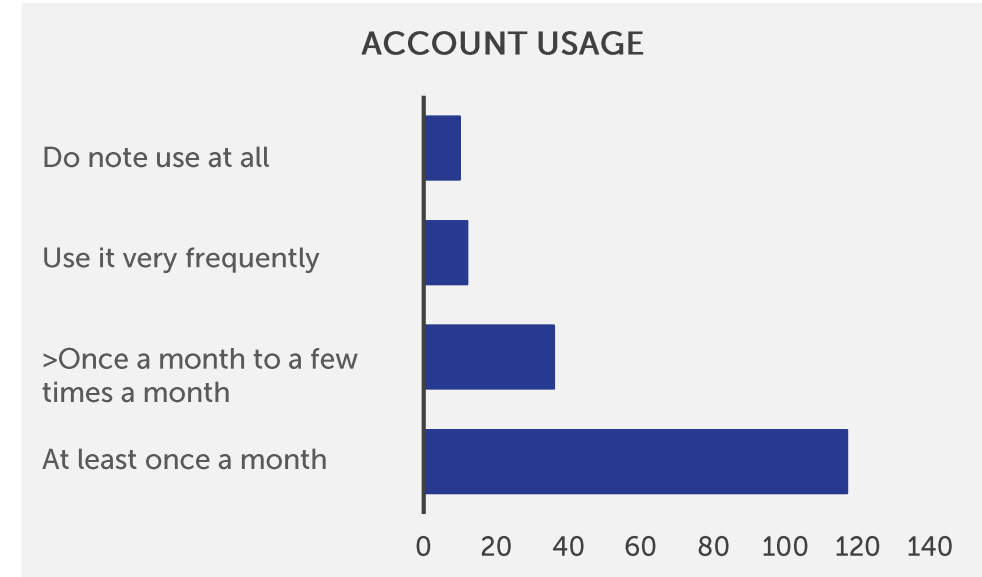
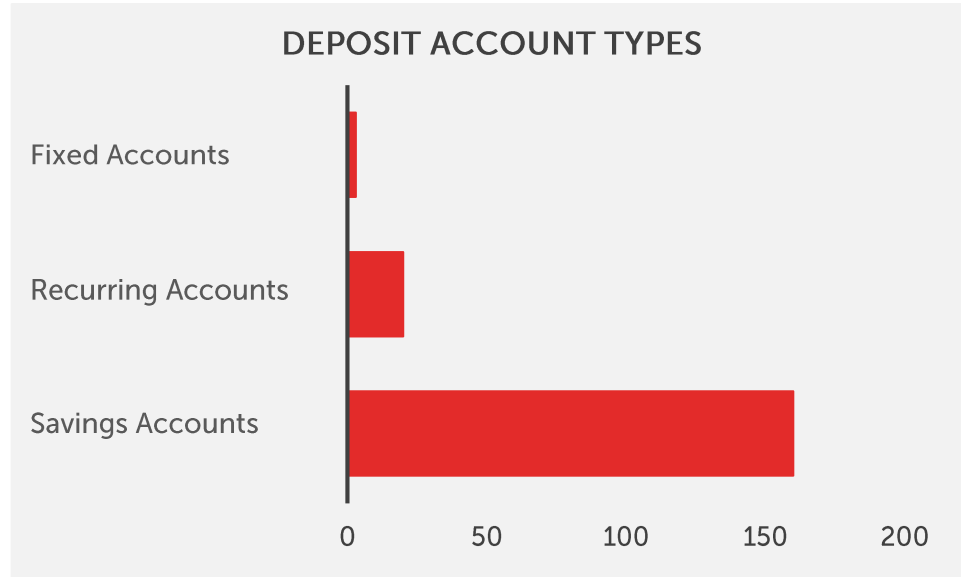
- ✓ Banepa and Panchkal show a diffusion across savings buckets. The **10-20%** savings bucket dominates for **Banepa** whereas **Panchkal** residents are concentrated in the **20-30%** bucket.
- ✓ Jankapur respondents are heavily concentrated in the less than **5% and 5-10%** buckets.

# Savings Profile: General purpose of savings



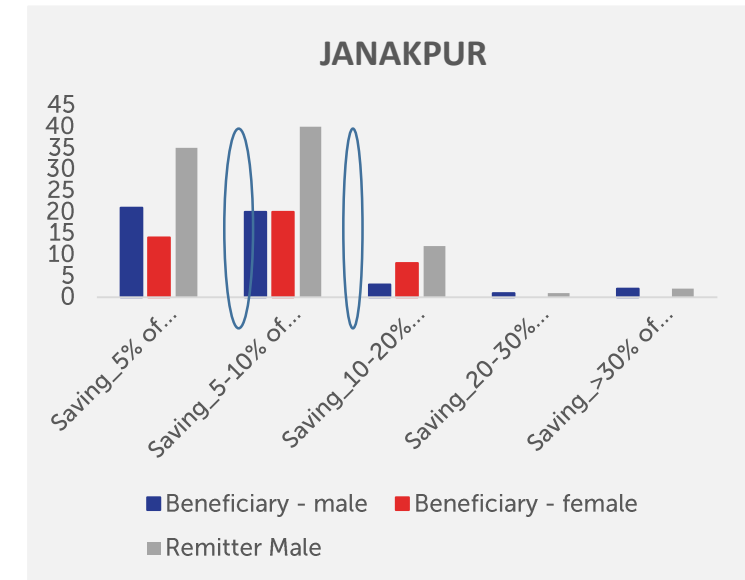
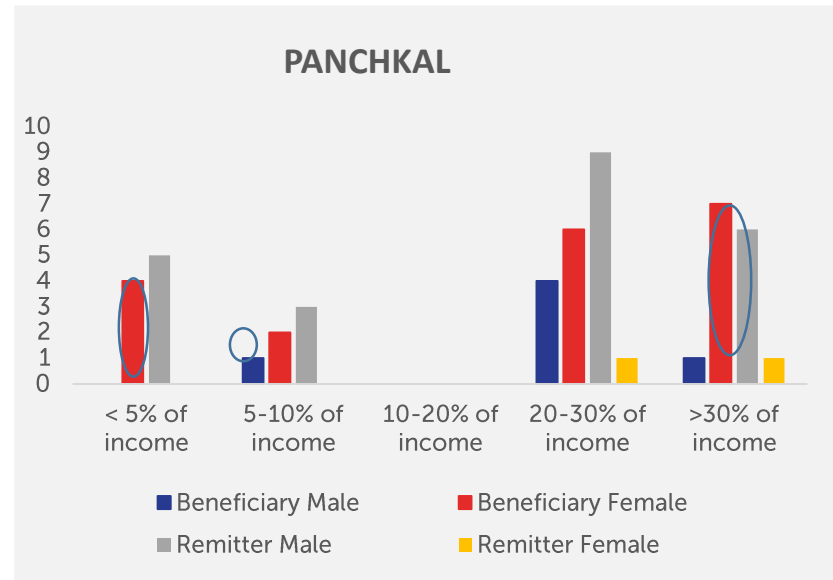
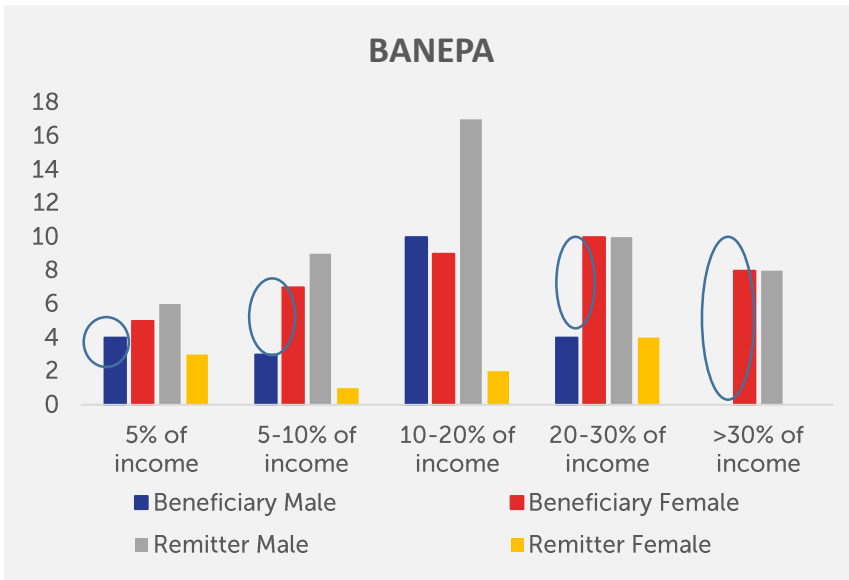
- ✓ **Smoothing consumption** is more or less a general reason for savings both in Banepa and Janakpur but not Panchkal.
- ✓ **Purchase of household assets** including land is a dominant purpose to save in both Banepa and Panchkal but not Janakpur.
- ✓ **Business capital** ranks low for all three locations.
- ✓ **Health and education** rank moderately high for all three locations.

# Savings Profile: Account deposits & usage



- ✓ **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.

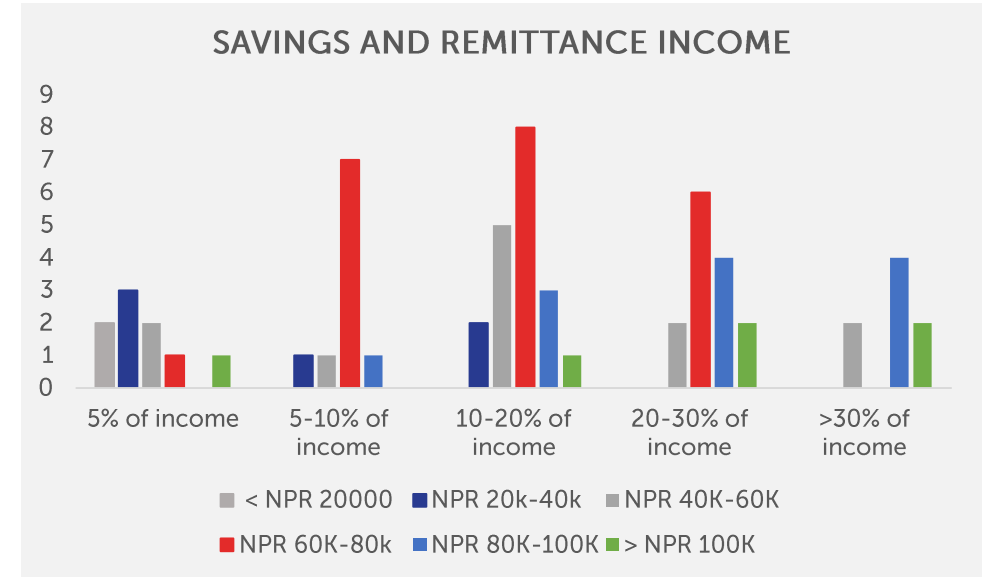
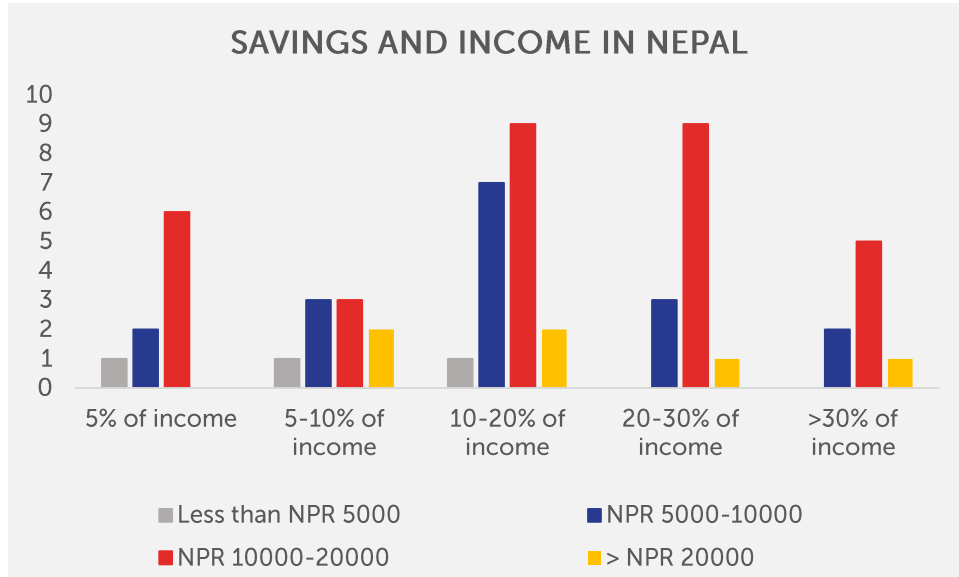
# Savings Profile: Savings & gender



- ✓ 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**.

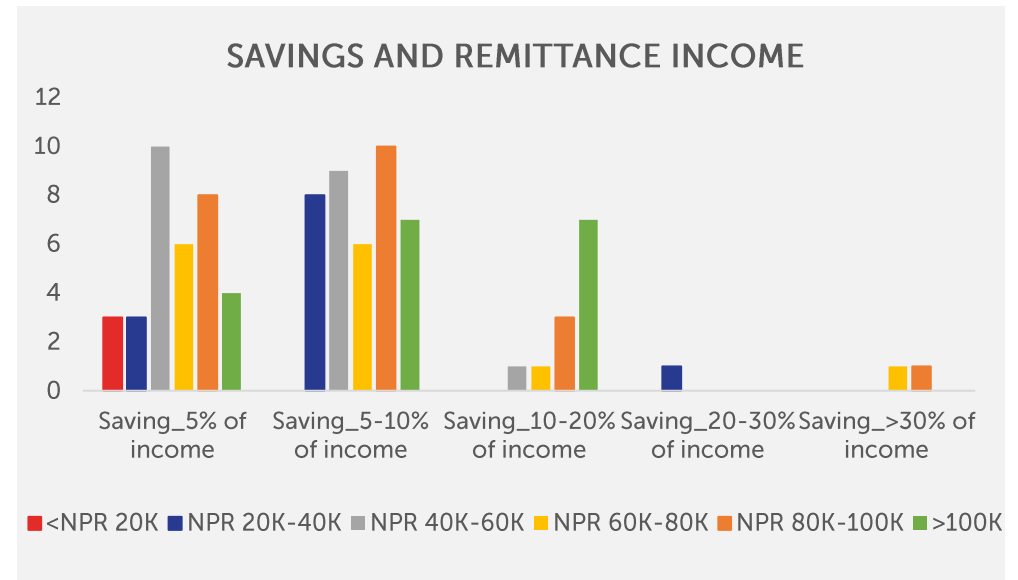
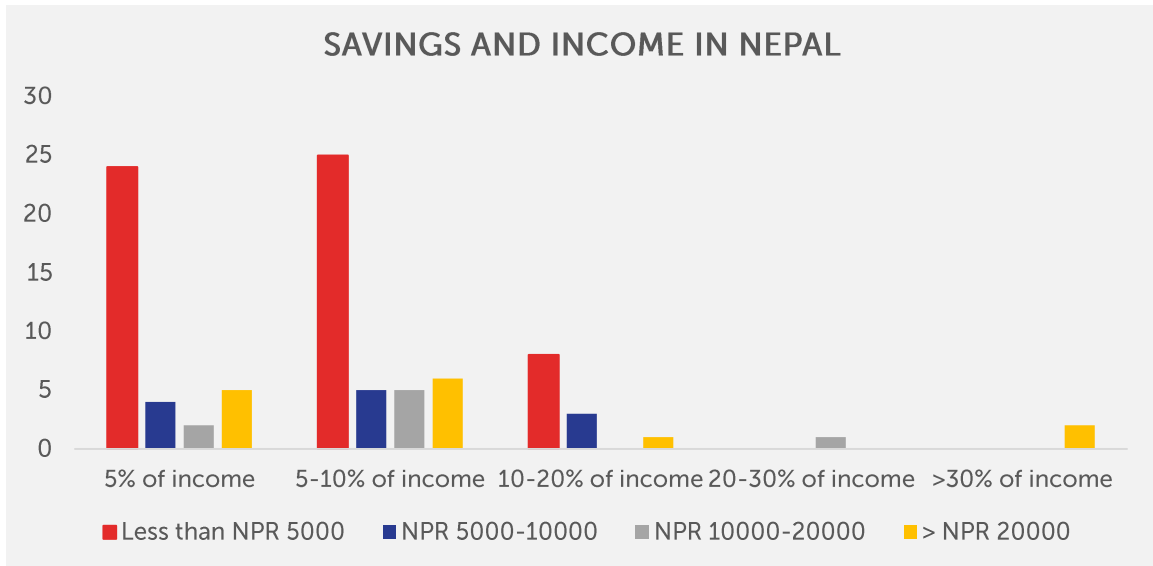


# Savings & Income: Banepa



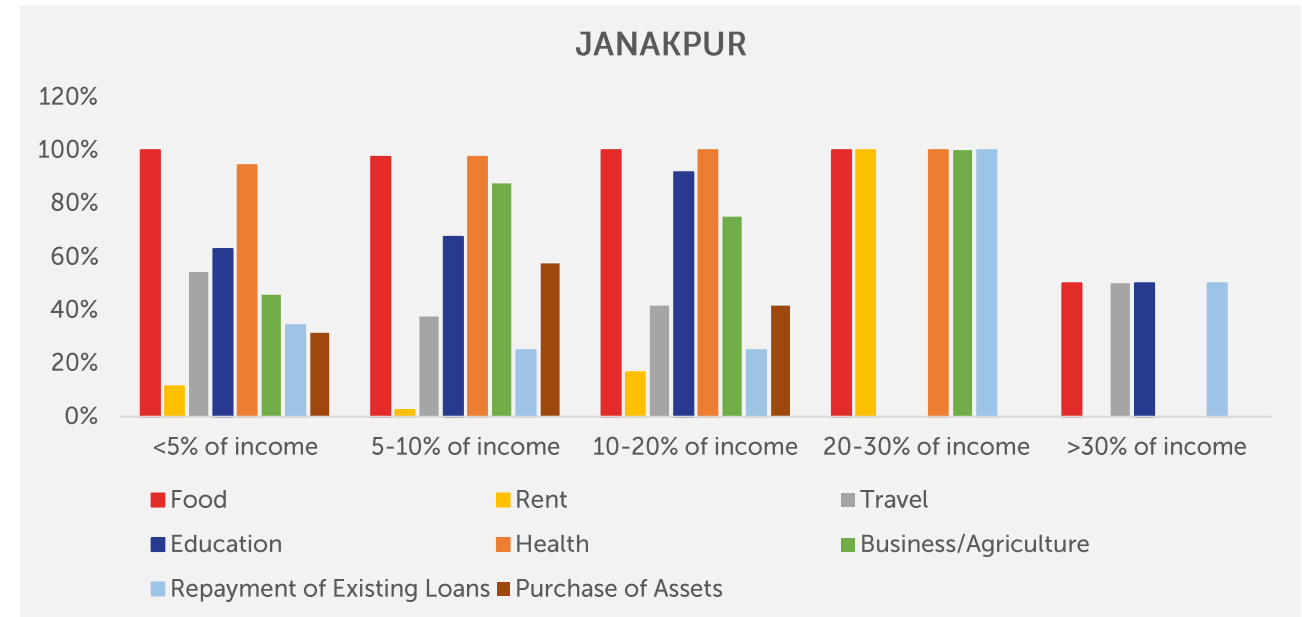
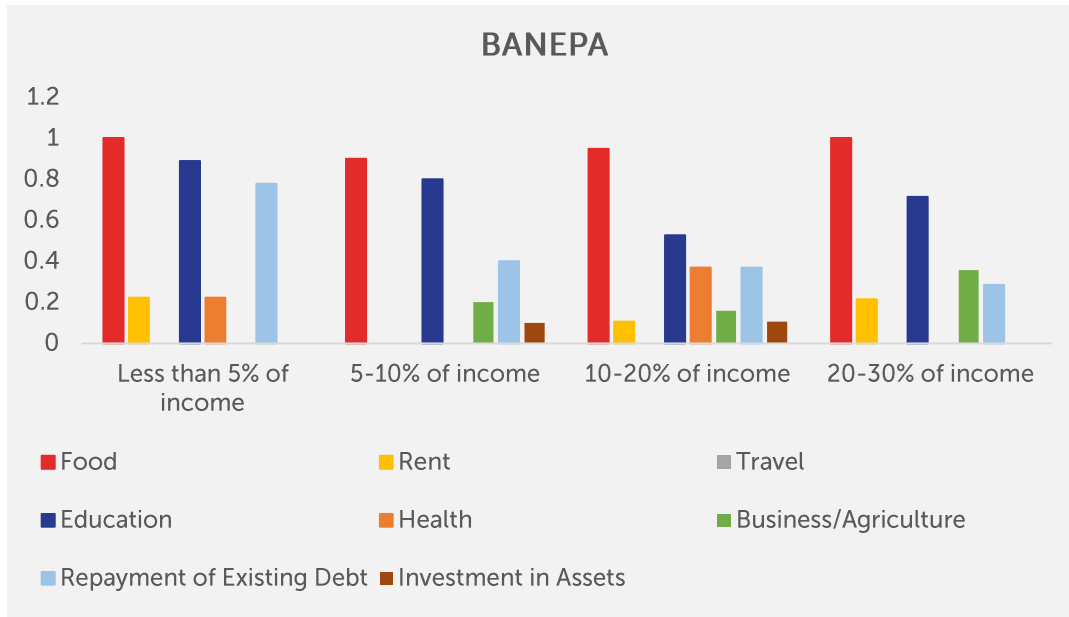
- ✓ In the **20-30%** bucket, respondents receive **high remittance income** and also have relatively high income in Nepal, supporting the notion that income is tied to saving.
- ✓ In the **10-20% bucket**, respondents have higher income in Nepal and receive fairly high remittance income (most of them 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.

# Savings & Income: Janakpur



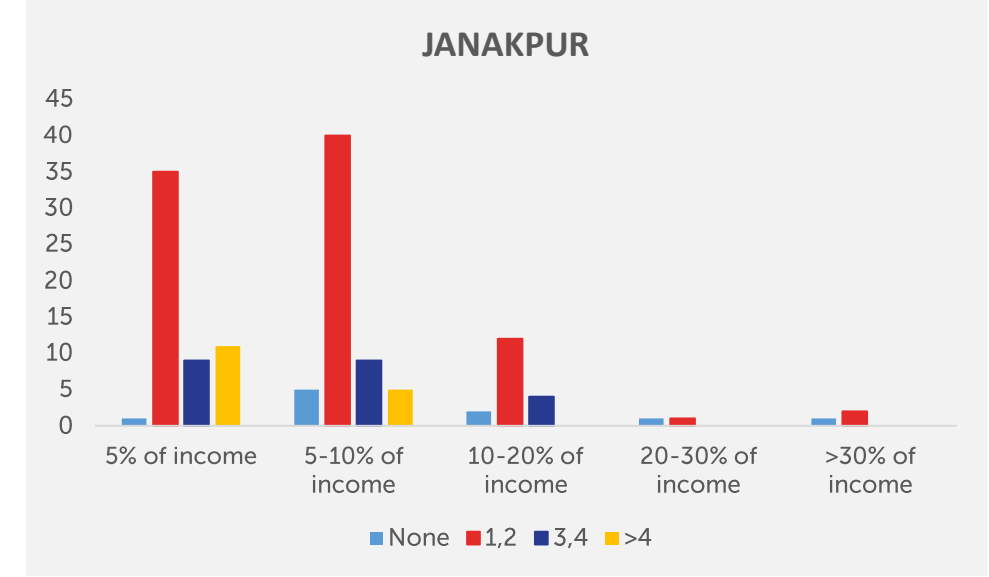
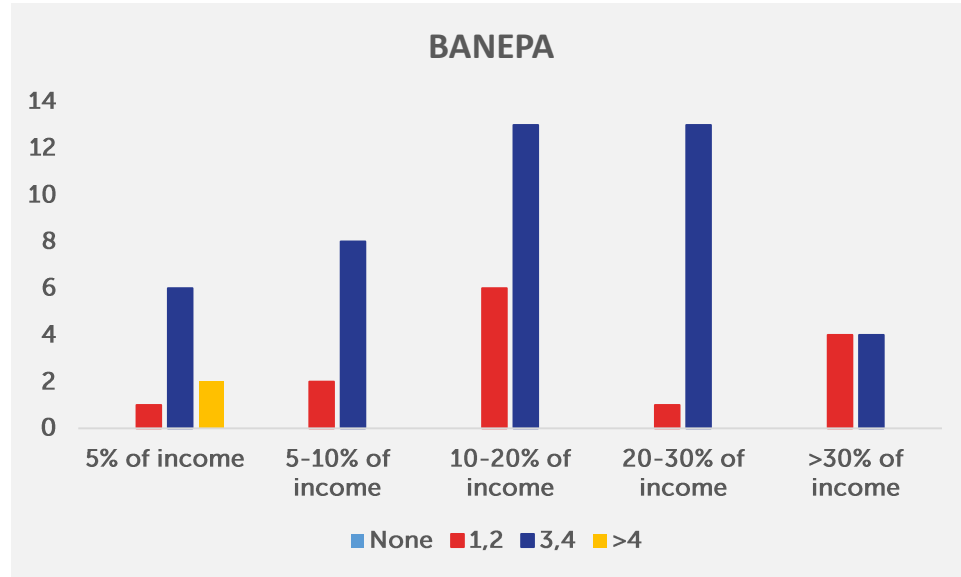
- ✓ In the **>30% bucket**, respondents **receive high remittance income** and also **have high income** in Nepal, supporting the notion that income is tied to saving.
- ✓ However, the results in the **5% and 5-10% buckets** shows that higher incomes does not always lead to higher savings.

# 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.

# Savings & Family Size

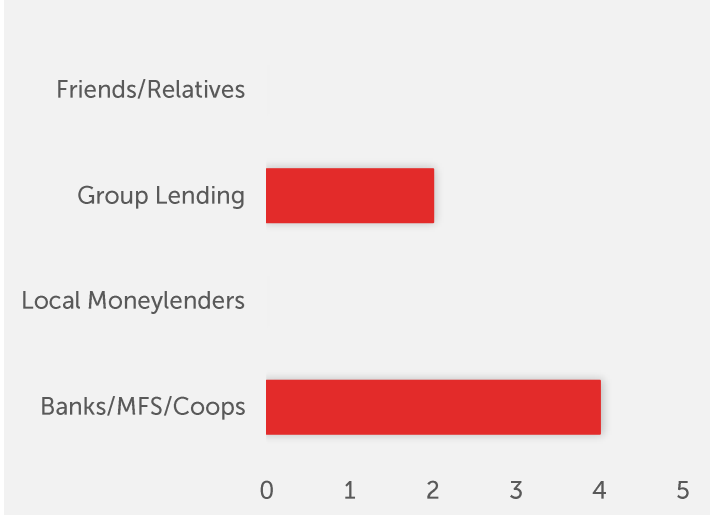


- ✓ **Family size** and **savings** do not indicate consistent correlation. The lower buckets tend to be big families with about 3-4 dependents. However, this is the case with higher buckets as well. In fact, for Janakpur, majority of the respondents indicated 1-2 dependents for their families.
- ✓ Other factors such as **expenditure patterns** and **income** probably interact with family size.

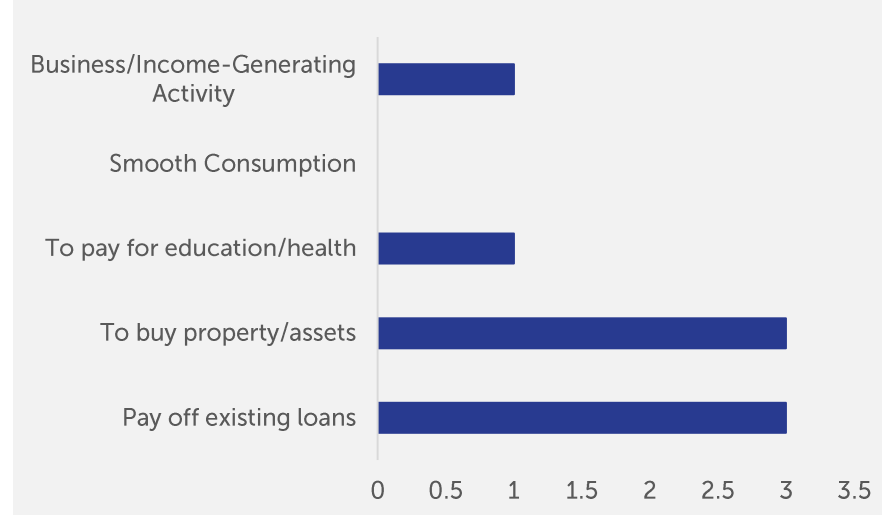
# Credit Behavior: Banepa



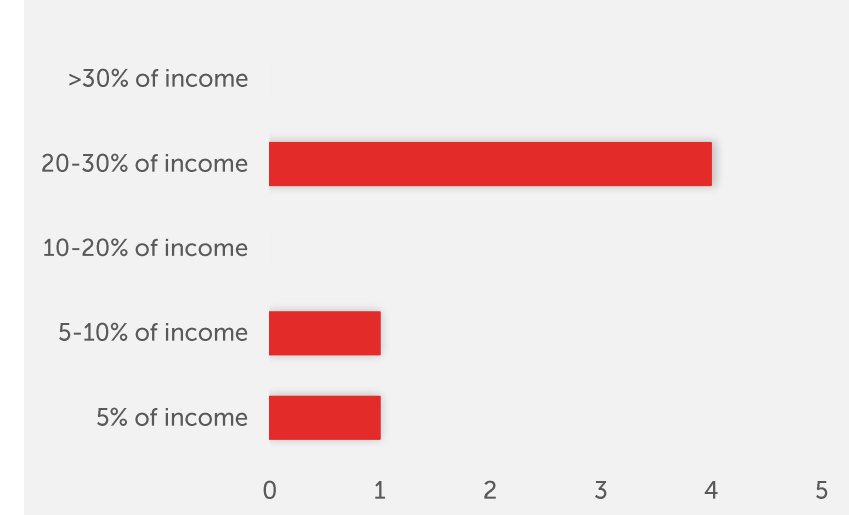
## SOURCE OF BORROWING



## PURPOSE OF BORROWING



## SAVING PATTERNS AMONG BORROWERS

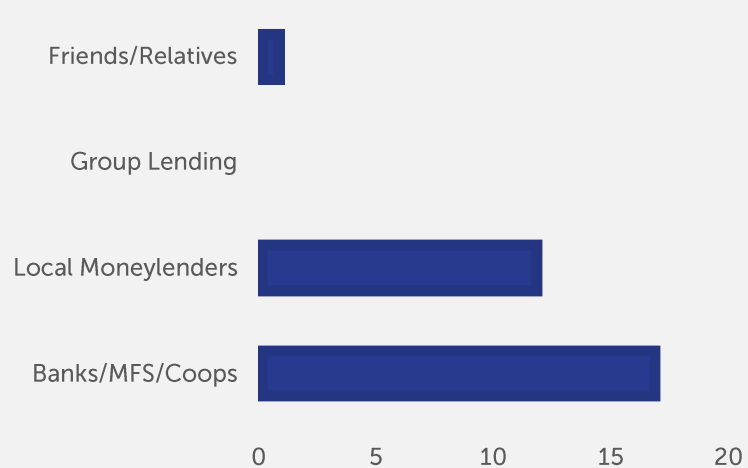


- ✓ Only **16.9%** of the respondents indicated they had borrowed at some point in their lives for reasons other than financing out-migration costs.
- ✓ About **64%** of them borrow from informal networks such as friends and relatives.
- ✓ These borrowers tend to be from the lowest savings segment.
-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

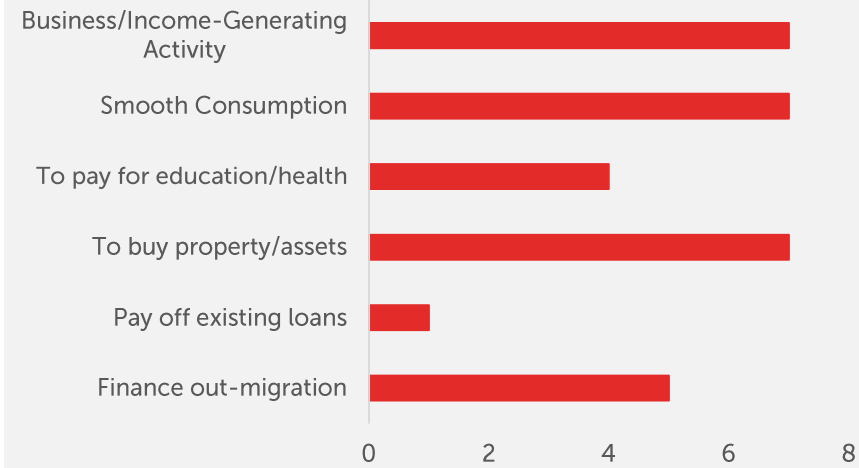
# Credit Behavior: Janakpur



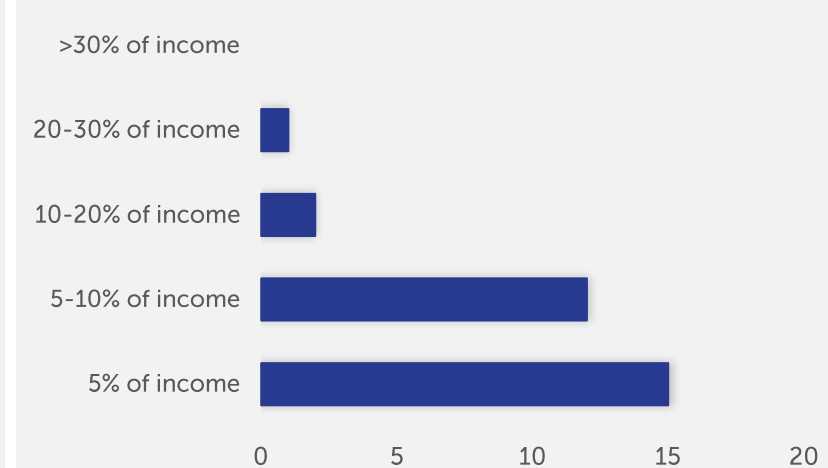
## SOURCE OF BORROWING



## PURPOSE OF BORROWING



## SAVING PATTERNS OF BORROWERS

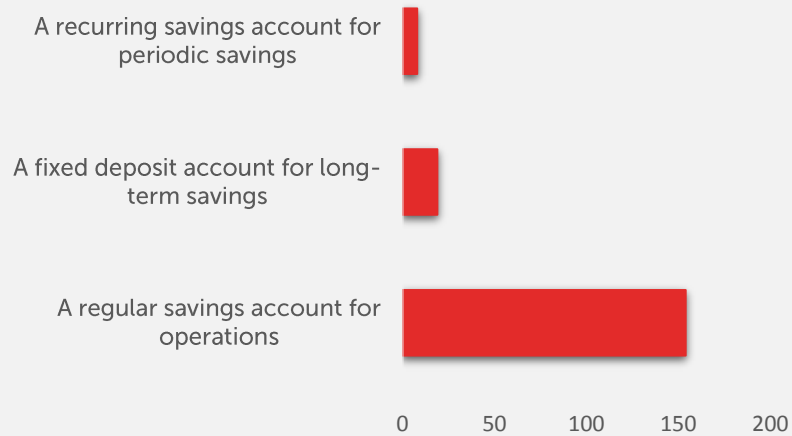


- ✓ **33.33%** of the respondents indicated they had borrowed at some point in their lives for reasons other than financing out-migration costs.
- ✓ About **57%** of them borrow from **banks/cooperatives** followed by **40%** of respondents that borrow from local **moneylenders**.
- ✓ These borrowers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

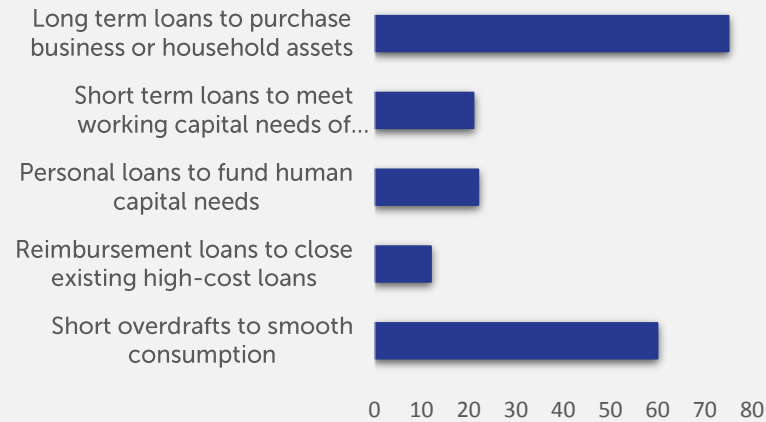
# Product Preferences



## DEPOSIT ACCOUNT PREFERENCES



## PURPOSE OF FUTURE BORROWING

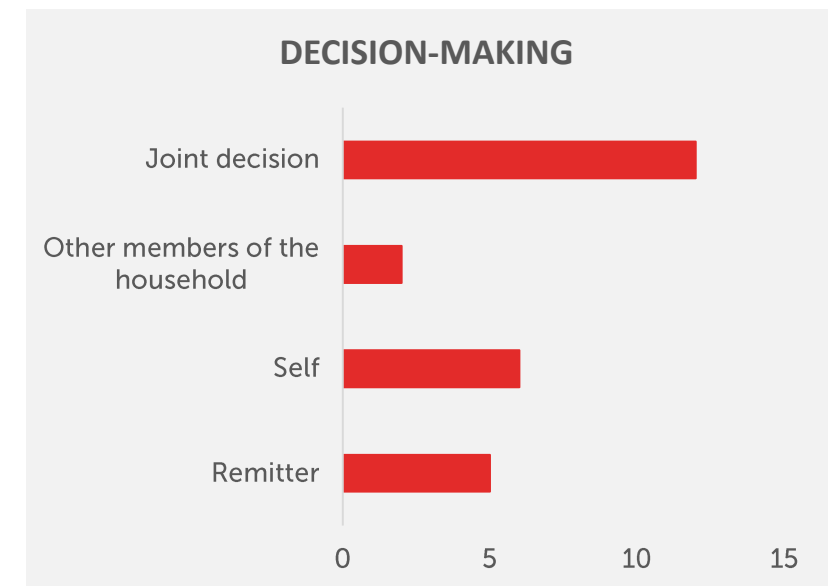
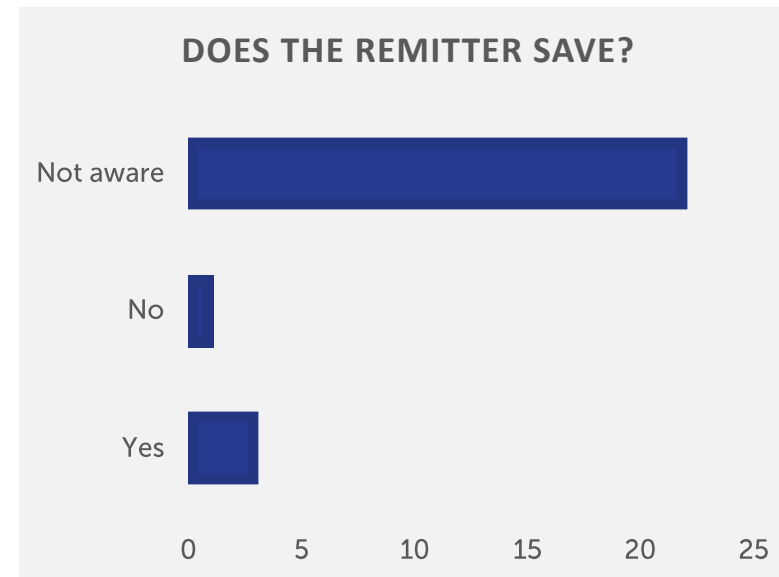
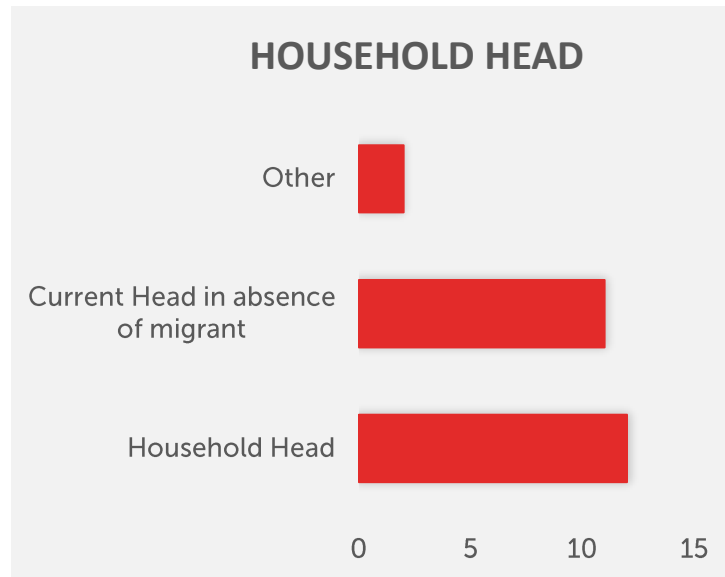


## DIGITAL(MOBILE) BANKING PREFERENCE



- ✓ 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.

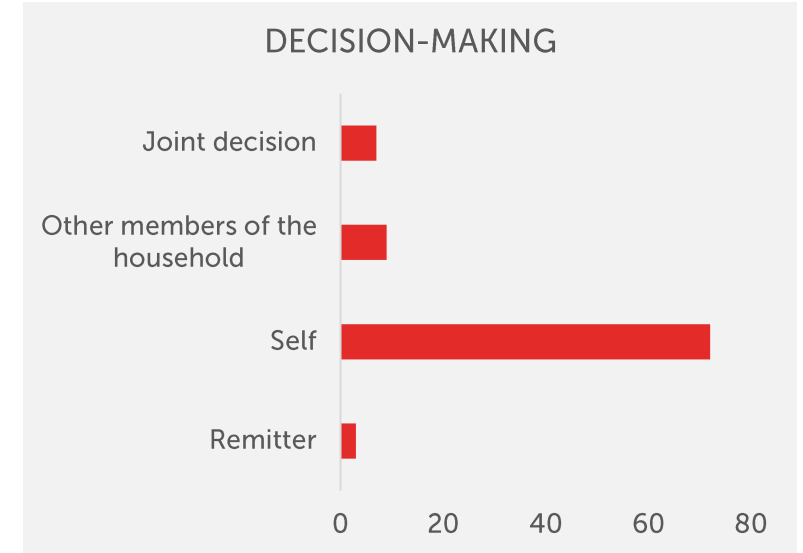
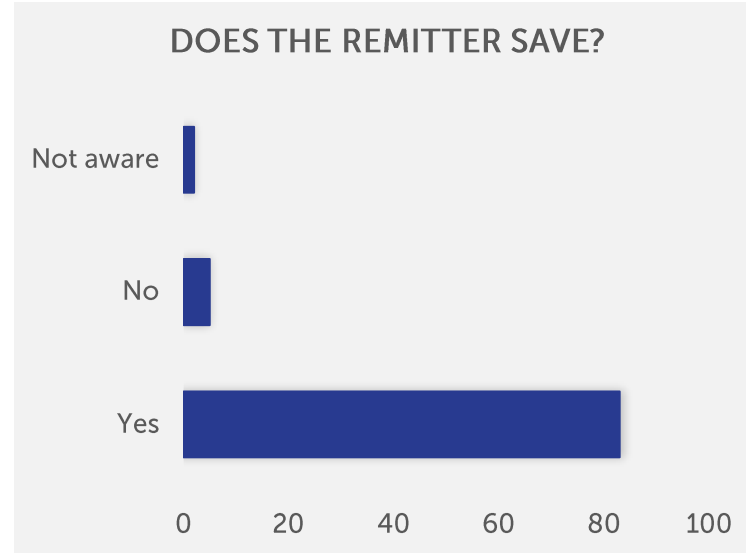
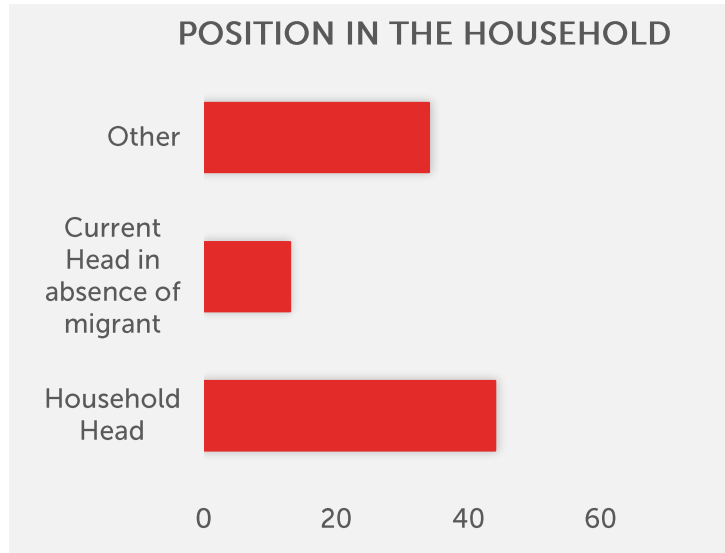
# Household: Decision-making & awareness in Banepa



- ✓ **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.

## Decision-making

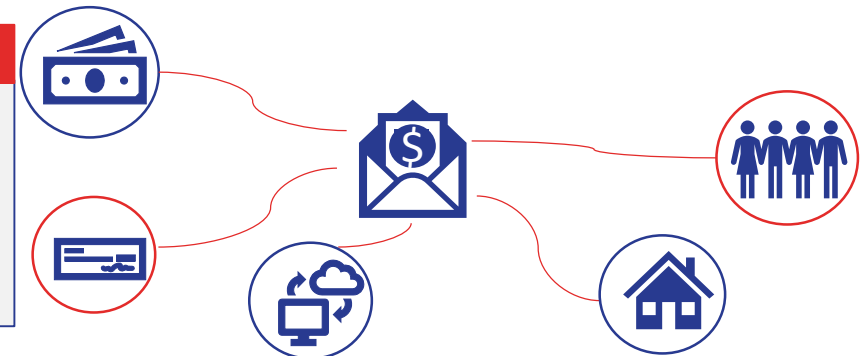
- ✓ Joint household decision-making is a common practice among Banepa respondents while beneficiary-led household decision making is the norm among Janakpur respondents.
- ✓ Banepa respondents are largely unaware about the remitter's savings status whereas majority of the Janakpur respondents seemed to indicate the opposite.

## 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.



# About Us



The United Nations Capital Development Fund (UNCDF) is the UN's capital investment agency for the world's 48 least developed countries (LDCs). With its capital mandate and instruments, UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development.



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