

Informal Saving Groups and Its Effect on Monetary Activities Of Nepal

Govinda Prasad Adhikari

Assistant Campus Chief, Garurishankar Campus, Nijgadh, Bara, Nepal

ARTICLE INFO

Corresponding Author

Govinda Prasad Adhikari

Email

govinda96@gmail.com

Article History

Received: 10 October 2023

Accepted: 17 December 2023

Orcid

<https://orcid.org/0009-0008-2151-5384>

Cite

Adhikari, G.P. (2023). Infomal Saving Groups and Its Effect on Monetary Activities of Nepal. *GS WOW: Wisdom of Worthy Research Journal*. 1(1), 7-15.
<https://doi.org/10.5281/zenodo.10440685>

ABSTRACT

The informal sector activities account for a significant proportion of production, consumption, and employment in the country. However, informal firms tend to be small and are unable to provide basic goods and services to the entire population. Additionally, informal workers are more likely to be poor and earn lower wages compared to their formal sector counterparts. The government of Nepal is actively working to address these issues, including the enforcement of anti-money laundering (AML) regulations in the banking, finance, and cooperative sectors. However, the enforcement of AML regulations should be approached cautiously to prevent the potential transfer of informal money to other sectors and to avoid security problems. The study aims to explore the relationship between various economic indicators and informal monetary activities in Nepal, with a focus on finding ways to regulate and formalize these activities. Large samples of 385 were surveyed through structured questionnaire. The informal economy in Nepal has important macroeconomic consequences, and the government is working to address the challenges it poses. However, the enforcement of AML regulations should be approached cautiously to prevent the potential transfer of informal money to other sectors and to avoid security problems. The study aims to explore the relationship between various economic indicators and informal monetary activities in Nepal, with a focus on finding ways to regulate and formalize these activities.

Keywords: Informal monetary activities, Hidden economy, AML regulations, Small saving groups, Remittance

Introduction

Nepal faces significant challenges from informal monetary activities due to the lack of implementation and monitoring of existing laws, which increases black money in the market [Financial Stability Report-Issue No. -3 July 2013. Pdf, n.d.]. Informal monetary activities arise from black marketing, illegal transfer of money, drug smuggling, and other monetary activities that are operated illegally or unregistered [Hart, 1985].

The informal sector accounts for a significant proportion of production, consumption, and employment in the Nepali economy [Pan t, SAIM and Rudra Suwal, CBS Nepal Abstract]. However, the measurement of the informal sector activities has been problematic [Pan t, SAIM and Rudra Suwal, CBS Nepal Abstract]. The government of Nepal has made it a higher priority to reduce such activities legally and economically [Suspicious Tax Evasion through Use of Personal Bank Accounts for Business Transaction, 2023].



In developing countries, financial markets are divided into formal and informal sectors. The formal financial market is regulated by credit-related laws, controlled by the government under the supervision of central banks and agencies. The informal sector is out of such regulation and control because they are unregistered in the concerned body of the government [AML/CFT National Strategy and Action Plans, 2019-2024 (Including Supplementary Action Plans, 2020) | Office of the Prime Minister and Council of Ministers, 2021]. Informal financial markets operate basically in two types: individual money lenders or brokers and self-help saving groups in Nepal. Individual money lenders' interest is comparatively high than saving groups, so in the local level, people are attracted to forming and operating informal saving groups.

Problem Statement

There are many informal monetary activities practicing in Nepal, out of which informal saving groups are illegal but are operating such groups to fulfill the short-term financial needs of saving members. Such groups have no principles and guidelines. The number of members in such groups is not certain, but as per the study, they are at least 25 to 151 people in a group. In recent days, the number and transaction volume of such groups are growing continuously. One of the reasons for such activities is people who are not getting banking loan facilities from the formal sector and want to escape from high-interest individual money lenders has formed self-help informal saving groups [Dhukuti: The Small Businessman's Informal Self-help Bank in Nepal]. Hans Dieter Seibel Universitat zu Koln Bishnu P. Shrestha Nepal Rastra Bank, Saving and

development vol 12 no 2 1988]. Saving groups are not only spread in local level cities or villages but also in professional workers such as teachers' saving group in private or community schools, employees' saving group in business organization workers' saving group, informal workers, etc.

Research Objective

The main aim of the research study is to understand the rooted causes of informal saving groups in Nepal and their effects on formal money circulation in the Bara district of Nepal.

Literature Review

Informal saving groups have revolutionized financial inclusion in Nepal, providing a source of financial support for the local population.

The informal sector activities account for a significant proportion of production, consumption, and employment in the Nepali economy.

The microfinance market in Nepal can be divided into three sectors: the formal sector, the semi-formal sector, and the informal sector.

The informal sector is comprised of innumerable community-based organizations and individual or traditional group formations popular in ethnic trading communities for savings and credit purposes

Conceptual framework

A conceptual framework presents the areas covered in the research. It is my roadmap for my research. Utilizing the phenomenological approach and based on writing survey, speculations, my own insight, and exact review.

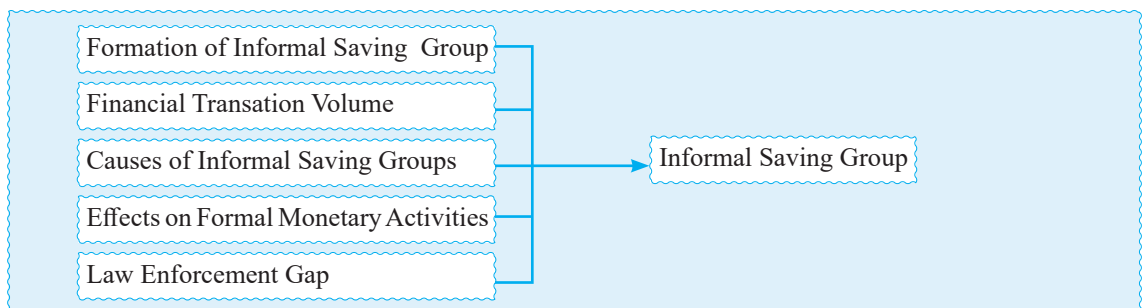


Figure 1. Conceptual Framework

Methodology

Research Design

The research design for this study involved selecting a sample of 385 informal saving group members in the Bara district of Nepal. The sample was chosen using a judgment technique, ensuring that each informal saving group member had the capacity to answer the entire questionnaire. The sample was intended to be illustrative of the population and was defined by area and financial status.

Data Collection

A web-based survey was conducted to collect data from the selected sample of 385 informal saving group members in Bara, Nepal. The research instrument used was a questionnaire, which gathered information on various factors, including the number of financial transactions, the formation of informal savings groups, the causes of these groups, their effects on formal monetary activities, and the gap in law enforcement.

Data Analysis

The data collected from the survey was analyzed using descriptive statistics, such as frequencies and

rates, to determine the distribution of responses. Inferential statistics, such as correlation analysis and regression analysis, were employed to identify the relationships between the variables in the conceptual framework.

The results of the study revealed that informal saving groups play a significant role in the local economy of Nepal, with a population size of 8,000 and a sample size of 385. The study found that there were 5,000 informal saving groups in the Bara district, which is part of the Madhesh Province in the middle part terai region of Nepal. The region is primarily agricultural, and informal saving groups provide a source of financial support for the local population.

The study also identified several factors contributing to the formation of informal saving groups, including the lack of access to formal financial institutions, high interest rates charged by individual money lenders, and the desire for social interaction and support. The effects of informal saving groups on formal monetary activities were mixed, with some informal saving groups having a positive impact on formal financial institutions by encouraging savings and promoting financial inclusion. Table 1 shows socio-demographic analysis.

Table 1: Socio-demographic Analysis

Basis	Particular	In Number	In percentage
Gender	Female	271	70.39
	Female	114	29.61
Family Size	2-5	178	46.23
	5-10	207	53.77
Academic Qualification	Literate	51	13.25
	Primay Level	49	12.72
	Secondary Level	75	19.48
	Intermediate Level	113	29.35
	Bahelor and Above	97	25.20
Marital Status	Unmarried	78	20.26
	Married	307	79.74

Analysis of the Data

In this survey, out of 385 respondents all actively participated and among them high majority in female respondents. Out of 385 respondents, most

of the respondents have 5-10 family members. Most of the respondents have been found literate. There are 307 respondents found to be married and 78 is found to be unmarried.

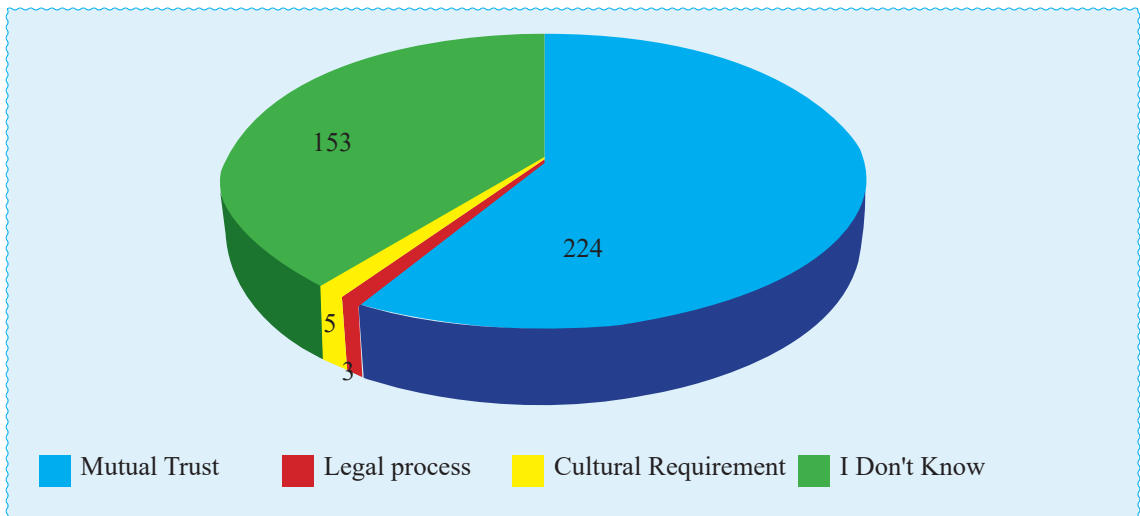


Figure 2: Formation of Informal Saving Groups

As shown in figure 2 about formation of informal saving group it is found that they were established such groups without following legal process they

either depend on mutual trust or they don't know the formation process.

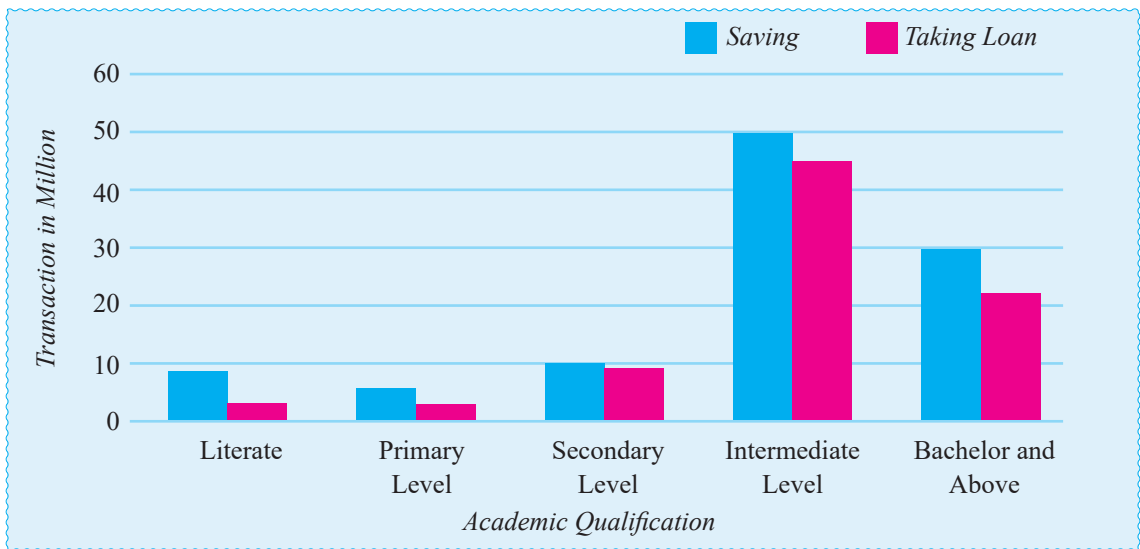


Figure 3: Transaction Volume of Informal Saving Group

As shown in figure 3 about transaction volume in such group is interesting. In 385 sample some of respondent hardly respond about transaction volume. In this question it is found that low literate level respondent are investing in such group to get lump sum amount in future but high literate level respondent taking loan from such saving group

above than investment amount. It was clear that low literate level were not aware about risk of such group but high literate level were somehow aware about risk factor of such group. In 385 respondent have invested 99 million in such group only on the basis of mutual trust.

Causes of Informal Saving group

In question causes of investing and taking loan from informal saving group all of respondent said it is easy to transact at once. In informal discussion

we found that some of them were legal property less and some were in such group because of relatives force. It is found that most of them are far from financial literacy and banking access.

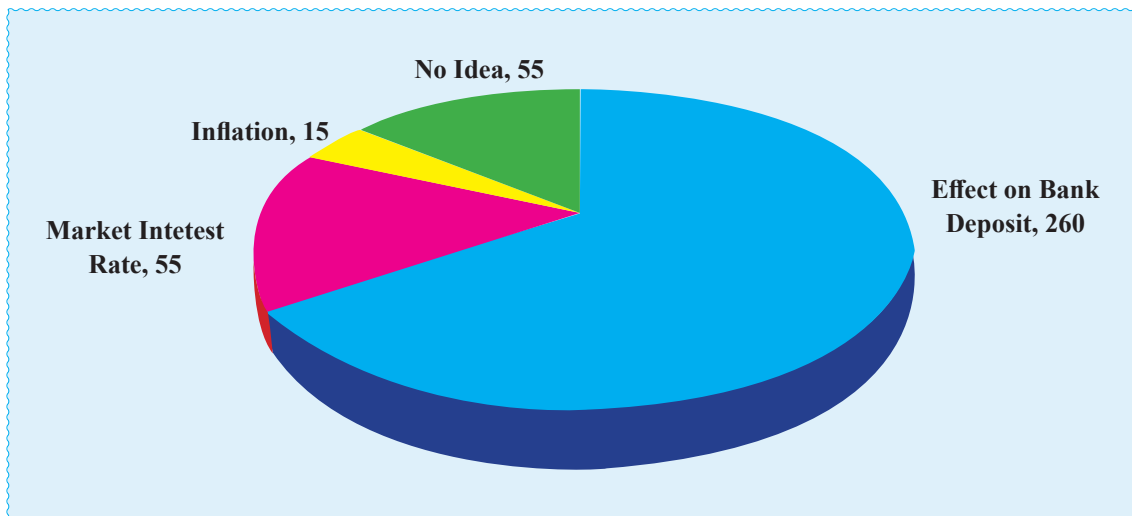


Figure 4: Effect on Formal Monetary Activities

As shown in figure 4 effect on monetary activities Most of respondent said it effects on banking deposit some of respondent said it increases market

interest rate and 55 respondent had no idea about it few no of respondent said it increases inflation.

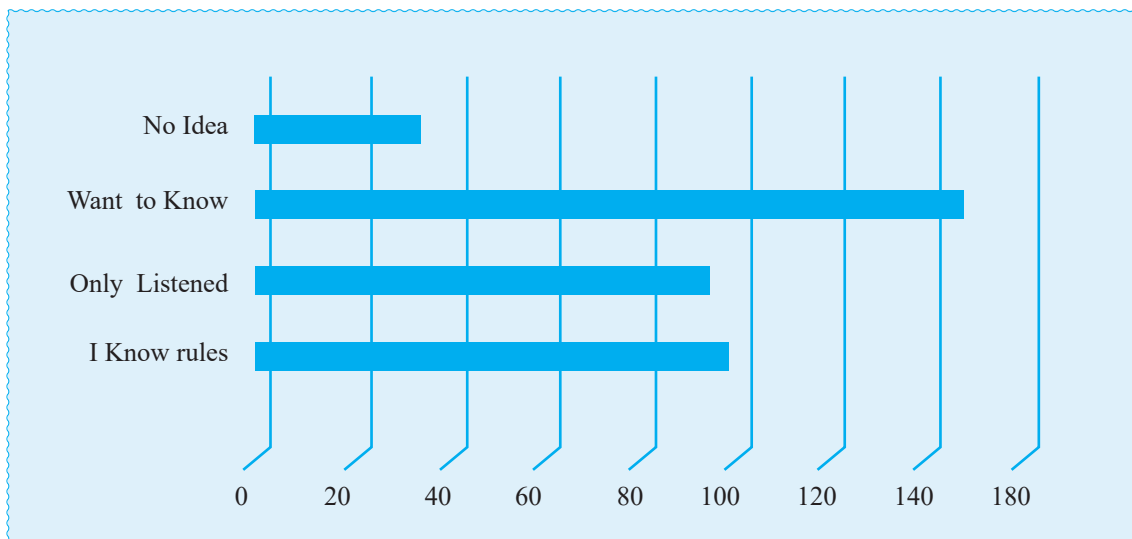


Figure 5: NRB Regulations

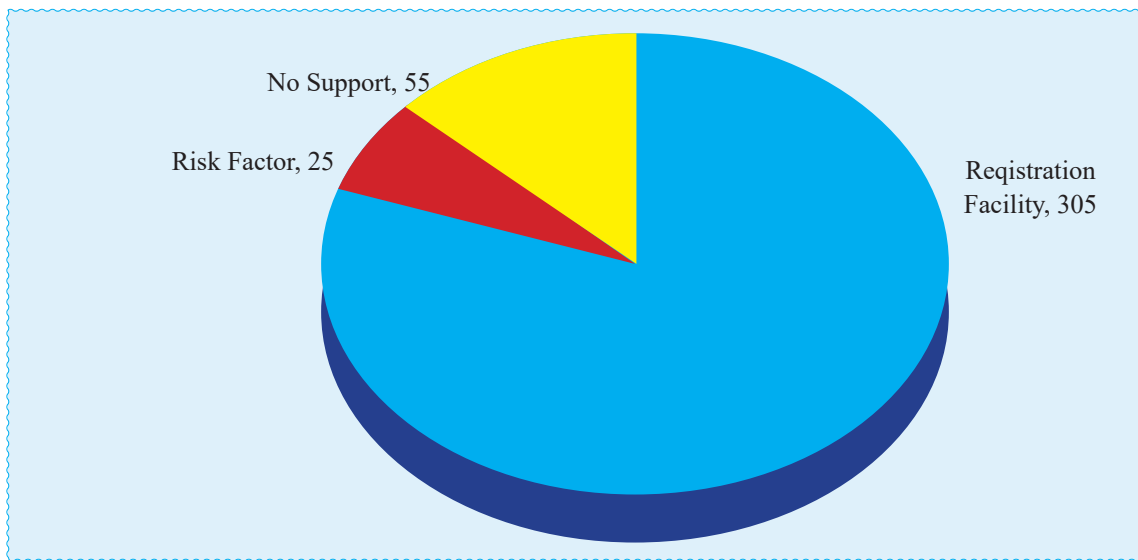


Figure 6: Government Report

There were two questions in law enforcement gap first about NRB regulations majority of respondents were not clear about NRB rules in such types of transactions and in second question most of respondents were waiting government support basically local level government to support registration and facilitation in informal saving group operation.

Discussion

The results of this study provide insights into the socio-demographic characteristics of the respondents and their opinion regarding informal saving groups and its effects on monetary activities. The majority of respondents were female, comprising 70.39% of the sample. This indicates a potential gender disparity in the participation in informal saving groups, with women being more actively involved. A significant portion of respondents (53.77%) reported having family sizes ranging from 5 to 10 members. This suggests that informal saving groups may play a role in managing finances within larger family structures. The data reveals diverse educational backgrounds among respondents. Notably, a substantial portion (29.35%) have at least an intermediate level of education. This suggests that participants in informal saving groups are not limited to a specific

educational stratum. The majority of respondents (79.74%) were married, indicating that informal saving groups might be particularly prevalent among married individuals.

Based on mutual trust, respondents appear to form informal saving groups without adhering to legal procedures. This raises questions regarding the absence of regulatory oversight and the potential dangers of informal financial activities. Low-proficient respondents appear to put resources into these savings for future single amount sums, while profoundly educated respondents frequently take loan surpassing their ventures. This polarity features an information hole and fluctuating gamble insights among members. The information recommends that low-proficient people probably won't be completely mindful of the dangers related with informal saving savings, standing out from their more educated partners who show a more significant level of chance mindfulness. Respondents refer to the simplicity of exchange as an essential driver for partaking in informal saving savings. The multifaceted nature of motivations is emphasized by the fact that a lack of financial literacy, legal property, and familial pressure all emerge as contributing factors. Numerous respondents accept that cooperation in informal saving savings influences banking stores,

possibly demonstrating a redirection of assets from formal monetary foundations. Due to informal saving group activities, some respondents express concerns about inflation and increased market interest rates. Gubhaju, R. (2023) also highlighted women in self-help.

This implies a perceived connection between these groups and broader economic trends. A notable finding is the lack of clarity among respondents regarding Nepal Rastra Bank (NRB) regulations related to informal financial transactions. This suggests a need for improved awareness and education regarding the legal framework. Respondents express a desire for local government support in the registration and facilitation of informal saving group operations. This underscores a potential gap in regulatory support at the grassroots level.

Conclusion

The study on informal saving groups in Nepal has provided critical insights into the socio-demographic characteristics of participants and the dynamics of these groups. The research aimed to understand the rooted causes of informal saving groups and their effects on formal monetary activities in Nepal. The study acknowledged the challenges posed by informal monetary activities, emphasizing the lack of implementation and monitoring of existing laws, which contribute to the generation of black money in the market. Efforts are underway to address these challenges legally and economically.

In developing countries like Nepal, financial markets are divided into formal and informal sectors. The formal sector is regulated by credit-related laws under the supervision of the government and central bank. In contrast, the informal sector operates outside regulatory frameworks. Informal financial markets in Nepal are primarily represented by individual money lenders or brokers and self-help saving groups.

The study highlighted the prevalence of informal saving groups in Nepal, which operate illegally but serve as a means to fulfill short-term financial

needs for their members. Recent trends indicate a continuous growth in the number and transaction volume of informal saving groups. Participants are motivated to join these groups, particularly those who face challenges in obtaining formal banking loans and wish to avoid the high-interest rates imposed by individual money lenders. The study was conducted in Bara district, Nepal, with a population of 5,000, and a sample size of 385, selected through judgment sampling to ensure representation across locations and socioeconomic statuses.

The findings underscore the complex dynamics surrounding informal saving groups in Nepal and the need for targeted interventions. Policymakers and stakeholders should prioritize improving financial literacy, strengthening law enforcement, and bridging the regulatory gap to ensure the sustainable and responsible operation of informal saving groups. Addressing gender disparities and promoting inclusive financial practices will contribute to more equitable economic development.

The study provides a comprehensive understanding of informal saving groups in Nepal, shedding light on their formation, functioning, and implications for the broader economy. The insights generated from this research can inform evidence-based policy decisions and interventions to enhance the financial well-being of individuals and the overall economic stability of Nepal.

References

- Alañón-Pardo, A. , & Gómez-Antonio, M. (2005). Estimating the size of the shadow economy in Spain: A structural model with latent variables. *Applied Economics* , 37 (9), 1011–1025. doi:10.1080/00036840500081788
- AML/CFT National Strategy and Action Plans, 2019-2024 (Including Supplementary Action Plans, 2020) *Office of the Prime Minister and Council of Ministers*. (2021, April 5). <https://www.opmcm.gov.np/en/download/national-strategy-and-action-plan-for-fiscal-investment-on-anti-money-laundering-and-terrorist-activities-2076-2081/>

- Breusch, T. (2005a). The Canadian underground economy: An examination of Giles and Tedds. *Canadian Tax Journal*, 53 (2), 367.
- Breusch, T. (2005b). *Estimating the underground economy using MIMIC models (Working Paper)*. Econometrics 0507003, University Library of Munich, Germany.
- Cagan, P. (1958). The demand for currency relative to the total money supply. *Journal of Political Economy*, 66 (4), 303–328. doi:10.1086/258056.
- Dell’Anno, R. (2008). What is the relationship between unofficial and official economy? An analysis in latin American countries. *European Journal of Economics, Finance and Administrative Sciences*, 12, 185–203.
- Dell’Anno, R., & Schneider, F. G. (2006). *Estimating the underground economy by using MIMIC models: A response to T. Breusch’s critique* (Tech. Rep., Working Paper 0607). Linz, Austria: Department of Economics, Johannes Kepler University of Linz.
- Dell’Anno, R., Gómez-Antonio, M., & Pardo, A. (2007). The shadow economy in three Mediterranean countries: France, Spain and Greece. *A mimic approach. Empirical Economics*, 33 (1), 51–84. doi:10.1007/s00181-006-0084-3.
- Dilnot, A., & Morris, C. N. (1981). What do we know about the black economy? *Fiscal Studies*, 2 (1), 58–73. doi:10.1111/j.1475-5890.1981.tb00457.x
- Draeseke, R., & Giles, D. E. (1999). *A fuzzy logic approach to modelling the underground economy*. In Proceedings of the International Conference on Modelling and Simulation (Modism 99), University of Waikato, New Zealand, Vol. 2, pp. 453–458.
- Enste, D. H. (2018). The shadow economy in OECD and EU accession countries—empirical evidence for the influence of institutions, liberalization, taxation and regulation. In *Size, causes and consequences of the underground economy* (pp. 135–150). London: Routledge.
- Feige, E. L. (1979). How big is the irregular economy? *Challenge*, 22 (5), 5–13. doi:10.1080/05775132.1979.11470559
- Financial_Stability_Report-Issue_No._-3_July_2013.pdf. (n.d.). Retrieved November 29, 2023, from https://www.nrb.org.np/contents/uploads/2019/12/Financial_Stability_Report-Issue_No._-3_July_2013.pdf
- Frey, B. S., & Weck-Hanneman, H. (1984). The hidden economy as an ‘unobserved’ variable. *European Economic Review*, 26 (1-2), 33–53. doi:10.1016/0014-2921(84)90020-5.
- Giles, D. E. (1999a). Measuring the hidden economy: Implications for econometric modelling. *The Economic Journal*, 109 (456), 370–380. doi:10.1111/1468-0297.00440
- Giles, D. E. (1999b). Modelling the hidden economy and the tax-gap in New Zealand. *Empirical Economics*, 24 (4), 621–640. doi:10.1007/s001810050076
- Giles, D. E., & Caragata, P. J. (1998). *The learning path of the hidden economy: Tax and growth effects in New Zealand* (Tech. Rep.). Victoria: Department of Economics, University of Victoria.
- Giles, D. E., & Caragata, P. J. (2001). The learning path of the hidden economy: The tax burden and tax evasion in New Zealand. *Applied Economics*, 33 (14), 1857–1867. doi:10.1080/00036840110018720
- Gubhaju, R. (2023). Women Empowerment in Self Help Groups through Microfinance: A Case Study of Rautahat District. *Apex Journal of Business and Management (AJBM)*. 1(1), 33-54. <https://doi.org/10.5281/zenodo.8402577>
- Gutmann, P. M. (1977). The subterranean economy. *Financial Analysts Journal*, 33 (6), 26–27. doi:10.2469/faj.v33.n6.26
- Gyls, P. (2005). Economy, anti-economy, underground economy: Conceptual and terminological problems. *Ekonomika*, 72, 1–11. doi:10.15388/Ekon.2011.0.927
- Hart, K. (1985). The informal economy. *Cambridge Anthropology*, 54–58.

- Hassan, M. , & Schneider, F. (2016). Modelling the Egyptian shadow economy: A mimic model and a currency demand approach. *Journal of Economics and Political Economy*, 3 (2), 309–339.
- Hill, R. (2002). The underground economy in Canada: Boom or bust. *Canadian Tax Journal* , 50 (5), 1641–1654.
- Jöreskog, K. G. , & Goldberger, A. S. (1975). Estimation of a model with multiple indicators and multiple causes of a single latent variable. *Journal of the American Statistical Association*, 70 (351a), 631–639. doi:10.2307/2285946
- Kirchgässner, G. (2017). On estimating the size of the shadow economy. *German Economic Review*, 18 (1), 99–111. doi:10.1111/geer.12094
- Lyssiotou, P. , Pashardes, P. , & Stengos, T. (2004). Estimates of the black economy based on consumer demand approaches. *The Economic Journal*, 114 (497), 622–640. doi:10.1111/j.1468-0297.2004.00234.x
- Medina, L. , & Schneider, F. (2018). Shadow economies around the world: What did we learn over the last 20 years? (IMF Working Paper No. 18/17). Washington, DC: *International Monetary Fund*. doi:10.5089/9781484338636.001
- Onnis, L. , & Tirelli, P. (2015). Shadow economy: Does it matter for money velocity? *Empirical Economics*, 49 (3), 839–858. doi:10.1007/s00181-015-0914-2
- Pissarides, C. A. , & Weber, G. (1989). An expenditure-based estimate of Britain's black economy. *Journal of Public Economics*, 39(1), 17–32. doi:10.1016/0047-2727(89)90052-2 [
- Schneider, F. (2010). The influence of public institutions on the shadow economy: An empirical investigation for OECD countries. *Review of Law & Economics* , 6 (3), 441–468. doi:10.2202/1555-5879.1542
- Schneider, F. (2011). *Handbook on the shadow economy*. Massachusetts: Edward Elgar Publishing.
- Schneider, F. , & Enste, D. H. (2000). Shadow economies: Size, causes, and consequences. *Journal of Economic Literature*, 38 (1), 77–114. doi:10.1257/jel.38.1.77
- Schneider, F., & Enste, D. H. (2013). *The shadow economy: An international survey*. Cambridge: Cambridge University Press.
- Schneider, F. , Buehn, A. , & Montenegro, C. E. (2010). New estimates for the shadow economies all over the world. *International Economic Journal*, 24 (4), 443–461. doi:10.1080/10168737.2010.525974
- Suspicious Tax Evasion through Use of Personal Bank Accounts for Business Transaction. (2023).



