# NEPAL FINANCIAL INCLUSION REPORT 2023

IN PARTNERSHIP WITH

JAPANGOV
THE GOVERNMENT OF JAPAN

UKaid
from the British people

UNCDF
Impact Capital for Development

IFC International Finance Corporation
WORLD BANK GROUP
Creating Markets, Creating Opportunities

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# About IFC

IFC—a member of the World Bank Group—is the largest global development institution focused on the private sector in emerging markets. We work in more than 100 countries, using our capital, expertise, and influence to create markets and opportunities in developing countries. In fiscal year 2022, IFC committed a record $32.8 billion to private companies and financial institutions in developing countries, leveraging the power of the private sector to end extreme poverty and boost shared prosperity as economies grapple with the impacts of global compounding crises. For more information, visit www.ifc.org.

# About UNCDF

The United Nations Capital Development Fund (UNCDF) is the United Nation's flagship catalytic financing entity for the world's 46 Least Developed Countries (LDCs). With its unique capital mandate and focus on the LDCs, UNCDF works to invest and catalyse capital to support these countries in achieving the sustainable growth and inclusiveness envisioned by the 2030 Agenda for Sustainable Development and the Doha Programme of Action for the least developed countries, 2022-2031.

UNCDF builds partnerships with other UN organizations, as well as private and public sector actors, to achieve greater impact in development; specifically by unlocking additional resources and strengthening financing mechanisms and systems contributing to transformation pathways, focusing on such development themes as green economy, digitalization, urbanization, inclusive economies, gender equality and women's economic empowerment.

A hybrid development finance institution and development agency, UNCDF uses a combination of capital instruments (deployment, financial & business advisory and catalysation) and development instruments (technical assistance, capacity development, policy advice, advocacy, thought leadership, and market analysis and scoping) which are applied across five priority areas (inclusive digital economies, local transformative finance, women's economic empowerment, climate, energy & biodiversity finance, and sustainable food systems finance).

नेपाल राष्ट्र बैंक
NEPAL RASTRA BANK

गभर्नर
Governor

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**Governor's Message**

Financial inclusion is a crucial enabler in enhancing the quality of life of households and individuals, especially the low-income, as well as raising the productive capacity of micro, small and medium enterprises (MSMEs). Through improving access and usage to appropriate financial services that fully meet consumers' financial needs, the goal of financial inclusion is to increase economic and social inclusion by supporting people's needs and activities in the economy.

I would like to thank International Finance Corporation (IFC) for the implementation of the Access to Financial Services Nepal Project. The household survey on access to finance report summarizes some of the important findings including key deliverables. Nepal Rastra Bank would also like to acknowledge the funding support received for the project by IFC from the Government of Japan and Government of United Kingdom. I would also like to thank IFC for partnering with United Nations Capital Development Fund (UNCDF) in preparing the report which demonstrates development partners' collaboration to achieve a common goal of improving financial inclusion in Nepal.

Nepal Rastra Bank developed Nepal Financial Inclusion Roadmap (2017-2030) with support from UNCDF that presented necessary improvements to be done to achieve the goal of financial inclusion. The Nepal Financial Inclusion Action Plan, as an implementation plan of the roadmap, was prepared and approved by Nepal Rastra Bank in 2017, and has subsequently been under implementation. Given the fast-changing pace of financial markets in Nepal, the limited shelf-life of demand-side data, and the need to fine-tune the focus of financial inclusion activities at national level, it has been heartening to see IFC coming forward to carry out a fresh household survey on access to finance and providing updated insights through the report to inform and update financial inclusion priorities that can make an impact towards poverty alleviation.

The report indicates that a significant progress have been made in extending financial inclusion to a greater segment of the Nepali people. However, more need to be done to deepen the use of financial services, and to link the use of financial services to greater access to real economic services that serve the basic needs of households. I hope that this report plays an important role to academicians, readers, policy makers and practitioners.

**(Maha Prasad Adhikari)**

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# Abbreviations and Acronyms

| | |
|---|---|
| **A2F** | Access to Finance |
| **ADB** | Asian Development Bank |
| **ATM** | Automated Teller Machine |
| **BAFIA** | Bank and Financial Institution Act |
| **BFIs** | Bank and Financial Institutions |
| **CBS** | Central Bureau of Statistics |
| **CIAT** | Centro Internacional de Agricultura Tropica (International Center for Tropical Agriculture) |
| **DCGF** | Deposit & Credit Guarantee Fund |
| **DFS** | Digital Financial Services |
| **EFT** | Electronic Fund Transfer |
| **FAS** | Financial Access Survey |
| **FS** | Financial Services |
| **FSP** | Financial Service Provider |
| **FY** | Fiscal Year |
| **GDP** | Gross Domestic Product |
| **GTFP** | Global Trade Finance Program |
| **IBN** | Investment Board Nepal |
| **ICT** | Information and Communication Technology |
| **IFC** | International Finance Corporation |
| **ILO** | International Labour Organization |
| **IMF** | International Monetary Fund |
| **INFE** | International Network on Financial Education |
| **INFF** | Integrated National Financing Framework |
| **IT** | Information Technology |
| **km** | Kilometer |
| **KYC** | Know Your Customer |
| **LDC** | Least Developed Countries |
| **MAP** | Making Access Possible |
| **MFI** | Microfinance Institution |
| **MIS** | Management Information System |
| **MOF** | Ministry of Finance |
| **MOHP** | Ministry of Health and Population |
| **MOICS** | Ministry of Industry, Commerce and Supplies |
| **MOLESS** | Ministry of Labour, Employment and Social Security |
| **MSME** | Micro, Small and Medium Enterprises |
| **MW** | Megawatt |
| **NIA** | Nepal Insurers' Association |
| **NPR** | Nepalese Rupee |

| | |
|---|---|
| **NRB** | Nepal Rastra Bank |
| **NTA** | Nepal Telecommunication Authority |
| **OECD** | Organization for Economic Co-operation and Development |
| **OPHI** | Oxford Poverty and Human Development Initiative |
| **POS** | Point of Sale |
| **PSO** | Payment System Operator |
| **PSP** | Payment Service Provider |
| **QR** | Quick Response |
| **S&P** | Standard and Poor's |
| **SACCO** | Saving and Credit Cooperative |
| **SDGs** | Sustainable Development Goals |
| **SME** | Small and Medium Enterprises |
| **SSF** | Social Security Fund |
| **UNCDF** | United Nations Capital Development Fund |
| **UNESCO** | United Nations Educational, Scientific and Cultural Organization |
| **UNDP** | United Nations Development Programme |
| **UNICEF** | United Nations Children's Fund |
| **UNIDO** | United Nations Industrial Development Organization |
| **USD** | United States Dollar |
| **WBG** | World Bank Group |
| **WHO** | World Health Organization |

# 1. Introduction

International Finance Corporation (IFC), as part of the Access to Financial Services Nepal Project jointly implemented by Nepal Rastra Bank (NRB) and IFC, has carried out Nepal Household Survey on Access to Finance (IFC A2F 2021/22 survey). This report builds on the results of the survey and presents an update of the 2021 Nepal Financial Inclusion Making Access Possible (MAP) Refresh study by incorporating new data from inclusive growth-related development since the refresh study. IFC and the United Nations Capital Development Fund (UNCDF) have jointly produced the report for NRB with support from Beed Management Pvt. Ltd.

The 2021 MAP refresh study was carried out by UNCDF which reviewed the implementation of the 2016 MAP diagnostic study recommendations and the 2017-2022 Nepal Financial Inclusion Road Map and Action Plan. The latter considered key market changes and identified financial inclusion interventions for improvement that can bring positive growth of the economy and benefits to the society (UNCDF Nepal Financial Inclusion Country Report).

In order to meet the goals and objectives outlined in the National Financial Inclusion Roadmap for Nepal – "Access to affordable finance for all by 2030, with increased access to formal financial services" – and ensure broader development cooperation, the World Bank Group (WBG) and UNCDF MAP have collaborated to inform any realignment and update to the Financial Inclusion Roadmap, as well as amendment of the Nepal Financial Inclusion Action Plan in an effort to ensure that financial inclusion is able to enable poverty alleviation in order for Nepal to reach the Sustainable Development Goals (SDGs) targets. This co-owning of the process among the Bretton Woods Institutions together with the United Nations, development partners and national institutions will ensure the maximum impact on the SDGs through the implementation of the national financial roadmap as it ensures consistency in policy advocacy, programming and measurement of results in the financial inclusion arena.

## 1.1 The Importance of Financial Inclusion

Financial services industries play a crucial role in national economic development. Because financial services outputs feed into other industries, economies with highly priced and inefficient financial sectors will find their competitiveness in other industries affected as well. At the household level, people use financial services to meet their basic needs, but the financial services and mechanisms they use depend, among others, on the affordability of those services in relation to alternative mechanisms at their disposal.

Across the globe, financial inclusion is increasingly positioned as an enabler of broader economic growth and achieving development goals. While a well-developed banking system is essential for financial inclusion, an under-developed market is financial inclusion's nemesis. Where financial markets are shallow, and the pricing of bank products and services fails to address financial constraints of low-income groups, financial exclusion tends to persist. In many least developed countries (LDCs), conventional markets are often far from competitive, and demonstrate a high degree of inefficiency.

Impressive gains on the financial inclusion front have been achieved in the past decade, with the World Bank finding that 71% of people in developing countries have an account with a formal financial institution in 2022.[1] However, worldwide, 1.4 billion people still remain unbanked. Similarly, while two-thirds of adults worldwide now make or receive a digital payment, only 36% of adults in developing economies responded that they received a payment into an account in the past year. Closing the "unbanked gap" therefore remains critical for ensuring equality in access to finance. Moreover, as mobile technology is now critical for banking and accessing governments services, financial exclusion would go hand in hand with exclusion from online digital services as well.

The rapid acceleration of technology has laid the foundation for a transition to an evolved financial services sector, in which a more level playing field is closer than before given the potential of technology to be more democratic and inclusive at a lower cost, making access possible for everyone. While conventional banks are challenged by new entrants into financial services, increased competition and innovation bring benefits for consumers, and are also good for accelerating financial inclusion. Moreover, in the emerging world of digital and crypto payments, financial markets are evolving into new financial ecosystems. These ecosystems provide a much wider range of products and services than has ever existed with new hybrid banking products and instruments emerging with increased regularity, especially at the retail level which will have upward implications for the banking system in general.

An evolving financial service sector also promises to enable and promote financial inclusion by accessing untapped, unbanked and underserved clients across markets. Given that the growing gulf between the 'Haves and Have Nots' threatens social cohesion and the strength of the social contract, particularly among the youth, determining the potential to extend financial inclusion by examining the costs of financial services to the poor, the extent of market competition and the availability of appropriate products and services within the existing market structures for the low-income countries becomes increasingly important.

## 1.2 Nepal's Efforts in the Area of Financial Inclusion

The government of Nepal has recognized financial inclusion as a key pillar for national economic growth under its Financial Sector

[1] WB. https://www.worldbank.org/en/news/feature/2022/07/21/covid-19-boosted-the-adoption-of-digital-financial-services

Development Strategy 2017-2022. Likewise, NRB has been carrying out various efforts to enhance access, usage and quality of financial services at the individual level. NRB has an explicit focus on driving the financial inclusion agenda: there is a dedicated Financial Inclusion and Consumer Protection Division within the Office of the Governor. The NRB aims to achieve financial stability by promoting financial inclusion through enhancing financial literacy, protecting financial consumers and increasing access to finance. Financial digitalization is considered crucial to achieving financial inclusion.

NRB has been a member of the IFC's Sustainable Banking Finance Network since 2014, and since 2018, has been including a social focus in its sustainable finance approach, alongside environmental considerations.[2] For instance, in 2018, NRB issued Guidelines on Environmental & Social Risk Management for Banks and Financial Institutions (BFI). Notably, since 2020 NRB has been including elements of financial inclusion within its sustainable finance approach – for instance issuing a Financial Literacy Framework (2022) to promote financial education and inclusion.

As a member of the Alliance for Financial Inclusion, NRB is committed to providing opportunities to the unbanked population and addressing the challenges they face, and has been continuously working to achieve financial inclusion. To this end, NRB developed the Nepal Financial Inclusion Action Plan with the overarching objective of expanding access to formal financial services and affordable financing for all by 2030.

The IFC A2F 2021/22 Survey was meant to provide comparable updated indicators for the Nepal Financial Inclusion Roadmap and Action Plan (2017–2022)[3] to set the basis for adopting policies for the low-income market to grow, based on the analysis of the current usage of financial services. Per the MAP Refresh study (2021), of the 53 activities outlined in the Nepal Financial Inclusion Action Plan, 10 activities have been completed. The majority of activities (about 38) have seen some level of progress, whereas in some instances despite some level of progress the desired outcome has not been clearly realized. Around 5 activities have not seen any progress so far.

Due to continued efforts, Nepal has come a long way in terms of financial inclusion. Per the World Bank 2006 Access to Financial Services in Nepal report, only 26% of Nepalese households had a bank account, and banks' procedures were perceived as being the most cumbersome among financial institutions. In 2014/15, per the MAP Finscope Study, 61% of adult population (age 18+) reported using at least one financial service from a formal financial service provider (FSP), indicating advancement of financial inclusion, with only 18% of the adult population being financially excluded from both formal and informal services. The 2021 NRB report mentions that 67.3% of the population have access to bank accounts. Similarly, 26% of the population has access to formal insurance in 2019, compared to 11% in 2015.[5]

There has also been a rapid expansion of financial services over the past five years, with financial institutions and/or banks reaching 752 of the country's 753 local bodies. In addition, in order to accommodate the new government structure, NRB has converted its former regional branch offices into provincial offices. Similarly, commercial banks have begun establishing provincial headquarters with provincial management structures to improve and facilitate financial services at the local level. Currently, provincial and local branches of commercial banks work directly with provincial

[2] WB.
https://documents1.worldbank.org/curated/en/099350306132233890/pdf/IDU05201454c0d7ac04443092d80a0e573a7c40c.pdf

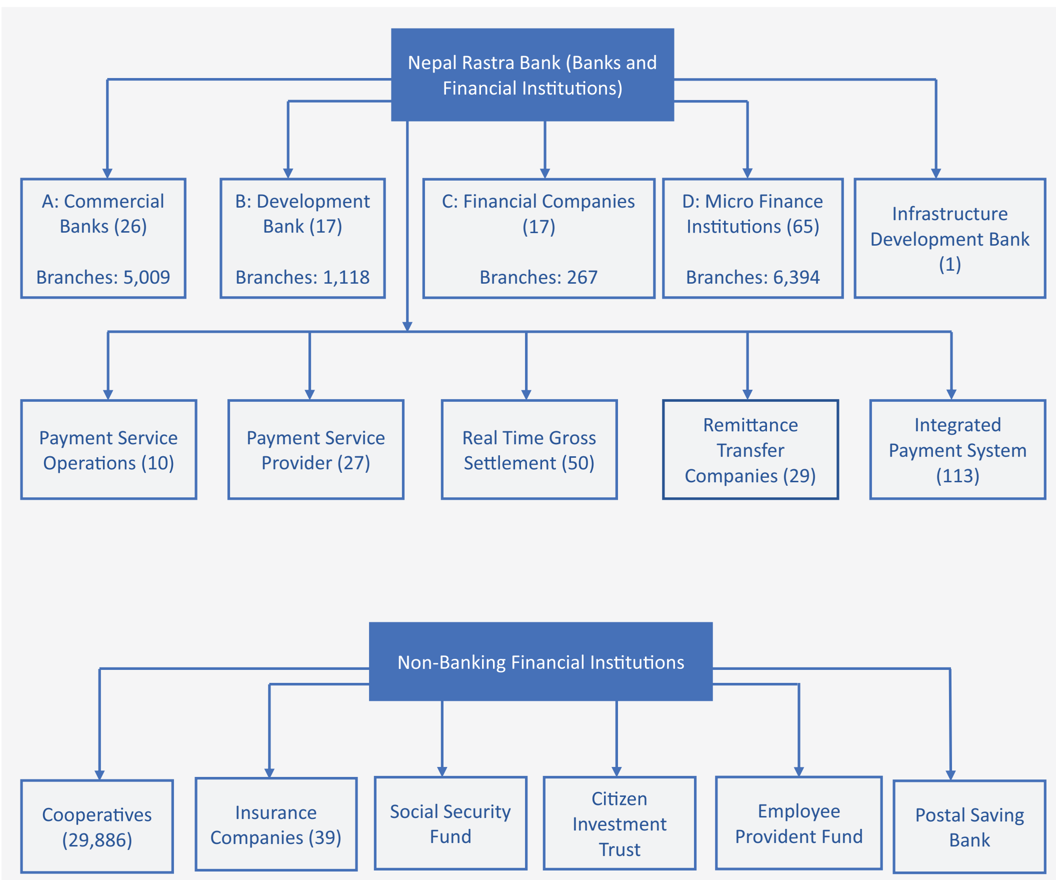
[3] The analysis for this report is derived from the Household Survey on Access to Finance (A2F) 2021-22 carried out by the IFC in partnership with the UNCDF. Nationwide, 2,528 adults (aged 16 and older) were sampled for the study. In 2014, UNCDF, in partnership with the Central Bureau of Statistics (CBS) had conducted a comparable survey, the Nepal Consumer Survey also known as FinScope Study, in which more than 4,014 adults (aged 18 and older) samples were collected. The methodology adopted by both the surveys are deemed to be comparable, and the access strand analysis uses data on adults 18 years and older, to be comparable to the 2014 FinScope survey.

[4] Economic Survey 2020/21, Ministry of Finance (MOF).

and local governments to promote and expand access to financial services.

The financial system of Nepal is comprised of banks and other financial institutions, non-bank financial institutions, the capital market, the insurance market, and financial cooperatives. In recent years, the financial sector has expanded and consolidated, with many new institutions emerging to serve the new domains driven by digitization and new product markets. The figure below provides the composition of Banking and Non-Banking Financial Institutions in Nepal.

**FIGURE 1: COMPOSITION OF BANKING AND NON-BANKING FINANCIAL INSTITUTIONS IN NEPAL**




*Source: NRB, Nepal Insurance Authority and Department of Cooperatives, mid-November 2022*

# 2. Overview of Financial Inclusion Dimensions in Nepal

This section is organized around three key dimensions of financial inclusion: Access, Usage and Quality. Access indicators reflect the physical access aspects, such as the penetration of bank branches and other points of service (automated teller machines (ATMs) etc.). Usage reflects how people use a range of financial services (accounts, savings, credit etc.). The dimension of quality describes whether financial products and services match clients' needs and clients' awareness and understanding of financial products, as well as covers the topics like financial literacy and financial consumer protection.

## 2.1 Access to Financial Services

This section looks at the access to financial services, mainly considering access to Bank and Financial Institutions (BFIs). Internationally, data on financial services access points are regularly collected by the International Monetary Fund (IMF) as part of the IMF Financial Access Survey (FAS).[5]

**TABLE 1: KEY FAS INDICATORS, NEPAL (2019 – 2021)**

| Key FAS Indicators | 2019 | 2020 | 2021 |
|---|---|---|---|
| Number of ATMs per 100,000 adults | 16.46 | 19.80 | 20.26 |
| Number of commercial bank branches per 100,000 adults | 17.79 | 21.52 | 22.27 |
| Number of depositors with commercial banks per 1,000 adults | | | |
| Number of borrowers from commercial banks per 1,000 adults | | | |
| Outstanding deposits with commercial banks (% of GDP) | 74.63 | 89.75 | 98.31 |
| Outstanding loans from commercial banks (% of GDP) | 64.70 | 74.84 | 86.96 |
| Outstanding small and medium enterprise (SME) loans from commercial banks (% of GDP) | | | |
| Number of registered mobile money agent outlets per 1,000 km2 | 585.99 | 975.69 | 1,458.90 |
| Number of registered mobile money accounts per 1,000 adults | 188.67 | 266.48 | 420.18 |
| Value of mobile money transactions (during the reference year) (% of GDP) | 1.47 | 3.79 | 10.97 |

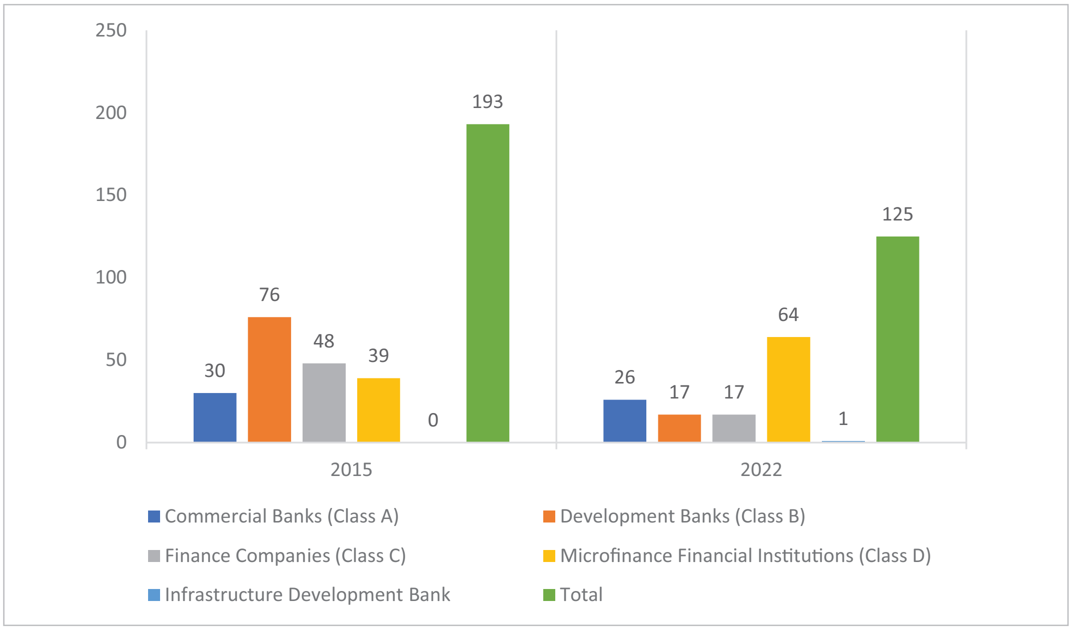
*Source: IMF FAS*[6]

[5] IMF. https://data.imf.org/?sk=E5DCAB7E-A5CA-4892-A6EA-598B5463A34C

[6] IMF. https://data.imf.org/?sk=E5DCAB7E-A5CA-4892-A6EA-598B5463A34C&sId=1460043522778

The total number of BFIs has decreased, however, the number of access points has grown sharply since the previous MAP study in 2016. The Mergers and Acquisition Bylaws (2011) adopted by NRB have resulted in overall decrease in the number of BFIs from 222 in 2015 to 125 as of mid-November 2022. The reduction in the total number of BFIs is the result of a significant decrease in the number of development banks and financial companies, while the number of commercial banks decreased marginally. However, the number of microfinance institutions (MFIs) increased which was aimed towards increasing financial access for low-income households, women and micro and small enterprises.

**FIGURE 2: CHANGE IN NUMBER OF BFIS BETWEEN 2015 – 2022**




*Source: Nepal Rastra Bank, 2022*

Despite the decrease in the total number of BFIs, the numbers of financial access points have significantly increased over the years. Bank branches, ATMs, and branchless banking centers have expanded in number since the previous MAP assessment, with expansion across all provinces and local levels. By mid-July 2022, BFIs had opened 11,528 branches in 752 of 753 local levels.[7] As per NRB, the number of branches of commercial banks, development banks, and finance companies per 100,000 population in 2021 stood at 18.98[8] which is largely in line with the IMF FAS data (the latter cites statistics per 100,000 adult population).

According to NRB data, rural municipalities have roughly 16% of the total branches,[9] while sub-metropolitan and metropolitan cities have the rest. The number of BFIs' ATMs has also expanded from 1,985 in mid-July 2017 to 4,602 in mid-July 2022, an increase of 131% in the last five years.[10] According to NRB, a total of 20.35% of the total population uses ATMs, among which 22.47% are male and 16.53% are female.[11] Despite the progress, there are far fewer physical access points in rural areas where the bulk of the country's population still lives.

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[7] Monthly Statistics, Mid-July 2022, NRB and Situation of Microfinance Institutions, Mid-July 2022, NRB

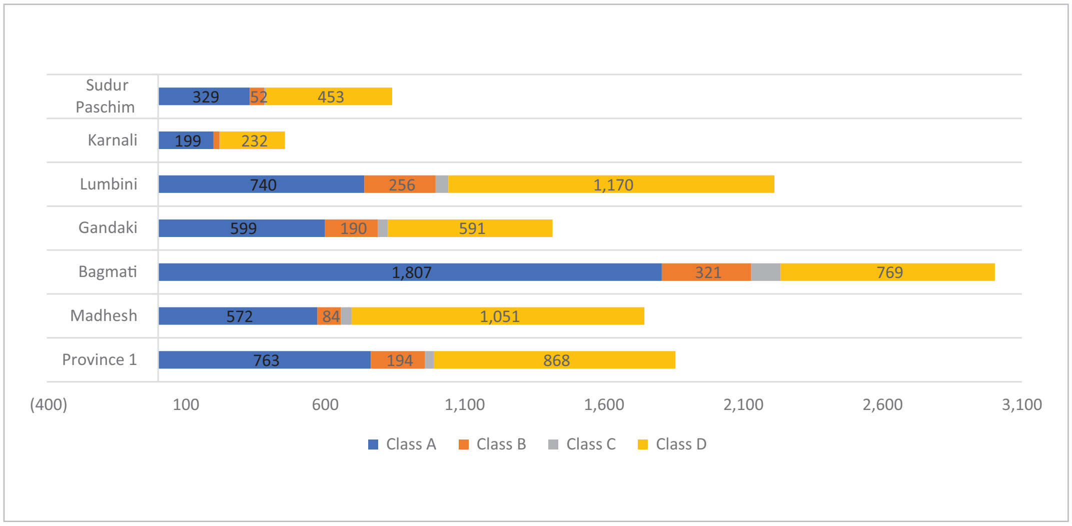
[8] Financial Access in Nepal Report, NRB, 2021

[9] Financial Access in Nepal Report, NRB, 2021

[10] Ibid.

[11] Ibid.

**FIGURE 3: NUMBER OF BRANCHES OF BFIS IN EACH PROVINCE (2022)**




*Source: NRB Monthly Statistics, mid-July 2022*

**MFIs and financial cooperatives are increasing their footprint.** Compared to 2016, the number of people who have had access to the services of MFIs across Nepal has increased significantly. As of mid-July 2022, the total number of members of MFIs reached 5.93 million,[12] an increase of 213% from 2016. Likewise, the total savings membership increased by 233% from 1.87 million in mid-July 2016 to 6.24 million as of mid-October 2022.[13] The total number of borrowers also saw a 264% increase from 1.29 million in 2016 to 4.70 million as of mid-October 2022.[14] Furthermore, the total MFI groups[15] went up from 366,547 in 2016 to 1.36 million as of mid-October 2022, a 277% increase.[16]

The improvement in access to finance can also be attributed to the contribution of financial cooperatives. As per economic survey 2022, there were around 30,879 cooperatives operating in Nepal with over 7.3 million members[17]. In terms of Savings and Credit Cooperatives (SACCOs), as of July 2018,[18] their number increased to 13,917 from 13,460 in July 2015. Similarly, the number of SACCOs' members increased from 2.7 million in July 2015 to 3.4 million in July 2018.[19]

The improvement in financial access in rural areas has been driven by the penetration of MFIs and SACCOs. The increase in the availability of commercial banks in 752 of 753 local levels has been driven by the mandatory policy of NRB to expand services of commercial banking at each local level. Therefore, even though the availability of commercial banks is increasing, financial services from such banks are limited in rural areas due to the low business prospects. This has resulted in a disparity in access to quality financial services in rural and urban areas.

12 Monthly Statistics of Banking and Financial Institutions, Mid-July, 2022, NRB

13 Ibid.

14 Ibid.

15 Groups formed to access credit from MFIs.

16 Ibid.

17 The Department of Cooperatives does not provide disaggregated data whether these are unique members or not.

18 Data for SACCOs after 2017 are not available because many cooperatives are under the jurisdiction of local bodies, as required by the new constitution, thereby lacking the aggregation of the performance of these cooperatives.

19 NRB, 2020. Financial Access in Nepal.

## 2.2 Usage of Financial Services

This section presents data on the overall usage of financial services in 2022 and compares the findings with the 2014 FinScope.[20] Further, this section explores usage of financial services in terms of geographical area, gender and target markets. Internationally, data on usage has been regularly collected through the World Bank Global Findex Survey; key results of this survey (Findex 2021) are referenced in this section, as relevant, to put the MAP findings in perspective.

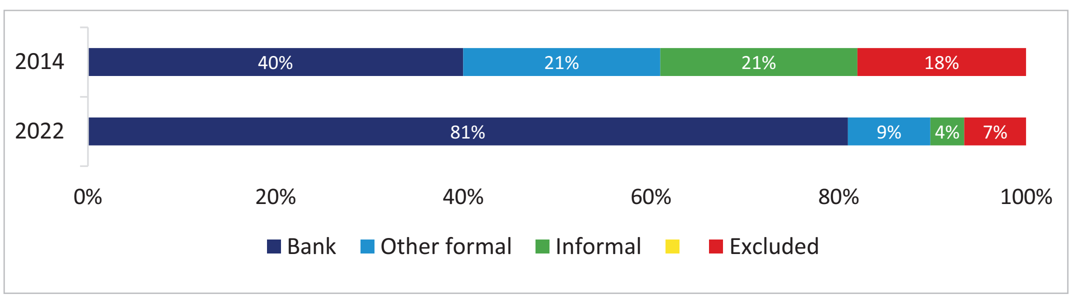
**Ninety percent of adults use various formal financial services.**[21] The percentage of adults who use formal financial services (from banks and other formal providers) has increased from 61% in 2014 to 90% in 2022. This includes using services such as bank accounts, savings, credit, payments and insurance.

Broken down, 81% use banking services while 9% use other formal financial services. Notably, the number of adults who use informal channels has gone down significantly from 21% in 2014 to 4% in 2022, while the number of adults who don't use any type of formal or informal financial services (the excluded) has gone down from 18% in 2014 to 7% in 2022. In 2014, 61% of adults used formal financial services, wherein 40% used banks and 21% used other formal channels. In 2014, 21% used informal channels while 18% adults did not use any financial services (the excluded).

In terms of **account ownership** (a metric commonly used to measure the number of "banked" people in a country), while Findex showed 53% of adults having an account in a financial institution in 2021, the IFC A2F 2021/22 Survey suggests that this number may be higher and reaches 81%[22] in 2022.

The uptake of overall formal financial services has been largely driven by both banking and insurance sector service expansion across the country under the new federal structure, and the uptake of digital financial services amidst the growing mobile and internet penetration.

**FIGURE 4: USAGE OF FINANCIAL SERVICES**




*Source: FinScope, 2014 and IFC A2F 2021/22 Survey*

[20] The research methodology and the analytical framework are provided in Annex 1.

[21] Formal financial services include those provided by financial institutions, banks and other formal providers. "Financial institutions" include those that are regulated by government bodies; "banks" include financial institutions regulated by NRB; "other formal providers" include financial institutions such as financial cooperatives.

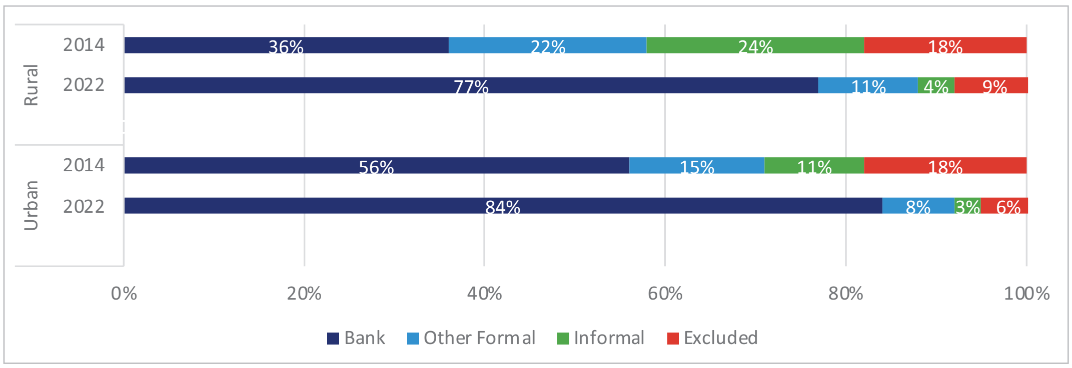
[22] Account maintained at a bank, development bank, finance company, and microfinance institution, including savings and credit cooperatives, mobile banking or other formal financial institutions.

**The usage of formal financial services has significantly risen not only for the urban population, but also for the rural population as well.** In rural areas, the usage of formal financial services increased to 88% in 2022 from 58% in 2014 wherein 77% use banking services and 11% use other formal financial services. Back in 2014, urban population was better served by formal services with 71% of urban adults having access to formal financial services; this has now grew to 92% in 2022. Notably, the usage of informal channels and the share of excluded groups have significantly decreased in both areas.

**Yet the urban/rural divide still persists:** Per Findex 2021, 50% adults from rural area have an account at a financial institution whereas in urban areas, 60% adults have an account.

The concentrated and mandatory branch expansion of bank branches in all the local levels including the ones in the rural areas under the new federal structure, distribution of social benefits via bank accounts and cohesive efforts from both the local level governments and the private sector to drive financial services are some of the determining factors increasing the uptake of formal financial services in the rural areas.

**FIGURE 5: USAGE OF FINANCIAL SERVICES BY LOCATION (URBAN/RURAL)**



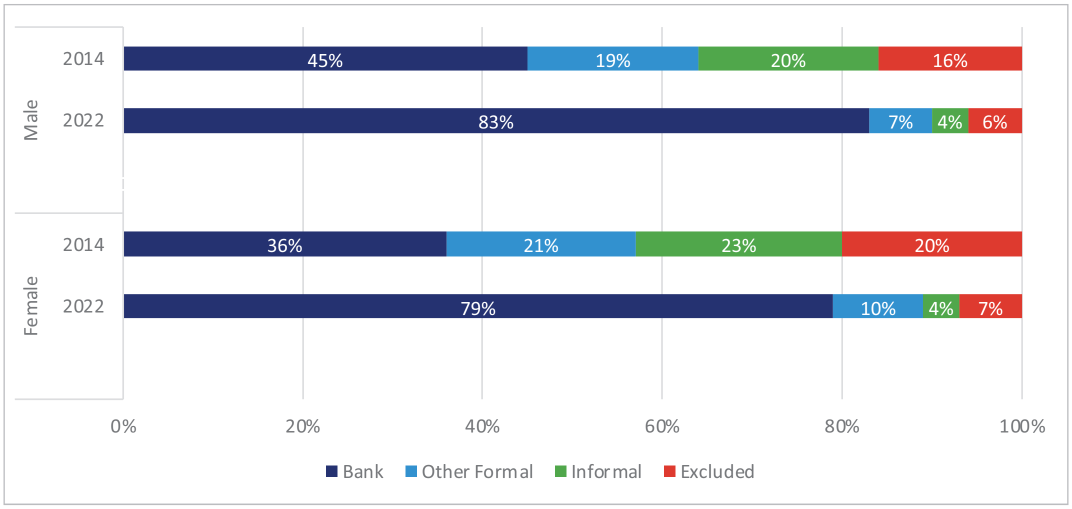

*Source: FinScope, 2014 and IFC A2F 2021/22 Survey*

**The gender gap has significantly narrowed across the board; however, a slight gap in terms of overall usage of banking services remains.** Overall, there has been a notable improvement in usage across both genders. In 2022, 89% women and 90% men have access to formal financial services (bank and other formal), which was only 57% and 64% respectively in 2014. With the increment in usage of formal financial services, the usage of informal service providers and the size of excluded groups have also gone down to below 5% and 7%, respectively, across both genders.

**Breaking down the data by types of services, the gender gap appears to be deeper in some areas.** Despite narrowing the gap over the years, there is still a gap in usage of banking services between male and female adults, with 83% of men using banking services compared to 79% of women. In terms of account ownership, according to Findex 2021, 50% of women and 56% of men have an account at a financial institution.

The growth and the narrowing of the gender gap can be primarily attributed to gender balanced regulations, financial inclusion drive by all three tiers of governments, i.e., local, provincial and federal governments, as well as government-supported access programs such as concessional loans targeted towards women.

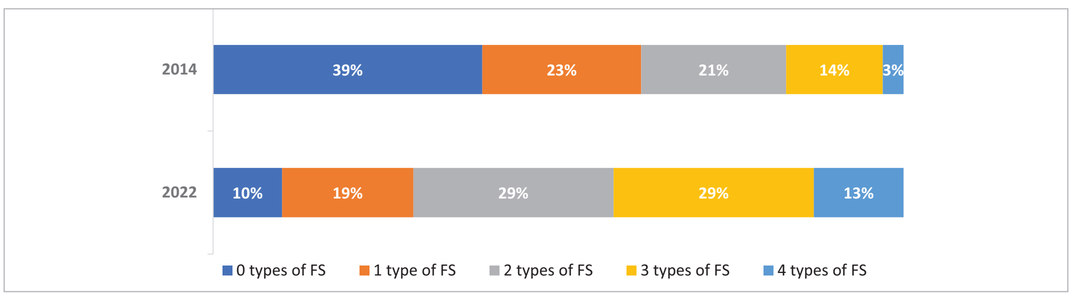
**FIGURE 6: USAGE OF FINANCIAL SERVICES BY GENDER**




*Source: FinScope, 2014 and IFC A2F 2021/22 Survey*

**Improvement in the usage of more than one formal financial services:** Figure 7 provides the percentage of all adults in terms of their use of different formal financial service types (payments, savings, credit or insurance). Adults can therefore use none of these types (zero), only one type, or more than one type (maximum of four) financial services at any given time. Compared to 2014 when 37% of adults used more than one type of formal financial services, such usage has gone up to 71% in 2022. The increase in the usage of more than one formal financial service type could be a result of cross-selling or bundling of financial products and higher uptake of digital financial services.

**FIGURE 7: MULTIPLE USAGE OF FORMAL FINANCIAL PRODUCT TYPES BY ADULTS**




*Source: FinScope, 2014 and IFC A2F 2021/22 Survey*

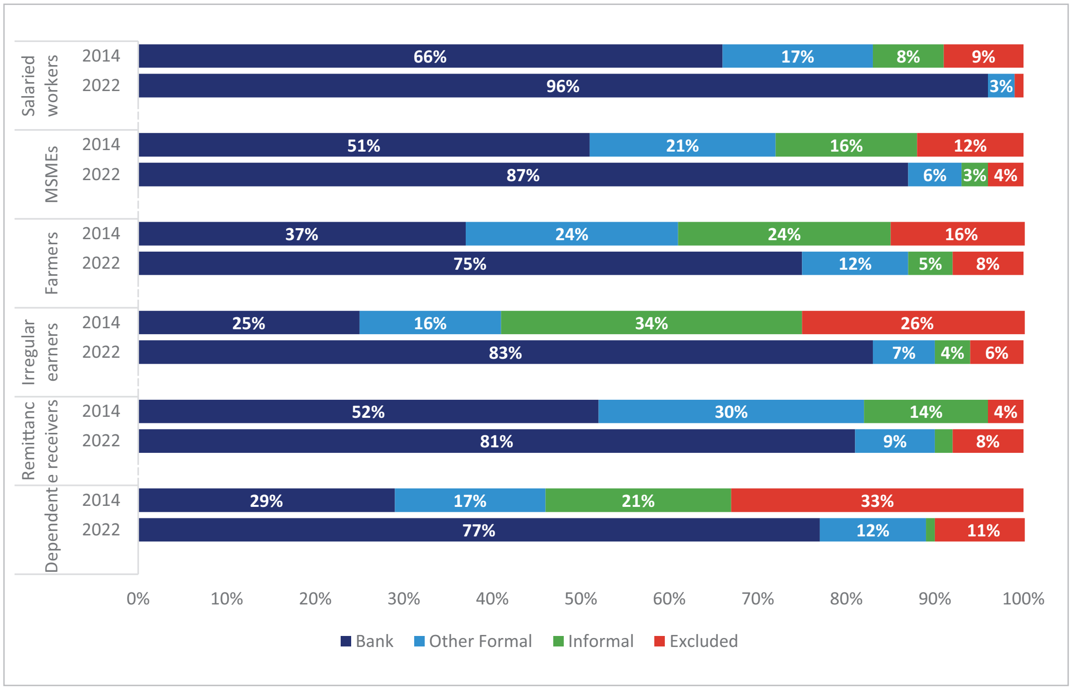
**Greater usage of financial services across target markets:** In order to better understand and unpack demand-side behaviors, assess the nature of uptake and identify key priority areas for future extension of financial services, the adult population was segmented into distinct target groups in FinScope 2014, and this segmentation was preserved in the current study as well.[23] The segments include: dependents; remittance receivers; irregular earners; farmers; micro, small and medium enterprises (MSMEs); and salaried workers.

**The usage of formal financial services has improved across all of the target markets.** Apart from the best served target markets with consistent income and urban living such as remittance receivers, salaried workers, and MSMEs, other target markets such as dependents and irregular earners have also observed greater level of financial services usage. For instance, 33% of dependents were excluded from any type of formal or informal services in 2014, which has come down to only 11% in 2022. Similarly, access to banking services has increased to 77% from 29% among dependents.

[23] The definition and methodology adopted for the target markets is available in the 2014 MAP diagnostic study: UNCDF Nepal Financial Inclusion Country Report.

The reliance on informal channels has also come down significantly across the target groups. For instance, 34% of irregular earners used informal channels for their financial needs in 2014 which has come down to only 4% in 2022.

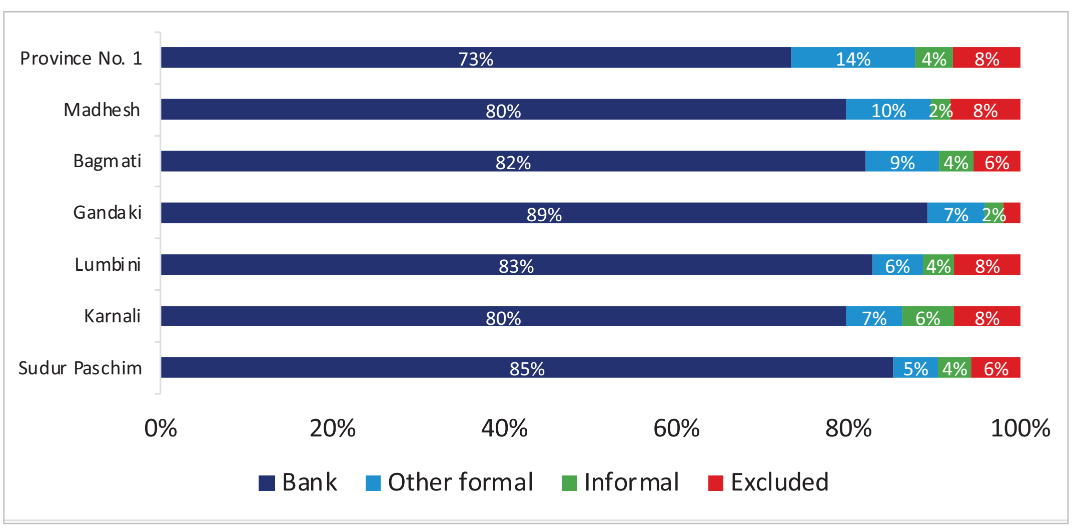
**FIGURE 8: USAGE OF FINANCIAL SERVICES BY TARGET MARKETS**




*Source: FinScope, 2014 and IFC A2F 2021/22 Survey*

**The overall uptake of financial services is mostly uniform across the provinces, with Gandaki and Bagmati Provinces slightly leading the way:** All seven provinces are better served by formal financial services (bank and other formal) in light of the new federal framework. Access to formal financial services is highest in Gandaki Province at 96%, followed by Bagmati Province at 91%. At 87%, Province No. 1 and Province Karnali have the lowest usage. Similarly, there are no substantial disparities across provinces in terms of informal channel utilization. Karnali Province has slightly higher informal channel usage than other provinces, with 6%, while Gandaki Province has the lowest excluded category, at 2%, with the remaining provinces' averages ranging between 7% and 8%.

**FIGURE 9: ACCESS TO FINANCIAL SERVICES BY PROVINCE**

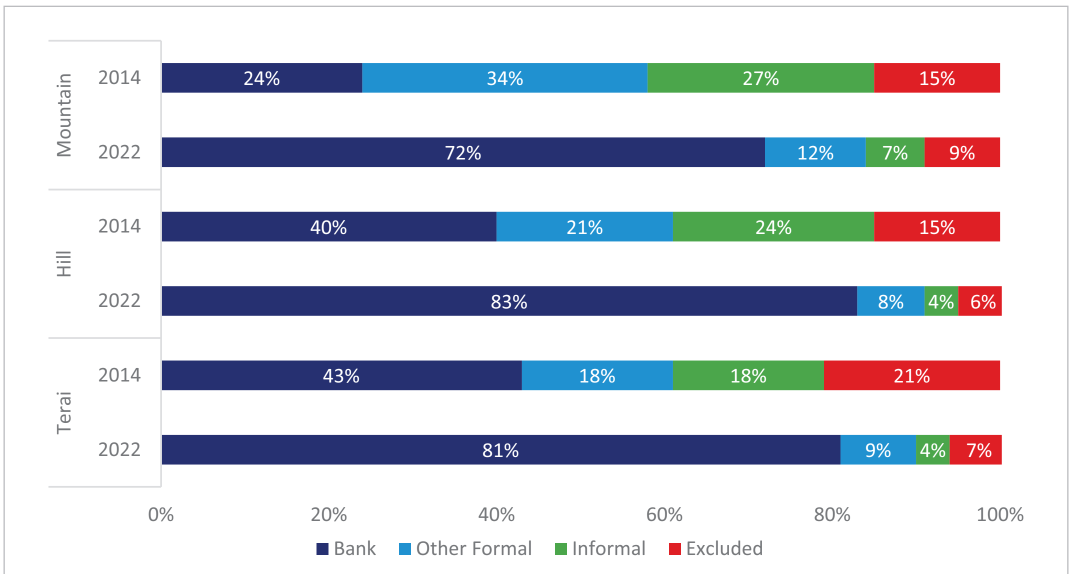



*Source: FinScope, 2014 and IFC A2F 2021/22 Survey*

In terms of products, i.e., savings, credit, insurance and payments, the uptake is mostly uniform across the provinces as well. In terms of savings, Gandaki Province (73%) has the highest percentage of adults with access to formal savings followed by Sudurpaschim (69%) and Bagmati Province (66%). In Gandaki Province, 42% save at banks while 31% save at other formal institutions. In terms of credit, Madhesh (54%) and Sudur Paschim (53%) provinces have slightly higher proportion of adults with formal credit access compared to other provinces. The uptake of formal insurance is highest at 39% in Province 1 followed by Gandaki Province at 36%. Lastly, in terms of payments, Gandaki Province (85%) has the highest usage of banking channels for payment services followed by Sudurpaschim Province (83%) and Bagmati Province (77%) respectively. Karnali Province (61%) and Province 1 (66%) have slightly lower usage of banking services for payment activities.

**With higher financial services take-up in all the geographic regions, bank access has significantly gone up across three regions.** In terms of geographic regions in Nepal, the Hill and Terai regions are better served with formal financial services (90% of adults in both regions have access) when compared to the Mountain region (84% of adults in this region have access). The usage of banking services has significantly gone up across the regions: the usage of banking services in both Terai and Hill regions has gone up above 80% while in the Mountain region is slightly behind at 72% of adults. It has to be noted that the usage of banking services in 2014 in the Mountain region was only 24%, while in both Hill and Terai areas the usage was around 40%.

**FIGURE 10: FINANCIAL ACCESS BY GEOGRAPHIC REGION**




*Source: FinScope, 2014 and IFC A2F 2021/22 Survey*

**Key barriers to the usage of financial services from formal financial institutions:** According to the IFC A2F 2021-22 survey results, among the surveyed adults who did not have a bank account – 19% of all of the respondents, 30% reported that they did not need it, 23% did not have enough money left after their expenses, and 19% felt that they did not have enough money to put in a bank account. An additional barrier to opening a bank account was lack of necessary documents, with 5% of the respondents citing this as the reason. Similarly, the barriers to using mobile money service were lack of knowledge on opening an account (43%), difficulty to use mobile money platforms (18%), and lack of access to agents and points of service (5%).

Despite the overall growth of financial service users, when broken down, the usage of specific formal services remains low. For example, only 47% use formal credit services, 63% - formal savings services, 76% - payments via banks and 29% - insurance from formal providers. In many cases, usage is limited to transactional accounts only. For instance, opening up a bank account is mandatory to collect social benefits from the government. Nonetheless, the usage of such account is limited to receiving cash; and as such benefits are mostly withdrawn by the beneficiaries promptly, these accounts remain dormant thereafter. Likewise, the remittance received by beneficiaries in a bank account is mostly withdrawn from the bank account immediately, with less than 20% of such transfers are retained in financial institutions.

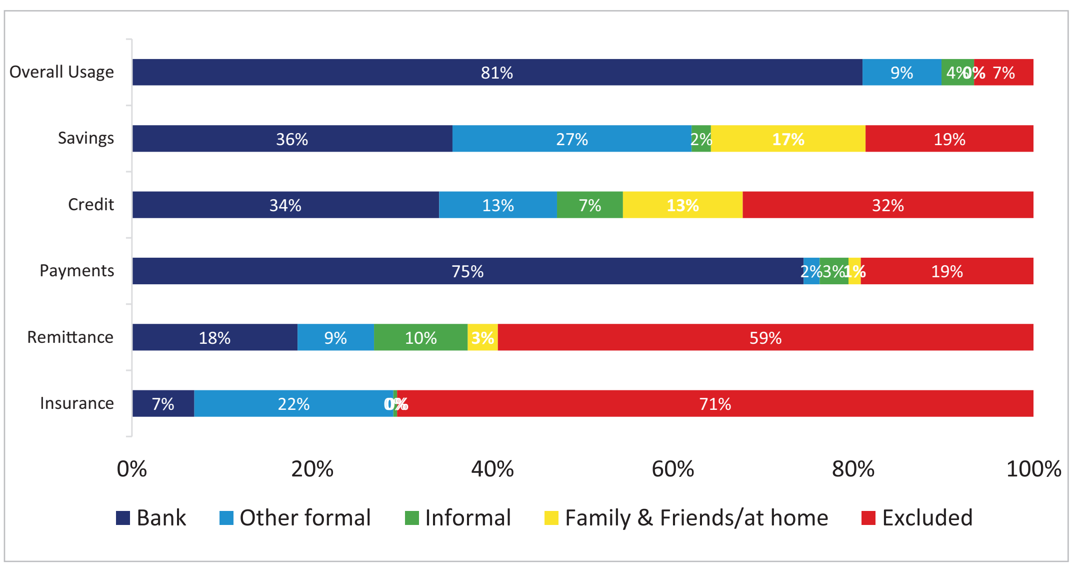
The results of Findex 2021 further corroborate insufficient usage: 26% of those with accounts have an inactive account. On average, among all female adults, 14% of accounts are inactive while among males, 15%.

Cash is still widely used due to people's reluctance to use formal financial services, with most products offered by financial institutions not being tailored for small-value savings/investments. Lack of understanding of consumer needs and consumption patterns, along with insufficient willingness of service providers, often present a challenge for advancing access to finance for the low-income. To increase the usage of such bank accounts beyond cash-out transactional accounts, financial service providers need to enhance their services to be more customer-oriented, convenient and cost effective.

## 2.3 Usage Across Financial Products

This section explores the uptake of financial services by products (Figure 11). An in-depth exploration of financial services usage and provision of each product will continue in the section below. The detail supply-side analysis for each product market is available in 2021 MAP Refresh study.[24]

**FIGURE 11: FINANCIAL SERVICES USAGE ACROSS PRODUCT MARKETS**




*Source: IFC A2F 2021/22 Survey*

[24] UNCDF Nepal Financial Inclusion Refresh.

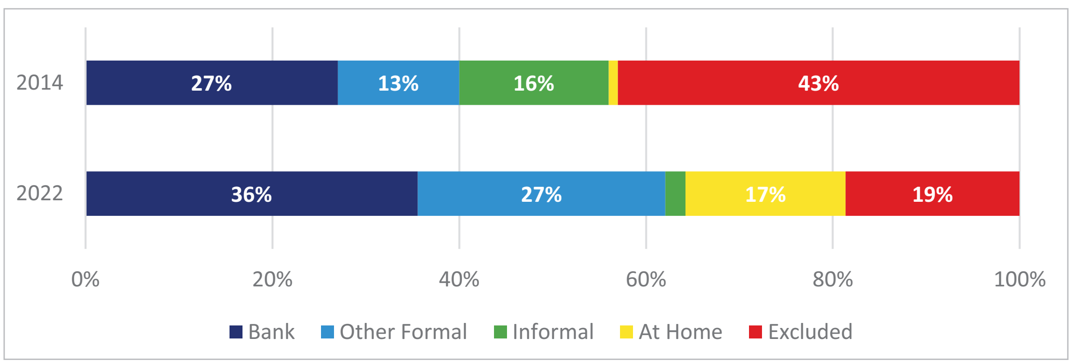
### 2.3.1 Savings Market

Growth in savings with other formal financial service providers is higher than with the banks: The number of adults who save in formal financial institutions has increased from 40% in 2014 to 63% in 2022, with 36% of adults saving in banks and 27% saving in other formal financial institutions – mainly SACCOs which are not regulated by NRB. As of 2022, the growth in savings at other formal financial service providers is higher than that with the banks, as savings with a bank increased from 27% to 36% while savings with other formal financial service provider increased from 13% to 27% in 2022.

Findex 2021 shows largely similar trends in 2021: 30% of adults store money using a financial institution or a mobile money account, with 29% of adults storing money at a financial institution only.

While there is growth in the usage of formal savings, informality and exclusion still persist. The number of adults who save in informal institutions has dropped from 16% in 2014 to 2% in 2022, while the number of adults who save at home has increased from 1% in 2014 to 17% in 2022. While the excluded group has decreased significantly to 19% from 43% in 2014, together with those who save at home thus self-excluding from saving with institutions, this share still represents about 36% of the population.

**FIGURE 12: USAGE OF SAVINGS**




*Source: FinScope, 2014 and IFC A2F 2021/2022 Survey*

**Per the IFC A2F 2021/22 results, the usage of formal savings mechanisms varies by gender (with women being more active savers), and there is a gap across urban and rural areas.** The usage of formal savings mechanisms is higher among women, with 66% of them saving using formal channels (banks – 33% and other formal financial service providers – 32%) while men are trailing lower at 59% (banks – 38% and other formal finance service providers – 21%). Urban adults have higher usage of formal savings channels at 64%, while rural adults have usage at 58%.

Among adults who do not save, the major two reasons for not savings at a formal financial institution are: no need (30%) and not enough earnings to save after expenses (23%).

**The higher usage of formal financial service providers for savings could be attributed to efforts from BFIs offering innovative or customized savings products for women.** Additionally, mothers tend to be the primary nominees for their children's savings account, and the majority of remittance receivers are also women.

**All three levels of government have been promoting formal savings.** The federal government's "one person, one bank account" campaign and the need for a bank account to get social security benefits have expanded savings account use. The federal, provincial, and local governments are working with BFIs to increase financial access and reduce informal channels. Along with NRB directives increasing access points of formal financial institutions across the country, other policies like requiring mandatory bank accounts for migrant workers to get foreign employment permits and providing additional 1% interest on remittance deposit accounts have encouraged many migrant workers and remittance-receiving households to use formal channels to remit and save. In a recent move, the government has allowed Nepali migrant workers abroad to participate in primary market Initial Public Offerings. Companies acquiring public capital must now allocate 10% of their shares to overseas migrant workers, and to be eligible such workers need to have a formal remittance-receiving bank account, which is expected to drive both formal remittances and savings in banks.

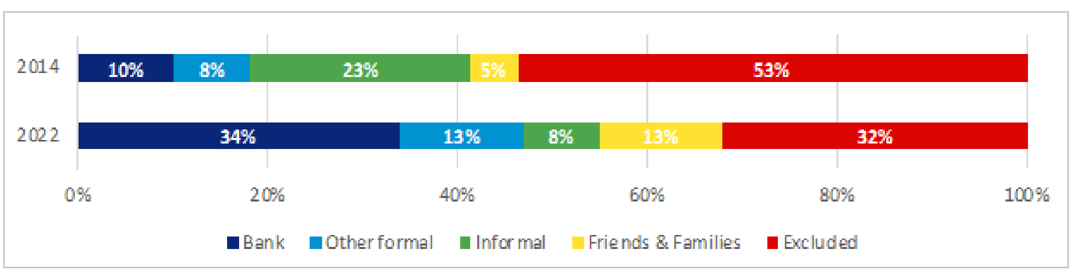
**The growth has largely been aided by attractive return on long-term deposit accounts resulting in a rise of formal savings.** The role of NRB has also been instrumental in driving long-term deposits, as the share of total fixed deposit accounts has surpassed savings accounts. As of mid-July 2022, fixed deposits accounted for 55%, savings deposits – for 27.2%, demand deposits – for 9% and other deposits – for 8.8% of the total deposits.[25]

Further, innovative savings products, active marketing, and linking savings accounts with insurance packages also drive formal savings. This rise has resulted in increasing the pool of domestic finance allowing the financial institutions to aggregate these savings towards productive sector investments thus supporting Nepal's overall development goals and attaining SDGs.

### 2.3.2 Credit Market

***Uptake of formal credit increasing:*** The usage of formal credit increased significantly as of 2022 compared to 2014. While only 18% of adults accessed credit from formal financial institutions (bank and other formal) in 2014, this has increased to 47% as of 2022, out of which 34% used banks while 13% used other formal financial channels. Meanwhile, the uptake of informal credit has decreased from 23% in 2014 to 8% in 2022, which can be attributed to increasing the reach and expansion of formal channels across the country. Nonetheless, the usage of friends and families to access credit has more than doubled and reached 13% from 5%, while the excluded group has decreased to 32% from 53%. The increased usage of credit from the formal sector is an outcome of strong structural market development in the financial sector.

**FIGURE 13: USAGE OF CREDIT**




*Source: FinScope, 2014 and IFC A2F 2021/22 Survey*

25 NRB, 2022. Banking & Financial statistics. July 2022.

Per the A2F 2021/22 Survey findings, bank credit usage grew across urban and rural areas and reached 45% of rural and 49% of urban population; it was only 17% and 21% respectively in 2014. With the increase in uptake of the formal credit, the usage of informal channels has come down drastically in both rural at 9% and in urban areas at 6%, which stood at 26% and 11%, respectively, in 2014. Contrary to savings where women have higher usage of formal saving mechanism, men have slightly higher usage of formal credit at 49% compared to 46% of women. Findex 2021 reports that 15% of adults reported that they borrowed from a financial institution or used a mobile money account in the past year, including 13% female and 17% male respondents, which gives an idea of an annual growth of the number of borrowers.

In terms of target markets, the credit usage from formal channels has drastically improved for MSMEs (self-employed), remittance receivers, irregular earners and dependents, as 50% or more of these segments were totally excluded from credit facilities in 2014. Nevertheless, borrowing from friends and family has significantly increased in 2022 compared to 2014.

The credit distribution through BFIs has been gradually increasing over the years. While the total credit to the Gross Domestic Product (GDP) ratio was 74.29% in fiscal year (FY) 2015/16, it has increased to 97.17% by the end of FY 2021/22. Out of which, 57% of total credit deployed from BFIs has been disbursed in metropolitan cities, 29% in sub-metropolitan areas, 11% in municipalities, and 3% in rural municipalities. BFIs had 1.83 million loan accounts in mid-July 2022, up 77% from 1.03 million in 2015.

**As in the case of savings, the increased usage of credit from formal mechanisms is the primary outcome of various initiatives from both the government and the private sector.** Rising consumption – with the demand for consumer credit products like credit cards, residential house loans, and auto loans has been skyrocketing; entrepreneurialism, and corporate/business expansion are other reasons for the growth of credit. In addition, various efforts such as: (i) local governments collaborating with BFIs to offer concessional and subsidized lending to various target groups such as women, returnee migrants, aspiring entrepreneurs and farmers (ii) NRB's priority and deprived sector lending policy, (iii) various government programs such as refinancing facility post-COVID, entrepreneurship credit at 1%, and (iv) the establishment of a challenge fund to promote startups and firms formed by youth and returnee migrant workers, have all been significant in driving credit usage. Nonetheless, the regulator should closely monitor various risks that may arise as a result of these measures, and also should avoid undermining the private sector-led credit expansion. In addition, banks are gradually changing and offering pre-approved, non-collateralized credit facilities based on earnings and cash flow, as collateral requirement is one of the biggest bottlenecks to access formal credit.

### 2.3.3 Insurance Market

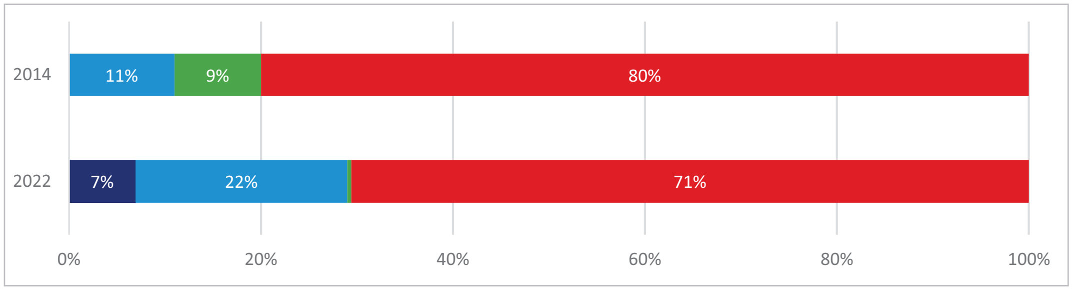
***Growth in insurance penetration and usage:*** The uptake of insurance has seen a notable growth from 11%[26] in 2014 to 29% in 2022. Post 2014, banks started cross-selling insurance products which was permitted by NRB.[27] In 2022, 7% of adults have accessed insurance services via banks and 22% of adults accessed insurance through other formal sources which are primarily insurance companies. The usage of informal channels[28] has also gone down over the years, from 9% in 2014 to 0.4% in 2022. Nonetheless, still a significant share of adults, i.e., 71% are excluded from any form of formal or informal insurance services, a decrease by 9 percentage points from 2014.

[26] FinScope Survey, 2014.

[27] Unified Directive, 21/2078.

[28] This is mainly provided by community groups that provide some cushion in the face of risk events.

**FIGURE 14: USAGE OF INSURANCE**




*Source: FinScope, 2014 and IFC A2F 2021/22 Survey*

As per the A2F 2021/22 survey results, the usage of formal insurance has increased in both rural and urban areas, while rural areas have seen a significant increase in usage from 8% in 2014 to 26% in 2022. Various government-driven social security/insurance programs are among the primary reasons driving the insurance usage in rural areas. Likewise, the usage of insurance by female adults has increased significantly too, from 7% in 2014 to 28% in 2022. Among the target groups, salaried workers have the highest usage of formal insurance services at 44% which was 29% in 2014, followed by remittance receivers, up to 34% from 9% in 2014. The contribution-based social security scheme that includes insurance introduced by the government mandates salaried workers to enroll in the scheme. Similarly, the usage of insurance by farmers increased to 23% in 2022 from 8% in 2014, which can be attributed to the increase in uptake of agriculture insurance driven by the implementation of the Agricultural and Cattle Insurance Directive 2020, which requires non-life insurance companies to allocate 5% of their insurance portfolio to agriculture and cattle insurance products. Furthermore, the government has increased the subsidy on agriculture insurance premium from 50% in 2014 to 75% in 2019.

The overall increased usage of insurance is primarily driven by life insurance. In the last four years, the number of life insurance policies sold has increased by a whopping 413.4%, from 2.73 million[29] in FY 2016/17 to 13.09 million in FY 2021/22.[30] The life insurance sector is primarily driven by endowment products which are with-profit policies where net surplus received by the insurers determines the amount of bonus payable to the insured. At the same time, the non-life insurance sector is mainly driven by mandatory motor insurance followed by property insurance.

Some of the key drivers that have attributed to the growth over the years are mandatory opening of branches by insurance companies in rural areas,[31] the extension of the National Health Insurance Program[32] across 77 districts of the country, mandatory contribution to the Social Security Fund (SSF), mandatory life insurance for foreign employment, third-party liability vehicle insurance, asset insurance for mortgage finance, uptake of the COVID-19 insurance policy, introduction of affordable microinsurance products and tax exemption provision against life insurance premiums. Further, bundling of insurance products with banking products have also resulted in increased insurance uptake. Since the 2021 Refresh study, the Insurance Act has been changed and new dedicated microinsurance businesses are now in the pipeline, which should boost microinsurance business and overall uptake of insurance.

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[29] Monthly Insurance Business Statistics, Mid-July 2019, Nepal Insurance Authority (NIA)

[30] Monthly Insurance Business Statistics, Mid-July 2022, Nepal Insurance Authority (NIA)

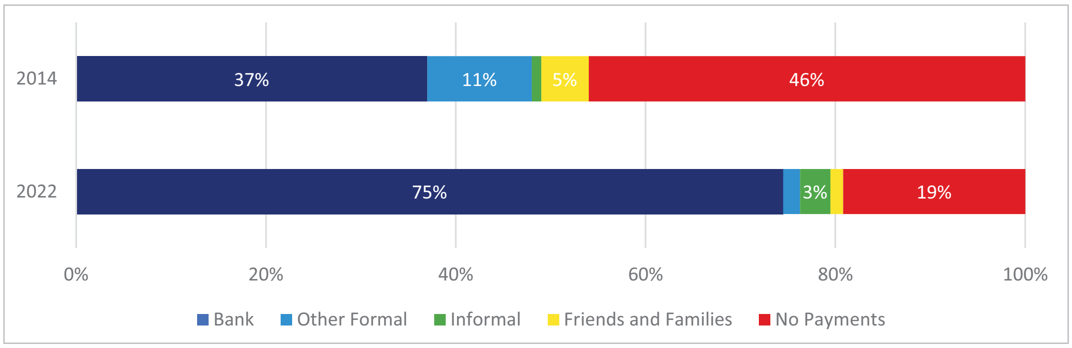
[31] Agriculture and Livestock Insurance Directive, 2020, Nepal Insurance Authority (NIA)

[32] A cashless health insurance program introduced by the GoN in 2016 has now expanded in all 77 districts. The insurers under the program can receive health services and drugs covered by the program without having to pay at any stage. Nonetheless, its implementation and adaptation has been effective so far.

### 2.3.4 Payments Market

Banks are predominant and preferred channel for payments: In 2014, 48% adults used payment services through the formal sector, while such usage has reached 77% in 2022. Out of which, banking channel was the preferred channel, with usage through banks standing at 75%. With the increment of usage of formal channels, the excluded adult groups have decreased from 46% in 2014 to 19% in 2022. One of the key points that have contributed to the increase in access to payments is increase in mobile banking services. The use of electronic means for transactions has seen significant increase over the recent years, especially fueled by the COVID-19 pandemic. The number of electronic payment transaction as of mid-July 2020 was 29.07 million which increased to 71.42 million in mid-July 2022.[33] Similarly, electronic payments worth of NPR 2.77 trillion (USD 22.92 billion) were transferred as of mid-July 2020, which increased to NPR 6.22 trillion (USD 51.5 billion) as of mid-July 2022.[34] The usage of formal channels for payments services has also increased because of the increase in inflow of remittances[35] through formal channels between 2014 and 2022.

**FIGURE 15: USAGE OF PAYMENTS**




*Source: FinScope, 2014 and IFC A2F 2021/22 Survey*

Per A2F 2021/22 survey results, the usage of payment services among adults from both urban and rural areas has increased significantly. In 2022, 76.6% of rural adults used payments services compared to only 51.6% in 2014. Meanwhile, 83.2% of urban adults used payment services compared to 62% in 2014. The usage through "Other formal" channels has decreased, while the usage of the informal sector has relatively increased.

In terms of gender, no significant difference was observed, while the male population has slightly higher usage of formal payments (78%) than the female population (74%). However, there are still excluded groups that need attention. For example, there is a significant disparity in access to payments between the different target markets: 94.1% of salaried workers use payments services via banks whereas only 61% of dependents and 69% of farmers use such services via banks. Moreover, 31% of dependents and 23% of irregular earners are still excluded from any type of payment services. The gradual uptake of digital financial services (DFS) is spearheaded by adult population with secondary education and above.

Data from Findex 2021 highlights disparities observed in the DFS area which are not as evident when all payments (un-broken by type) are analyzed: 29% of adults made or received a digital payment in 2021, including 23% of female and 35% of male respondents, which suggests that women have

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[33] NRB. Current Macro-Economic and Financial Situation 2021/22.

[34] NRB. Current Macro-Economic and Financial Situation 2021/22.

[35] The remittance and transactions strand are also included in the payment strand.

a tendency of using more traditional payment mechanisms. In terms of geographical region, 27% of adults from rural areas and 34% of adults from urban areas made or received a digital payment. Mobile money accounts appear to be still under-used, with only 6% of adults having such accounts, including 4% of female and 9% of male respondents.

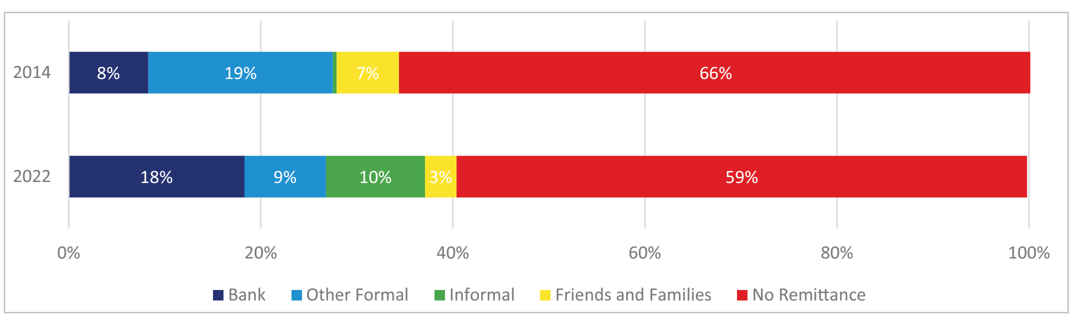
NRB has introduced key regulations and supporting infrastructure, while private sector banks and technology service providers have worked to expand access to DFS. The third-party managed payment infrastructure has evolved as a result of the new laws. The use of digitization in wholesale and retail payment services has been implemented, and the uptake has been positive. The COVID-19 pandemic has forced the acceleration and the evolution of the payment ecosystem, which has increased the usage of banking services. The number of DFS users has risen significantly since the 2016. For instance, the number of mobile banking users has seen a compound annual growth rate of 58.14% in the last 8 years. In mid-July 2022 the number of such users[36] was 18.31 million (62.8% of the total population)[37] compared to 468,000 users (1.77% of total population)[38] in mid-July 2014. Likewise, between mid-August 2020 and mid-August 2022, the monthly number of transactions carried out by Connect IPS[39] (+445%), debit cards (+120%), and mobile banking services (+238%) has gone up significantly.

Despite numerous challenges, the usage of formal channels for payment services has been accelerated due to numerous factors such as proliferation of mobile and internet banking services, mandatory policy under labor bylaws for companies to pay their full-time as well as part-time employees through banking system, proliferation of payment service operators (PSOs) and payment service providers (PSPs) among others.

### 2.3.5 Remittance Market[40]

Usage of formal channels to receive remittances is on the rise: Among the adults who receive remittances, 18.4% are using banking channels while 8.5% are using other formal channels such as remittance companies and agents. The usage of informal channels is comparatively lower. About 10.4% of adults still rely on informal channels to receive remittances, while a small group of adults (3.3%), use their friends and family to receive remittances. To compare, in 2014, 8% of adults received remittance through banks, 19.2% – through other formal channels, 6.5% – through friends and families, and 66% did not receive any remittances.

**FIGURE 16: USAGE OF REMITTANCES**




*Source: IFC A2F 2021/22 Survey*

[36] These are not unique users; a user can subscribe to more than one digital financial services.

[37] National Population Census 2021, Preliminary Findings, Central Bureau of Statistics

[38] National Population and Housing Census 2011, National Report, Central Bureau of Statistics

[39] ConnectIPS is an e-payment system which functions as a single payments platform, allowing fund transfer and service payments for banking customers from various channels.

[40] Only a remittances access strand is shown within the payments section as the other component of payments is access to bank accounts which is measured as a dichotomous variable, i.e., respondents either have a bank account or do not, and hence it is not meaningful to show this in the access strand.

Per the A2F Survey 2021/22 results, similar to other product markets, there is no notable disparity between male and female adults to either send or receive remittances. Likewise, in terms of location, there are no significant differences among users in rural and urban settings either. However, it has to be noted that across gender and geographical location, on average about 10% of adults use informal channels to send or receive remittances. Further, usage of formal financial services to remit has a close link with education level. Adults with higher than secondary level of education have the highest uptake of formal financial channels at 38.4%, while adults without education have the lowest usage of formal channels at 17.5%. According to the latest study conducted by NRB in 2019, 25.3% of the remittances are used to make loan repayment, 23.9% for daily consumption, 9.7% for healthcare and education, 3% for social activities, 1.1% in productive activities and 28% for savings. Per the study findings, at least 64.1% of the households receiving remittance have a formal bank account. The use of formal remittance channels is increasing, and the introduction of remittance via digital or mobile wallets has broadened the scope even more.

## 2.4 Quality

### 2.4.1 Key Features and Bottlenecks of Financial Products

**Savings**

Despite the growth of usage of formal financial service providers (mainly banks) to save, there are various issues limiting the uptake and effective usage. As of mid-July 2022, the number of deposit accounts with BFIs reached 44.9 million, which is more than the total population of the country and signals about multiple deposit accounts per saver, as an individual may have multiple accounts in different BFIs.[41] Due to the lack of a centralized digital Know Your Customer (KYC) system and national identity card, customers submit their documents and credentials for KYC purposes physically every time they go to any financial institution seeking services. This creates onboarding challenges, especially in rural areas. Although the reach of BFIs has been increasing, not much change has been observed in the product range offered by FSPs, especially BFIs, as these product offerings are quite homogeneous across the sectors.

To promote long-term savings, NRB forbids commercial banks from accepting short-term fixed deposits for a term below three months, while it has also stipulated that the difference in interest rates across savings accounts must not be higher than 2%. While these measures have helped to ensure longer-term savings, they may have also affected provider flexibility and may not be attractive for low-income savers.

**Credit**

Despite the improvement of provider practices, lending is still heavily collateral-based, and the absence of assets that match the collateral requirements makes it difficult for the low-income/ poor population and small and medium businesses to obtain credit from formal financial institutions. Moreover, the usage of personal credit rating or scoring to facilitate non-collateralized credit facility is still at a nascent stage in Nepal. The existing Credit Guarantee Schemes as well as the existing framework for the use of movable assets, the Secured Transaction Registry, require further strengthening. Further, the subsequent interest rate hikes and frequent volatility have also dampened the usage of formal credit.

**In addition, lack of gender-disaggregated data serves as a barrier to affordable financial services for women-led small and medium businesses.** Per NRB, BFIs are required to submit data pertaining to the number of clients, outstanding loans, total savings, capital and assets, among

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[41] NRB, 2022. Macroeconomic Indicators of Nepal.

others, but not on the basis of gender. This prevents the identification of gender-related issues, recognition of women's needs (as per their social and economic background) and the impact of existing products on them. As it is not a common practice among financial institutions to collect and analyze gender-disaggregated data, there is paucity of information to influence the design of women-centric and/or gender-sensitive products. Likewise, the tedious internal procedures, poor digital infrastructure and limited technical capacity of the employees for data analysis and understanding of gender-based needs and differences, make it difficult to ascertain the usage. Therefore, lack of gender-disaggregated data is a major constraint to designing policies that respond to the limitations placed on women in accessing financial services, especially credit. The lack of information regarding women's financial needs and spending patterns also limits financial institutions from delivering financial products and services tailored to women's needs.

### Insurance

The insurance uptake has been mostly driven by mandatory government measures; however, the government health and social security schemes are not comprehensive and are not accessible to all. In addition, lack of awareness among customers is one of the biggest impediments to broadening the uptake of insurance, as insurance is seen as an expense rather than a risk mitigation tool at the household level. Many people still rely on credit and savings to protect themselves, while insurance agents are not well-educated and tend to focus on returns or discount rates. The insurance industry's product offerings are mostly homogeneous. To onboard new consumers, insurance companies continue to sell the same insurance products without much differentiation and understanding of the needs of the targeted groups and sectors. Along with low level of awareness, the sector also lacks adequate insurance infrastructure required to develop insurance services, which also contributes to the low insurance uptake. Health care providers, agricultural technicians and weather stations are expected to help expand insurance services in rural areas. Investing in technology and information technology (IT) is one of the industry's challenges in digitization.

### Payments

**Along with the regulation, the payment ecosystem in Nepal is still at the nascent stage[42]** which is hindering PSPs from introducing higher-value DFS services that resemble more of a BFI's product range. Use of digital payments for other sectors is still limited. More people have started to use DFS to make payments to financial institutions (fees, loan payments, insurance premium payments, etc.), conduct brokerage transactions, and even pay government taxes. However, in e-commerce, the adoption of digital payments is not high. Likewise, the lack of robust digital KYC and authentication option are still slowing customer onboarding and network security. For example, opening a bank account entirely virtually is not yet possible. Additionally, digital/online transactions have limits. Thus, access to DFS and digital client onboarding is limited in rural areas, also due to lack of confidence in digital platforms.[43]

PSPs and DFS players have limited capabilities. Though mobile payments have grown during the pandemic and QR codes have been introduced for merchant payments, they still face changes in onboarding more users and improving transaction volumes.

### Remittances

**Despite the growth in the usage of formal channels to receive or send remittances, the retention of remittances received in bank accounts is still very low, as cash withdrawals are common.[44]** The majority of remittance receivers still lack digital knowhow and trust.

[43] MAP Refresh Study, 2021, stakeholder consultations.

[44] MAP Refresh Study, 2021.

The cost of remitting lower value amounts (which could reach up to USD 200) needs to be decreased in order to attract remitters using informal channels to remit.

It will be necessary to create conducive environment to facilitate remittances via digital platforms and other providers. The acceptance of digital wallets issued overseas in Nepal to facilitate cross border remittances and settlement with appropriate risk mitigation measures will need to be well explored and implemented. As remittance service providers complement the payment infrastructure, the existing agent network of the remittance companies – money transfer operators – could be leveraged to offer various financial products and services.

### 2.4.2 Financial Literacy

**According to the S&P Financial Literacy Survey conducted in 2014,[45] Nepal ranked 136 among 144 countries and the lowest in South Asia.** Only 18% of the adult population in Nepal was identified to be financially literate. Among other South Asian countries, Sri Lanka had an adult financial literacy rate of 35%, followed by India at 24%, Pakistan at 26% and Bangladesh at 19%. Bhutan stood as an outlier in the region with over 55% of the adult population being financially literate.

The IFC A2F 2021-22 survey contains extensive questions on household financial planning and financial capability, as well as perceptions around the use of financial services. The majority of the surveyed households spent on education – 27%; 14% of the respondents spent on paying off debt; 18% invested in farm and to grow their business, and 7% – on health-related expenses. The survey showed that only 20% of the households always conducted financial planning, while 27% never did. The majority of the survey respondents consulted their friends and family (70%) or their partner/spouse (52%) for financial advice, while only 21% consulted a banker or a financial professional. The majority – 58% of the respondents felt very confident about their ability to manage their own money and finances, and only 14% were not at all confident on this matter. Only 17% of the surveyed households mentioned that they tried to plan their finances for the future, as far as 10 years. Further, only 45% of households tended to save money for the future while the rest did not save anything or only saved sometimes.

**To promote financial literacy, in 2022 NRB launched a campaign under its Financial Literacy Framework.** The campaign will focus on spreading awareness about banking and non-banking institutions and on educating communities and small businesses on digital fintech platforms to improve financial access. NRB has planned to conduct digital financial literacy programs around the country, with four provinces targeted to conduct the program in FY 2022/23.

NRB has also formulated Financial Literacy Framework (2022) which aims to enhance and systematize the current fragmented financial literacy activities, to facilitate monitoring and evaluation as well as regular assessment. In the same line, NRB has issued Financial Literacy Guidelines (2022) to systematize the financial literacy programs, including reporting format, for BFIs. Some of the BFIs have yet to incorporate financial literacy into their business strategy and governance. Financial literacy activities are carried out as part of corporate social responsibility and are still generally viewed by BFIs as compliance with philanthropic rather than strategic business investments. In this regard, the NRB issued a regulation prescribing BFIs to spend at least 5% of their corporate social responsibility fund (CSRF) in financial literacy activities that should prioritize women and marginalized people. BFIs have to allocate at least 1% of their net profit to CSRF.

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[45] Global Financial Literacy Excellence Center, 2022. 2014 S&P Global FinLit Survey. https://gflec.org/initiatives/sp-global-finlit-survey/

**In December 2022, NRB published results of a Baseline Survey on Financial Literacy in Nepal.**[46] Using the methodology of the Organisation for Economic Co-operation and Development (OECD) and International Network on Financial Education (INFE), the survey measured financial literacy across three key components – financial knowledge, financial behavior and financial attitudes. The survey found that the overall national financial literacy score is 11.59 out of the maximum score of 20. This is among the lowest scores among the 26 countries surveyed by OECD/INFE in 2020, and lower than countries in the neighbor region. Thus, in 2020 Malaysia had a score of 12.5; South Korea – 13; and Indonesia – 13.3; the average score across the countries surveyed by OECD/INFE was 12.7.[47] A 2021 financial literacy survey in Sri Lanka measured the financial literacy score at 12.2.[48]

Overall national financial literacy stands at 57.9%. The Nepal financial literacy survey also found that only 27.5% of adult population passed the minimum target score in all financial literacy components. By provinces, financial literacy is highest in Bagmati Province, whereas Madhesh Province scores the lowest. Men have higher score than women by 7.5 percentage point. Financial literacy and its entire components have an inverse relation with the age of people, with younger people (18-30 years old) showing better financial knowledge scores compared to other age groups. Among the younger, the share of those reaching the minimum target score is 63.2% compared to 27.9% percent of people aged 60 and above. Similarly, higher levels of formal education have a positive impact on the financial literacy score. Finally, the financial literacy score is higher among individuals working in the formal sector than those working in the informal sector; among people working in industrial and service sectors than the agriculture sector; and among those living in urban versus rural areas.

The Nepal financial literacy survey also measured the use of key financial services. And while it used a different methodology from the A2F Survey 2021/22, the main findings are consistent in showing increased overall use of financial services, while often still much lower use of formal institutions and channels. The awareness and use of financial products were found to be directly correlated with levels of education, urban dwelling, employment in the formal sector and higher income levels. The study also concludes that the marginal contribution of financial literacy score to the utilization of financial products is significantly greater at lower levels of financial literacy. Therefore, financial literacy interventions will have a significant impact on populations with lower levels of financial inclusion.

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[46] This survey based on OECD/INFE Toolkit 2022 with some national customization explored the status of financial inclusion by collecting data on some indicators such as usage of payment products, usage of saving, investment, or retirement products, usage of insurance products, usage of credit products, awareness of financial product, and availability of family financial support. https://www.nrb.org.np/contents/uploads/2022/12/Baseline-Survey-on-Financial-Literacy-in-Nepal-including-Financial-Inclusion-Indicators.pdf

[47] OECD/INFE 2020 International Survey of Adult Financial Literacy. https://www.oecd.org/financial/education/oecd-infe-2020-international-survey-of-adult-financial-literacy.pdf

[48] Sri Lanka 2021 Financial Literacy Survey. https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/financial_literacy_servey_sri_lanka_2021_e.pdf

### 2.4.3 Financial Consumer Protection

Consumer protection is an important aspect of enhancing financial inclusion as it ensures public trust in the financial system. Due to the complexity of financial products and services, proper monitoring and timely resolution of grievances are key to ensuring consumer protection.

NRB has recently established Financial Inclusion and Consumer Protection Division, which will act as a monitoring and inspection agency to ensure protection of the rights of financial consumers. As the use of fintech platforms is increasing, NRB has incorporated policies to ensure rights of consumers are protected on digital financial platforms, too. However, the Government of Nepal has yet to formulate a legal and regulatory policy to ensure the financial consumer protection of the public.

NRB launched a portal for registering consumer grievances, suggestions and complaints from the public regarding the services of banks and financial institutions. Additionally, BFIs are also required to maintain an online portal to register consumer grievances. NRB introduced a Financial Consumer Protection and Grievance Management Manual 2077 to handle customer dissatisfaction and grievances, under which each bank should establish an Information and Grievance Handling Desk.

As far as customer understanding of financial consumer protection is concerned, there are still gaps in consumer awareness of the grievance resolution mechanisms. The IFC A2F 2021/22 survey reveals that 38% of the respondents who tried to resolve an issue with financial service provider tried to do so via approaching the service provider through friends and family. Other commonly used methods of conflict resolution with a service provider were submitting grievance to the provider (28%), approaching the service providers through community leaders (20%), discontinuing the use of the services (19%), and submitting a claim to the appropriate government authority (10%).

Given the increased usage of formal financial services in Nepal, going forward the focus should be on increasing the quality of the provision of financial services, i.e., the value derived by consumers from the use of financial services, and ensuring increased consumer protection. In addition, there are gaps in financial literacy and financial consumer protection areas which need to be timely addressed for effective financial inclusion.

# 3. Inclusive Growth Framework

Financial inclusion is prioritized within sustainable finance frameworks, due to the role it can play in supporting financial sector development and sustainable finance as a mechanism for incorporating the needs and usage of financial services by the low-income market into the formal economy.[49] Thus, financial inclusion is a key building block to more inclusive growth by enabling a larger variety of actors to serve the low-income market and thus play a more direct role in the financial system, while allowing governments to generate additional flows of domestic capital through financial inclusion (by incorporating into the formal financial system the finance flows at a household level that are typically expended in cash). Financial inclusion is a first step to matching investors with investment opportunities, thereby facilitating better economic participation, but this can be enhanced further.[50] There are many existing barriers to financial services provision, hence additional engagement and support to providers, and utilizing community structures in the provision of financial services to SMEs are needed, as well as the market enabling pre-conditions for the SME segments to be capital/investor ready for the financial sector.

In addition, the interaction between innovations in digital finance and the real economy creates new business models that make the investment in sustainable sectors commercially viable. Ultimately, these enable the financial sector to interact more closely with the real economy and better align financial flows with the SDGs.

[49] UNCDF, 2020. MAP Global Insights Series, Volume 3, Note 3. https://www.uncdf.org/article/7597/inclusive-growth-insight-series

[50] Through revealing the financial flows at household and business level, financial inclusion highlights opportunities for formalising expenditure flows that otherwise remain in cash and in the informal economy, thereby showcasing business cases for financial service provision and small-scale investments (in small and medium SMEs).

By facilitating access to resources, basic services and financial opportunities for the most excluded segments of society, financial inclusion may facilitate social mobility and ensures that no one is left behind. By bringing people into the ambit of the formal economy and formal financial sector, financial inclusion, therefore, facilitates social inclusion, while being the mechanism through which economies and businesses connect directly to households. How exactly, and to what extent (formal) financial services can contribute to the achievement of economic and financial goals will depend on whether the services match the underlying demand and the individual's/household's/small business's activities in their community, in the real economy and in the wider society.

Investors play a pivotal role in shaping society, now arguably more than ever – through the choices they make in terms of where they decide to put their money and the returns they are satisfied with. By investing capital and resources in businesses likely to bring significant, sustainable economic gains to low-income communities, investors can positively impact those communities, in the process helping to determine how not just the current generation but future generations will live. That is to say, investors can choose to directly improve our emerging global society and economy.

Increasingly, too, investors, the private sector and governments are working together across borders to agree on and achieve minimum standards of living, which amplifies the potential benefits for all stakeholders, including low-income communities. At the same time, though, many economies face stagnating wages, stuttering growth and job creation, decreasing trade and cross-border capital flows, and increasing environmental impacts. These combine with the world more and more expressing its dissatisfaction with the status quo in the form of protests, riots and immigration – legal and illegal. Thus, the task of creating millions of new jobs in the next 15 years is not just to absorb a growing global workforce but also to create a future for the vulnerable and the young.

Such a metamorphosis is only likely to happen if there is a radical shift in the perception by the private sector to view the SDGs, with their coherent value system, as an unprecedented economic opportunity, rather than a burden and constraint to growth. Taking this responsibility for more inclusive growth and job creation seriously will involve a combination of new financial models and investors who recognize both the risk of social and environmental externalities affecting asset values, and the fact that higher, long-term returns will be generated by strong environmental and social performance. Furthermore, while SMEs are the engines of growth in developing economies, the necessary breakthrough – quantum leap even – in their contribution to inclusive growth is only likely to be achieved through investors thoroughly engaging with country-specific realities and opportunities on the ground: the engines that are going to drive growth will need more than simply funding.

Using the insights from the IFC A2F survey, this report seeks to understand the potential of the private sector to potentially invest in sectors that are likely to yield more inclusive growth for Nepal.  Thus, the following sections leverages the MAP financial inclusion inclusive growth model to contribute towards the data analysis for potential investments in more inclusive growth sectors.

Based on international frameworks for inclusive growth, UNCDF MAP has identified nine inclusive growth focus areas in which both policy enablers and market action can enable more inclusive economic growth. They are: (i) macroeconomic context, (ii) education and skills, (iii) basic services and infrastructure, (iv) health and human development, (v) asset building and entrepreneurship, (vi) corruption and rents, (vii) fiscal transfers and social protection, (viii) financial sector development, and (ix) unemployment and income inequality. Of these nine pillars, financial inclusion is an enabler that complements six more areas which include (i) education and skill development, (ii) basic services provision and infrastructure for basic service delivery, (iii) health and human development, (iv) asset building and entrepreneurship, (v) fiscal transfers and social protection, and (vi) unemployment and inequality. Further work undertaken by the UNCDF discovered that households largely prioritized spending a major portion of their income in these six areas even though most of it is done informally. Furthermore, within these six areas, four key areas in particular stand out in terms of household spending – education, basic services, healthcare and entrepreneurship. Financial inclusion can help facilitate the achievement of broader social goals, like access to education and healthcare, which can aid in the achievement of Nepal's SDGs. For this reason, it is important for financial services usage to be linked to specific outcomes, tied to national development goals.

Significant progress has been made in terms of financial inclusion since the last data survey. As financial inclusion evolves and its ability to contribute to domestic finance increases, it is necessary to consider ways of connecting financial inclusion objectives to the real economy in a way that fosters employment creation, while also focusing on affordable access to financial services and capitalizing on digital opportunities in a sustainable manner.

However, more deliberate efforts to ensure closer linkages to financial inclusion and sustainable finance can be leveraged to contribute to inclusive growth and the contributions towards the SDGs. Financial inclusion's focus is largely on social objectives, and by including financial inclusion more deliberately within Nepal's sustainable finance approach, greater social and environmental impact can be leveraged.

## 3.1 Key Social and Economic Issues Linked to Financial Inclusion

An efficient and inclusive financial system empowers individuals – both economically and socially. In turn, an economically engaged and empowered individual allows for a well-integrated economy, one where the country's economic growth trajectory is supported and empowered by the economic growth of its citizens. The inclusive financial sector has proven to have an impact on poverty alleviation, wherein, with the development of the financial sector, growth is observed to be more equitable and accessible. The inclusion of all members of society contributes to increased equality and equity in society, with more equitable consumption patterns. To understand how financial inclusion can support inclusive growth objectives, it is necessary to identify key social issues in Nepal falling within these areas, while also locating them within the government's objectives. The topics reviewed in this section are shown in Figure 17 below.

**FIGURE 17: LINKS BETWEEN ISSUES CONSIDERED**

| | Issues | National Development Plan | SDG |
|---|---|---|---|
| 1 | Poverty, Growth and Inequality | • Wellbeing and Decent Life<br>• High and Equitable National Income | 1 No Poverty; 2 Zero Hunger |
| 2 | Employment | Development and Full Utilization of Human Capital Potentials | 8 Decent Work and Economic Growth |
| 3 | Gender-related Disparities | Safe, Civilized and Just Society | 5 Gender Equality |
| 4 | Health Care and Social Protection | Healthy and Balanced Environment | 3 Good Health and Well-Being |
| 5 | Infrastructure (mobile networks, water, electricity) | Accessible modern infrastructure and intensive connectivity | 6 Clean Water and Sanitation; 7 Affordable and Clean Energy; 9 Industry, Innovation and Infrastructure |
| 6 | Education | • Free Primary Education<br>• Affordable Quality Education | 4 Quality Education |
| 7 | Natural Resources and Climate Change | High Sustainable Production and Productivity | 13 Climate Action; 15 Life on Land |

*Source: National Development Plan & SDGs*

These key issues specific to Nepal have been identified and selected based on (i) their impact on individual human development, (ii) their impact on sustainable growth in society, and (iii) their relationship to government policies. To create resilient and long-lasting linkages between financial inclusion (as an enabler) and inclusive growth, the study scrutinizes the major social and economic trends, challenges and opportunities within Nepal and their relation to financial inclusion.

This section draws on key socio-economic trends in Nepal within the scope of low-income market and investigates on financial inclusion parameters to respond to the question – where and how can financial inclusion support more inclusive economic growth for the low-income market?

## 3.2 Poverty and Inequality

A significant portion of the population remains poor and vulnerable despite improvements: As of 2019, 39% of the Nepali population lived under USD 3.5 per day per person, while 8% of Nepal's population was estimated to live below USD 1.90 per person per day.[51] Furthermore, according to the Multidimensional Poverty Index of 2021 for Nepal, published by the Oxford Poverty & Human Development Initiative, 17.4% of Nepal's population is still vulnerable to multidimensional poverty.[52] The index concluded that Nepali people are largely deprived of clean cooking fuel, insufficient years of schooling, malnutrition and many other basic needs. In the IFC A2F 2021/22 Survey, it was found that 47% of people sometimes run out of money for food and basic needs, out of which 4% regularly fall short on finances for basic items. About 9% of households also highlighted that they compromise spending on necessities like food, health and education. Yet the poverty level of Nepal has been gradually declining over the years. A decrease in poverty was observed, from 23.8% of the population living in poverty in 2014/15 to 18.7% in 2018/19, falling further to 16.7% in 2019/2020.[53]

**Food security remains a major issue due to land shortage and subsistence farming:** Per the findings from the IFC A2F 2021/22 Survey, 54% of the population's main source of income is from agricultural and farming activities compared to 77% of households involved in farming (Finscope Survey, 2014).[54] Due to the subsistence nature of agriculture, people are moving out from farm jobs. About 39% of the surveyed in IFC A2F 2021/22 Survey intend to leave their land and livestock for their children as support – the sector has been witnessing an increasing trend in fallowing and abandonment.[55] Although there has been a marked improvement owing to efforts made by the Government of Nepal to improve food security in the country, there are still 4.6 million people[56] who are food insecure. Because of rising global food prices caused by supply disruptions due to unanticipated events such as COVID-19 and the Russia-Ukraine war, there is a significant risk to food security in Nepal which relies on food imports.

The development of the financial sector is significantly correlated with poverty reduction and goes hand in hand with economic growth. For instance, the "one person, one bank account" campaign along with other government health insurance and social security allowances facilitated the provision of financial services to many underserved and financially excluded portion of the

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51 World Bank. 2021. Poverty & Equity Brief. October 20. Accessed February 7, 2023. https://databankfiles.worldbank.org/public/ddpext_download/poverty/987B9C90-CB9F-4D93-AE8C-750588BF00QA/SM2020/Global_POVEQ_NPL.pdf.

52 UNDP & OPHI. 2021. Multidimensional Poverty Index. Government of Nepal. Accessed February 7, 2023. https://ophi.org.uk/nepal-mpi-2021/.

53 Ministry of Finance. 2021. Economic Survey 2020/21. Government of Nepal. Accessed February 7, 2023. https://www.mof.gov.np/uploads/document/file/1633341980_Economic%20Survey%20(Engslish)%202020-21.pdf.

54 Finscope. 2014. "Finscope Consumer Survey 2014." Accessed February 7, 2023. https://nepalindata.com/resource/FinScope-Consumer-Survey-Nepal-2014/.

55 CIAT. 2017. Building a Sustainable food Future: CIAT in review 2017-2018. CIAT. Accessed February 7, 2023. https://ciat.cgiar.org/annual-report-2017-2018/.

56 World Food Program. 2021. WFP Nepal Country Brief. WFP. 7 February 2023. https://docs.wfp.org/api/documents/WFP-0000146174/download/?_ga=2.75102868.709117266.1675758552-50351161.1675758552.

Nepali population. Government's concerted efforts to further social inclusion have a direct impact on financial inclusion as many of these benefits and safety nets unlock previously restricted opportunities.

## 3.3 Employment

**Low unemployment but high informal, non-farm micro businesses and foreign employment:** While Nepal's official unemployment rate stands at only 4.4%,[57] the predominance of informal sector employment and employment outside the country has masked the true level of unemployment. Informal employment continues to be unrecorded and many in search of jobs are pushed to find better opportunities outside the country. The National Economic Census of 2018 found 923,000 establishments in the country, out of which only 50% were registered, further concealing the undocumented employment.[58]

**Labor market intervention:** Intending to address unemployment in the country, the Ministry of Labour, Employment and Social Security decided to provide 100 days of employment to 200,000 unemployed and not self-employed people aged between 15 and 59. For its part, the Government of Nepal allocated a total of NPR 11.6 billion (USD 98.89 million) for the Prime Minister's Employment Program. The program has been initiated to create 500,000 jobs in the public and private sectors and also through other special programs.[59] To encourage entrepreneurship and job creation, the government has implemented a self-employment generation program under the Youth Self-Employment Fund.

Inclusive financial frameworks create a conducive ecosystem for effective monetary and fiscal policies that promote the creation of new jobs and employment schemes. However, in the case of the informal sector that accounts for a large portion of the economy – an innovative approach is needed to develop financial products that have affordable eligibility requirements and are tailored to the needs of those involved in the informal sector. Economic security through training in financial management skills like budgeting, saving, managing risks and borrowing would further support the informal workers.

## 3.4 Gender Equality and Women Empowerment

Gender gap in labor force participation and income: There are huge disparities in labor market indicators between men and women: in 2017/18, women's employment-to-population ratio was only 22.9% – 25.4 percentage points lower than that of men. This gap was also seen in the labor force participation rate which stood at 26.3% for women and 53.8% for men. The majority of women mainly in the rural areas carry out unpaid care work – considered as a primary responsibility of women. Per the A2F 2021/22 Survey, 23% of households were women-headed, owing to a common trend of male outmigration in search for employment. The survey also highlights that almost 80% of the female respondents took responsibility and decisions regarding their household income.

[57] Ceicdata. 2021. Ceicdata. 7 February 2023. https://www.ceicdata.com/en/indicator/nepal/employed-persons.

[58] Irwin, D. September 1, 2019. Market study to understand job growth potential in SMEs in Nepal. World Bank. https://documents.worldbank.org/en/publication/documents-reports/documentdetail/308661592797260961/market-study-to-understand-job-growth-potential-in-smes-in-nepal

[59] Asian Development Bank. September 2022. Process Review of Cash for Work Program Under Prime Minister Employment Program Nepal. Asian Development Bank. https://www.adb.org/sites/default/files/project-documents/54184/54184-001-dpta-en.pdf

[60] : National Planning Commission. March, 2019. Nepal Labour Force Survey, 2017/28. Government of Nepal. https://nepalindata.com/media/resources/items/20/bNLFS-III_Final-Report.pdf

*While overall gender gaps in access to finance seems marginal in Nepal, a more granular analysis unpacks gender disparities, such as the fact that uptake of financial services among women is mostly driven by MFIs and SACCOs. The government has prioritized and put in place measures to help extend women's access to financial services. Provisions to support women's participation and empowerment through value added services on savings accounts, subsidized loans for women entrepreneurs and free bank accounts for daughters are some initiatives to integrate women's inclusion in the financial sector. To ensure the social and economic empowerment of women, access to the full spectrum of needs-based financial services – savings, credit, insurance, and payments, as well and financial education, should be continuously promoted.*

## 3.5 Social Protection

**Social assistance programs remain critical:** Given the high rate of poverty and vulnerability in the country, the Government of Nepal offers various social assistance schemes to uplift those who are most vulnerable. The schemes comprise mainly government allowances, pensions, senior citizen allowances, support to widows and single mothers, support to under-five Dalit children and under-five children from the Karnali region, a disability protection system and endangered communities' protection. In addition, the government introduced the SSF through the Social Security Act of 2017. The fund, through a contribution payment system, is expected to protect against maternity, sickness or employment injury, old age and retrenchment. However, this scheme currently only covers people in the formal sector, while the labor force in the informal sector is excluded, which is more than 70% of the population engaged in economic activities.[61]

The government's Social Security Allowance and National Health Insurance Program which aim to assist vulnerable and excluded groups in meeting their basic needs are encouraging; yet, they have not been very effective due to inadequate implementation and insufficient public awareness. Financial inclusion policies can help facilitate bridging the coverage gaps and design effective strategies that allow everyone to have access to basic security. The social protection framework of Nepal should aim to extend to all communities of the society including those excluded from the formal economy. Concerted efforts to support improved efficiencies in distributing social safety allowances are required to have greater accessibility and impact.

## 3.6 Healthcare

**Inadequate healthcare:** While Nepal has made significant progress in healthcare in the past decades, it continues to face many challenges. The COVID-19 pandemic exacerbated existing challenges in the healthcare sector with poor infrastructure and a shortage of healthcare workers – only 8.52 medical doctors per 10,000 patients, when per the World Health Organization (WHO), a minimum of 10 per 10,000 is what is prescribed.[62] The country also faces an equity gap in healthcare, financial, socio-cultural, and geographical barriers. A major challenge for Nepal has been the inconveniently located health facilities owing to the country's topography, with the majority of the public health force concentrated in the central region.[63] Only 3.3 million people have enrolled in the government's health insurance scheme, which is only a small portion of the population.[64] As a result, the majority of the country's citizens depend on personal financing for their health expenses. Per the IFC A2F 2021/22 Survey, 87% of households still pay for their doctor/hospital bills, making it a substantial expenditure.

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[61] International Labour Organization. [n.d.]. Informal economy in Nepal. International Labour Organization. https://www.ilo.org/kathmandu/areasofwork/informal-economy/lang--en/index.htm

[62] World Health Organization. January, 2022. Global Health Workforce Statistics Database. World Health Organization. https://www.who.int/data/gho/data/themes/topics/health-workforce

[63] Ministry of Health and Population. 2015. Nepal Health Sector Strategy: 2015-2020. Government of Nepal. http://www.nhssp.org.np/NHSSP_Archives/health_policy/NHSS_english_book_2015.pdf

[64] Ministry of Health and Population. 2020. Progress of the Health and Population Sector, 2019/20. Government of Nepal. http://www.nhssp.org.np/Resources/HPP/NJAR%20-%20Final%20Report.pdf

*The Government's National Health Insurance Program aims to ensure quality health service and provide universal health coverage to its citizens[65] and the Bipanna Nagarik program, aimed at supporting the poor and marginalized groups against critical illnesses, is yet to be fully implemented. Financial services such as health insurance can assist underprivileged households in managing unexpected medical expenses, including the reduction of out-of-pocket expenses, and facilitating access to quality healthcare.*

## 3.7 Education

**Poor education, accessibility, and affordability:** The government provides support for free education up to grade 10 through community schools and colleges, scholarship programs, mid-day school meals, school uniforms, and sanitary provisions in public government schools. However, Nepal continues to face barriers when it comes to the accessibility of education. Major barriers to enrolment and attendance include poverty, social exclusion, disabilities, migration, child labor, social norms, and gender bias. The IFC A2F 2021/22 Survey revealed that 95% of households do not receive financial assistance towards education from the government and the gap is wider in areas away from the urban centers.

The Government of Nepal has attempted to address issues of accessibility and quality of education with concerted efforts to develop infrastructure, human resources, curriculum, and related services.[66] While it is a step in the right direction, the government has not yet been able to address issues such as geographical barriers, social constructs, socio-economic environment, and digital transformation. While education indicators show good progress, the impact is uneven across different provinces and groups. With poverty being a known driver of education disparity, the effects of the economic hardships caused by the COVID-19 pandemic have led some students from economically disadvantaged and marginalized groups to discontinue education and fall into the vicious poverty cycle.[67] Confirming this trend, 27% of the respondents in IFC A2F 2021/22 Survey stated that education fees were the top priority expenditure against their income.

*Equitable access to education and strengthening policies on secondary and tertiary education directly impact financial inclusion. Educated families are more likely to have increased knowledge of financial services and financial literacy, allowing them to seek scholarships and financial services like education loans and insurance. In addition, the financial challenges that come with covering school fees and other educational costs impose great amounts of stress on the household income, while increased access to education improves financial autonomy and capabilities of households.*

## 3.8 Infrastructure (Roads, Water, Energy, Mobile Network)

**Road connectivity:** Nepal has the lowest road density in South Asia, with 47 km of roads per 100 km2 and 2.5 km of roads per 1,000 people.[68] The latter indicator stands at 12.2 km in Bhutan, 4.1 km in India, and 5.5 km in Sri Lanka. The majority of roads in Nepal are mud roads, which not only increases the cost of commuting, but also hinders access to financial institutions and financial services.[69]

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65 Social Health Security Development Committee. 2017. Social Health Security Program (Health Insurance). Government of Nepal. http://dohs.gov.np/wp-content/uploads/2017/09/Health-Insurance.pdf

66 Ministry of Finance. 2021. Public Announcement of Income-Expenditure Details of Fiscal Year 2021/22. Government of Nepal. https://www.mof.gov.np/uploads/document/file/1627455031_Budget_speech_2021.pdf

67 UNESCO & UNICEF. October, 2021.Nepal Case Study: Situation Analysis on the Effects of and Responses to COVID-19 on the Education Sector in Asia. UNESCO. https://www.unicef.org/rosa/media/16616/file/Nepal%20Case%20Study%20.pdf

68 Asian Development Bank. September, 2018. South Asia Subregional Economic Cooperation Highway Improvement Project: Report and Recommendation of the President. Asian Development Bank. https://www.adb.org/projects/documents/nep-52097-001-rrp

69 Ministry of Finance. May, 2022. Economic Survey 2021/22. Government of Nepal. https://www.mof.gov.np/uploads/document/file/1653758845_%E0%A4%86%E0%A4%B0%E0%A5%8D%E0%A4%A5%E0%A4%BF%E0%A4%95%20%E0%A4%B8%E0%A4%B0%E0%A5%8D%E0%A4%B5%E0%A5%87%E0%A4%95%E0%A5%8D%E0%A4%B7%E0%A4%A3%20%E0%A5%A8%E0%A5%A6%E0%A5%AD%E0%A5%AE:%E0%A5%AD%E0%A5%AF.pdf

**Digital connectivity:** Per the Nepal Telecommunication Authority (NTA) Report,[70] the teledensity of Nepal stands at 140.67% and the internet penetration is 129.53%. The vast majority of people (94.86%) access the internet through mobile phones. This is in line with the findings of IFC A2F 2021/22 Survey which found that 94% of the respondents use mobile phones, out of which 69% use smartphones; however, the high usage of mobile phones does not translate into high digital financial literacy which remains low in Nepal.[71]

**Drinking water and infrastructure for its distribution:** Nepal struggles to provide high and medium-level drinking water services to all its citizens. While the country has been making significant progress in providing basic drinking water services through various projects, instances of widespread water pollution have resulted in water scarcity, lower agricultural yields and poor health.

Energy: In recent years, Nepal's energy production has increased significantly. As of July 2022, the nation's capacity to generate electricity stood at 2,190 megawatts (MW). Despite the vast hydropower potential, the nation's hydropower utilization is low, with a peak demand of 1,748 MW. Currently, 93% of the population of Nepal has access to electricity, with a per capita consumption of 330 kilowatts per hour. In addition, the government has promoted the use of clean cooking and clean transportation.

*Access to basic infrastructures like water, energy, transport and information and communication technology (ICT) is essential for inclusive growth. Roads and transportation services play a vital role in connecting key focal points and linking the country's populations to relevant financial access points. In a similar vein, having reliable access to electricity, ICT, and the internet is crucial for the population to adopt digital financial services.*

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[70] Nepal Telecommunications Authority. December, 2022. MIS Report Bhadra 2079. Nepal Telecommunications Authority. https://nta.gov.np/wp-content/uploads/2022/12/MIS-Bhadra-2079.pdf

[71] "Poor digital literacy hinders growth in Nepal," The Kathmandu Post, May 2, 2022. https://kathmandupost.com/money/2022/05/02/poor-digital-literacy-hinders-growth-in-nepal

# 4. Economic sectors that can drive growth and employment

Financial inclusion can only go so far in directly supporting in the alleviation of Nepal's social challenges. Ultimately, economic growth is required to address job creation, which in turn affects the majority of the social issues discussed earlier.

The government has identified a number of sectors and sub-sectors as those with high potential to contribute to GDP, their current or potential contribution to employment and livelihoods, and their connection to the United Nations' SDGs. The methodology used to select the sectors was adapted from the United Nations Development Programme (UNDP) SDG Investor Maps.[72] Because there has been no SDG Investor Map for Nepal, there is a limitation of the in-depth assessment of the mentioned sectors; however, it allows for future engagement when such map for Nepal is developed, to include financial inclusion as a key component to integrate household economic activity through financial inclusion. Through financial inclusion interventions, these sectors and subsectors can be expanded and scaled.

## 4.1 Agriculture

Agriculture is one of the key sectors of the Nepali economy: as of FY 2021/22, it contributed 23.95% to the total GDP of the country[73] and employed around 66% of the population.[74] The majority of rural adults are employed in agriculture, indicating that supporting the sector, therefore, enables supporting the livelihoods of a large proportion of the vulnerable population.[75] Agriculture remains a priority for both the government and international donors. The government has established policies and programs and increased agricultural spending, to increase employment, productivity/efficiency, profitable commercialization support, and increased competitiveness.

72 The SDG Investor Map is a market intelligence product produced by UNDP Country Offices and partners to help private investors (funds, financiers, corporations) identify investment opportunities and business models that have significant potential to advance the SDGs. The aim of the SDG Investor Map is to provide investors with actionable data and insights to enable them to use their capital for good, while making a financial profit. UNDP thereby helps to contribute to filling the SDG-financing gap by directing private capital to where it can most make a difference to people and the planet. See: https://sdginvestorplatform.undp.org/

73 Nepal Rastra Bank, Current Macroeconomic and Financial Situation of Nepal (Annual data of FY 2021/22), 2022

74 Ibid.

75 Food and Agriculture Organization (2022), Nepal at a glance, accessed on 2022

Land fragmentation, subsistence farming, lack of mechanization, reliance on fair weather, low-quality seeds and fertilizers, land fallowing, and abandonment have reduced agricultural production compared to other sectors.[76] All of these have undermined productivity and economies of scale, making production and productivity an economic challenge.

Mechanizing agriculture through the use of high-quality seeds and climate smart technology will be critical to increasing production and processing. This necessitates investments and access to capital.

Agro-processing, forest-based industries, and Televet Medical Center establishments have high potential in the agriculture sector. Facilitating these sub-sectors and linking them to financial inclusion is essential for bolstering agriculture-induced economic growth.

*Concessional loan programs and priority sector lending have increased credit supply for large farms, but access to these facilities remains difficult for small farmers. Many farmers have benefited from the agriculture insurance program as well. Other support programs that aim to increase access to finance and technology include the Prime Minister Agriculture Modernization Project, and the upcoming Hybrid Seed Program. However, the efficiency of the available programs and projects can be improved by allowing private sector participation. Private sector lending can be sourced in procurement and distribution of seeds and fertilizers particularly, among many others, as this can provide the needed support for agri-business scale ups.*[77]

## 4.2 Manufacturing

The manufacturing sector represents a major portion of the industry in Nepal, with a gross value added of 5.09% and an average growth rate of 5.86% from 2016-2020, making its development crucial for the highest employment generation,[78] promotion of value-added trade, enhancing income growth and poverty alleviation.[79] However, Nepal's manufacturing sector has not been able to drive intended growth, with its share in GDP declining from 8.84% in 2000 – 2001 to 4.66% in 2021.[80] As the scope of labor absorption in agriculture is limited, it is important to diversify to a strong manufacturing base.

The manufacturing sector in Nepal is undergoing a structural change, moving towards more basic export-oriented industries.[81] To graduate to a lower middle-income country, Nepal should accelerate trade and investment by diversifying into higher value-added export products and by diversifying export destinations.[82] To support the manufacturing sector and promote export-oriented industries, as well as to increase the competitiveness of export-oriented goods and services ,the Government has developed special economic zones to cater to export industries that intend to export at least 75% of production.[83] A 2016 report[84] suggested supporting the industrial base and the export potential of Nepal by focusing on nine major industries, including cardamom, ginger, tea, herbal plants, fabrics (including yarn), leather, footwear, pashmina, and knotted carpet.

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76 Banskota, M. and Sing, R.V. (1991), Watershed management experience in the Hindukusha – Himalayan region, Theme Papers, MEM Series (2), Kathmandu: ICIMOD

77 WB, 2018. Creating Markets in Nepal.

78 Ministry of Finance (2020), Economic Survey 2020/21.

79 Investment Board of Nepal (2017), Sector Profile: Manufacturing sector.

80 World Bank (2022), Manufacturing, value added (% of GDP) – Nepal, accessed on 2022.

81 CBS (2014), Development of manufacturing industries in Nepal: Current state and future challenges. Kathmandu: CBS and UNIDO.

82 Asian Development Bank (2017), Macroeconomic Update: Nepal, Volume 5, No 2.

83 Ministry of Law, Justice and Parliamentary Affairs, 2016.

84 Ministry of Commerce, Industry and Supplies (2016), Nepal Trade Integration Strategy 2016.

Light manufacturing, less capital-intensive and usually characterized by higher customer orientation, is prospering in Nepal. Aside from small-scale food processing, light industry, largely concentrated in southeastern Nepal, includes the production of footwear, tanned leather, instant noodles, jute goods, refined sugar, cigarettes, matches, spun cotton and synthetic fabrics, wool, and tea.[85] Among the many forms of light manufacturing industries, readymade garment, textile industries and leather and allied products are three sub-sectors that have high potential given the enormity of the size of the market for these industries.

*Though the vast majority of manufacturing firms in Nepal have access to at least some external finance, high interest rates and burdensome collateral requirements are the factors limiting firms from obtaining the required financing. Absence of a framework for use of movable assets as collateral is also impacting small and medium sized firms. Long-term credit is still constrained by limited financial products and the shallowness of the capital market. The majority of the finance provided is short-term credit, despite the widespread presence of various lending institutions like commercial banks, MFIs, cooperatives, and informal sources. Prime Minister's Nepali Production and Consumption Growth Program and "Make in Nepal" and "Made in Nepal" are some initiatives implemented to boost the domestic industry.*

## 4.3 Small and Medium Enterprises (SMEs)

SMEs have a significant contribution to the country's employment generation, poverty alleviation and GDP growth. Per the National Economic Census, in 2018 the SME sector employed 2.74 million people, 69.3% of which are micro enterprises, 25.2% small enterprises, and 5.5% medium-sized enterprises.[86] However, the majority of the SMEs in Nepal are informal small, family-level enterprises that use simple and traditional technologies and serve limited local markets, employing mainly wage-earning workers.

Smaller firms tend to have more constrained access to finance than larger firms across various indicators such as account ownership, credit and overdraft facilities, or collateral to loan ratio. Insufficient alternative sources of financing, stringent loan collateral requirements by BFIs and the "missing middle" problem — where small enterprises have difficulties accessing larger volumes of credit but are too big to benefit from microloans — are other obstacles for SMEs to access appropriate financing. A study by NRB found that only 16% of startup enterprises have access to capital from BFIs, with the total supply of credit towards the entire SME sector being NPR 605 billion (USD 5.4 billion).

In Nepal, SMEs and startups operate across sectors, but handicrafts, forest fiber-based, tech-enabled, and green enterprises are more promising sub-sectors. In the last five years, Nepal's entrepreneurial ecosystem has grown rapidly, with many startups coming into operation. The current developments in the startup ecosystem, consisting of impact investors, private equity, and venture capital funds, are slowly taking grounds in Nepal as alternative sources of finance. The majority of the startups are organized as formal and position themselves as high-impact firms. These firms are driven by innovation and create wealth through expansion. However, a report by the World Bank stated that although startups contribute significantly to job creation, only 9% use banks to finance investments, indicating lack of awareness about it, and lack of funds for the financial institutions to conduct personal screening and due diligence for even modest loan amounts.[87]

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[85] Nations Encyclopedia, 2021.

[86] Business Oxygen Limited, https://bo2.com.np/sme/; accessed in 2022.

[87] WB, 2018. Systematic Country Diagnostic: A new approach for a Federal Nepal.

*The government has identified SMEs as an important sector and has prioritized their development. To assist the sector, the government has implemented a number of development programs, including the provision of concessional loans through the Industries of National Priority program, the Youth Self-Employment Fund, and income tax exemptions. NRB has also directed banks to ensure that 15% of the total loan portfolio is provided to SMEs.*

*Despite this, access to capital, particularly credit, remains one of the most significant challenges for SMEs. Clarity on eligibility and the process to be eligible for government-led programs, collateral requirements, and non-project-based financing are regarded as major barriers.*

## 4.4 Services

The services sector can be termed as the largest sector of the Nepalese economy, as it contributes the highest to the country's GDP; its share of GDP has risen from 26% in 1980 to 61.76% in 2021/22.[88] In addition, the sector is estimated to grow at an average of 5.93% per annum. However, for its long-term and sustained growth, policy specialists and economists of the country vouch that it has to be linked to sustainable bases, including manufacturing and agriculture.[89] For this, the services economy has to be linked with the expansion of trade and agricultural production, skills development, competitiveness development, and others. Unlike most of the high-income or developing countries, Nepal's structural shift has been occurring from agriculture to the services sector, rather than from agriculture to the manufacturing sector.[90] Remittance-fueled investments have prompted consumption rather than productive investments or growth of constructive sectors, which has led to this atypical structural shift and growing contribution to the country's GDP. Moreover, this shift has created jobs that aren't necessarily high-skilled, which is worrisome for a developing country because it means the average wage-earning job in Nepal has not been offering a higher pay, even though people have left low-paying farming jobs.[91] If the average income does not rise, per capita income won't either, and Nepal's graduation to middle-income status by 2030 may be hampered.

Evidently, the services sector is the new frontier for economic growth for the country and the tourism, education, health and IT sectors are the key potential sub-sectors that have seen the scale-up and transformation.

Access to finance, like in other sectors, can help the services sector grow. Access to and availability of affordable credit can fuel the development of this sector, but the services sector also requires various risk mitigation mechanisms and instruments, which are currently lacking. Today, technology is the driving force behind the service sector, but restrictions on foreign direct investment, procurement processes, and foreign exchange regulations have stifled its growth.

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[88] NRB, 2022. Current Macroeconomic and Financial Situation Update (FY 2021/22).

[89] The Himalayan Times, 2017.

[90] WB 2018. Creating markets in Nepal.

[91] WB 2018. Creating markets in Nepal.

# 5. Conclusions: Deepening Financial Inclusion to Increase Low-Income Market Development

Based on the findings of the IFC A2F 2021/22 Survey and a comprehensive analysis of the three dimensions of financial inclusion, the following section outlines a series of measures that can help expand financial inclusion.

## 5.1 Measures to Advance Access to Financial Services

Develop measure to address regional disparities in the distribution of access points to ensure more equitable access to financial services.

Focus on advancing DFS which can help address the lack of physical access points.

Leverage telecom networks and incentivize partnerships of telecom companies with existing BFIs, PSPs and PSOs; encourage improvement in KYC procedures of telecom companies' sales process.

## 5.2 Measures to Advance the Usage of Financial Services

**Savings:**

***Expanding the deposit insurance*** provided by Deposit & Credit Guarantee Fund (DCGF)[92] to deposits mobilized by other formal financial service providers.

***Development of tailored products*** such as labelled savings facilities (e.g., naming a bank account or product with a specific savings goal), small-value savings products etc.

**Credit:**

***Adoption and development of credit ratings*** to enhance non-collateralized lending.

***Reforms of the Secured Transaction Registry regime*** to allow for the granting of loans secured by movable assets.

***Credit Guarantee Schemes*** should be improved to advance MSME lending.

**Insurance:**

***Demand-driven innovative insurance products*** – low-cost insurance products that fulfill the requirements of the different market segments should be developed.

[92] DCGF guarantees the deposit of the natural person depositors up to NPR 500,000 held with the commercial banks and financial institutions licensed by NRB.

***Programs to raise awareness*** to promote insurance to the general public, including regular and targeted awareness campaigns, social media promotions, road shows, and customer meetings.

**Payments:**
***Digital KYC.*** Introduce policy measures to accelerate adoption of digital KYC and authentication measures; support existing PSOs to introduce population-level eKYC and authentication services with a strong focus on security and privacy.

**Remittances:**
***Work towards reducing the cost of remittances*** to attract remitters using informal channels to remit through formal one.

***Create conducive environment to facilitate remittances via digital platforms.*** The acceptance in Nepal of digital wallets issued overseas to facilitate cross-border remittances and settlements with appropriate risk mitigation measures will need to be well explored and implemented.

***Utilize the extensive network of remittance companies and user base to promote financial inclusion.***

## 5.3 Measures to Advance the Quality of Financial Services

***Develop comprehensive legal, regulatory, and supervisory frameworks to ensure comprehensive financial consumer protection.*** In doing so, the Government of Nepal should build on the existing progress in this area and be guided by international best practices.

***Effective implementation of existing and new policies will be key for increased consumer protection and education.*** Proper monitoring and evaluation are critical to ensuring adequate consumer protection while addressing any consumer grievances.

***Focus on increasing the quality of the provision of financial services*** while ensuring increased consumer protection.

***Based on the findings of the Baseline Financial Literacy Survey, work on addressing the gaps in financial literacy level through designing effective programs in cooperation with stakeholders.*** These gaps in financial literacy and financial consumer protection areas need to be timely addressed to ensure effective financial inclusion.

## 5.4 General Measures to Advance Financial Inclusion

***Update the Nepal Financial Inclusion Action Plan-2030*** approved by NRB on December 27, 2017. The financial sector landscape in Nepal has seen rapid growth and evolution as a result of government policies and increased adoption through digitization. It would be worthwhile to reconsider the priorities and proposed interventions. The implementation and evaluation of some of the recommendations are reflected in the MAP Refresh, 2021.

***Nepal could benefit from adopting Integrated National Financing Frameworks (INFFs)[93] for financing sustainable development.*** Adopting INFF can benefit Nepal as it implements robust, holistic strategies for financing sustainable development. Countries are adopting INFF to enhance the coherence of different financial policies, better manage the complex financial landscape, and mobilize additional financing to support sustainable development. Integrating financial inclusion policy and activities

[93] INFF. https://inff.org/about/about-inffs

more purposefully and deliberately within the INFF, allows for a cohesive policy approach to integrated and inclusive financing. In the context of the INFF process, financial inclusion can be seen as contributing to a more favorable domestic financial environment in four ways; greater transparency and inclusion in domestic resource mobilization, financial inclusion contributing to domestic private finance, financial inclusion in support of local economic activity, and financial inclusion and international private finance flows.

***At a strategic policy level, specific financial inclusion indicators can be included as part of Sustainable Banking and Finance Network's measurement framework, or as part of a National Financial Inclusion Strategy,***[94] to ensure greater coordination between sustainable finance coordination committees, and coordination structures set up for financial inclusion policy implementation. This could serve as the next stage of the market development that focuses on improving usage and further developing the low-income segment. Furthermore, a deliberate focus on the private sector policy mechanisms that takes a more conscious and mindful approach to including financial inclusion objectives as part of their sustainable finance considerations will be imperative in the next stage of financial inclusion market development.

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[94] See the WB Resource Center: Financial Inclusion Strategies: https://www.worldbank.org/en/topic/financialinclusion/brief/national-financial-inclusion-strategies

# Annex 1. **Methodology and Analytical Framework**

The study is built on the UNCDF and the World Bank Group (WBG)'s frameworks for financial inclusion. The WBG utilizes three broad categories to investigate matters of financial inclusion. This includes Access, Usage and Quality:[94]

- Access indicators reflect the depth of outreach of financial services, using largely supply-side data, such as the penetration of bank branches or point of sale (POS) devices in rural areas, but can also include demand-side barriers that customers face to access financial institutions, such as cost or information.

- Usage indicators measure how clients use financial services, such as the regularity and duration of the financial product/service over time (e.g., average savings balances, number of transactions per account, number of electronic payments made, etc.).

- Quality measures describe whether financial products and services match clients' needs, the range of options available to customers, and clients' awareness and understanding of financial products. Here topics like financial literacy and consumer protection are considered.

UNCDF MAP uses a nuanced financial inclusion framework, allowing for an analysis of the usage of financial services driven by utilizing demand-side livelihood data. The overarching framework relies on includes the financial access strands (see definitions below), which segment the entire adult population based on their usage of different categories of financial services, as well as their usage of various financial service products.

For this report, the analysis, therefore, focuses on the usage of financial services, utilizing the livelihoods data from the IFC A2F 2021/22 Survey, while focusing on replicating comparable analysis on parameters that were used for the Roadmap, within the context of more inclusive financing for the low-income to spearhead growth. Additionally, a brief discussion on access and quality of financial products is also provided, based on the IFC A2F 2021/22 Survey.

[95] WB. https://www.worldbank.org/en/topic/financialinclusion/brief/how-to-measure-financial-inclusion

The definitions of the overall access strands are provided below, and this process is then applied to product categories (savings, credit, insurance and payments). Importantly, the term "Access" should not be mistaken with the WBG's Access category (the latter relies on supply-side data on distribution points while also incorporating demand-side barriers to access):

**Breaking down the Access Strand.** The Financial Access Strand is used to enable comparison of levels of financial inclusion across countries or market segments. In calculating the access strand, a hierarchical approach is used in order to depict:

- **Banked:** The percentage of adults who have/use financial products and/or services provided by A, B, C or D class BFIs regulated by NRB under the Nepal Bank and Financial Institution Act (BAFIA) 2063. This is not necessarily exclusive usage – these individuals could also be using financial products from other formal financial institutions or informal products.

- **Other formal:**[96] The percentage of adults that have financial products from non-bank formal financial institutions but do not have bank access for these products. These individuals could also be using informal products.

The banked and other formal segments together form the formally included population.

- **Informal:** The percentage of adults that is not formally served, but use informal financial products or mechanisms. This is exclusively informal usage which does not include individuals who are within the banked or other formal categories of the access strand that also use informal services.

- **Excluded:** The percentage of adults that do not use any financial products – formal or informal – to manage their financial lives.

The access strand does not show overlaps between the various categories. Consequently, the "other formal" or "informal only" segments do not indicate total usage of non-bank formal or informal financial services, only those individuals who have a non-bank financial service but not a bank account, or an informal financial service but no formal financial service. An individual with both a formal and an informal financial product would only appear under formal take-up.

The access strand applied to product markets. The access strand is used to illustrate take-up across particular product markets (i.e., savings, credit, insurance and payments). The product market access strands also indicate those reached only by "un-intermediated" financial services. These are financial services extended between family and friends, without being intermediated through a third-party institution or collective grouping. Thus, for example, saving at home, borrowing from friends and family, or sending a remittance with another person would be regarded as un-intermediated services. Particular financial products, services, mechanisms and activities that have been included for each product market access strand are listed below:

## Credit access strand

- **Banked:** Having a loan product or credit account with a bank. Some of them may also be accessing credit from an alternative formal provider, informal credit or borrow from family and friends.

- **Other formal:** Having a loan product or credit account with a credit institution, MFI or SACCOs. Some of them may also be accessing informal credit or borrowing from family and friends.

[96] The percentage of adults that have financial products from non-bank formal financial institutions (not registered with NRB but could be registered with other government entities), for instance: financial cooperatives are registered with Department of Cooperatives; insurance companies – with the Nepal Insurance Authority etc.

- **Informal:** Those who do not have formal credit, but borrowed money from an employer, savings group, informal money lenders. Some of them may also be borrowing from family or friends.

- **Family or friends only:** Those who do not have formal or informal credit as above, but borrowed money from family or friends.

## Remittance strand[97]

- **Banked:** The proportion of adults that use banks to send or receive remittances. Members of this segment may also be engaged in formal non-bank remittance activities, informal remittance activities or friends and family remittance activities. Largest contributor: using bank accounts for remittance purposes.

- **Other formal:** Those who have sent or received remittances in the last 12 months via the post office, MoneyGram or other remittance agents. Some of them may also be sending or receiving money through informal channels or family and friends.

- **Informal:** Those who have not sent or received formal remittances but have sent or received remittances in the last 12 months via a business or other informal channels. Some of them may also be sending or receiving money through family and friends or in person.

- **Family & friends or self-delivery only:** Those who do not fit into either of the previous categories, but have sent or received remittances in the last 12 months directly via friends or family, or who delivered the funds themselves.

## Savings strand

- **Banked:** Those who save with or have a savings account with a bank.

- **Other formal:** Those who save with or have a savings account with a SACCOs, pension fund or post office. Some of them may also be saving in an informal institution or at home.

- **Informal:** Those who do not have a formal savings product as defined above, but who save with a savings group. Some of them may also be saving at home or through other un-intermediated means.

- **Saving at home/with household members:** Those who do not fall into either category above, but save in a secret place at home, in livestock or in kind, within the household or family, or who ask another person in the community to keep money safe for them.

## Insurance strand

- **Formal:** Those with any formal insurance product (like funeral insurance) with an insurance company. Some of them may also belong to a burial society.

- **Informal:** Those who do not have formal insurance, but belong to an informal society such as Guthi.

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[97] Only a remittances access strand is shown within the payments section as the other component of payments is access to bank accounts which is measured as a dichotomous variable, i.e., respondents either have a bank account or do not, and hence it is not meaningful to show this in an access strand.

# Annex 2. **Survey Data Tables**

Based on the findings of the IFC A2F 2021/22 Survey and a comprehensive analysis of the three dimensions of financial inclusion, the following section outlines a series of measures that can help expand financial inclusion.

## A. Usage of Financial Services

(percentage of total respondents, age 18+)

### A1. Usage of financial services by gender

*A1.1 Overall usage of financial services by gender*

| Provider | Male | Female | Total |
|---|---|---|---|
| Bank | 82.8 | 79.1 | 81.0 |
| Other formal | 7.3 | 10.3 | 8.7 |
| Informal | 3.6 | 3.7 | 3.6 |
| None | 6.3 | 6.9 | 6.6 |
| **Total** | **100** | **100** | **100** |

*A1.2 Usage of loan services by gender*

| Provider | Male | Female | Total |
|---|---|---|---|
| Bank | 36.3 | 31.7 | 34.1 |
| Other formal | 12.6 | 13.6 | 13.1 |
| Informal | 6.7 | 8.0 | 7.3 |
| Friends/Family | 14.0 | 12.4 | 13.3 |
| None | 30.5 | 34.2 | 32.3 |
| **Total** | **100** | **100** | **100** |

*A1.3 Usage of savings services by gender*

| Provider | Male | Female | Total |
|---|---|---|---|
| Bank | 36.7 | 34.3 | 35.6 |
| Other formal | 21.4 | 32.1 | 26.5 |
| Informal | 1.6 | 2.8 | 2.1 |
| At home | 18.5 | 15.7 | 17.1 |
| None | 21.9 | 15.1 | 18.6 |
| **Total** | **100.0** | **100.0** | **100.0** |

*A1.4 Usage of insurance services by gender*

| Provider | Male | Female | Total |
|---|---|---|---|
| Bank | 7.5 | 6.3 | 6.9 |
| Other formal | 22.1 | 22.0 | 22.1 |
| Informal | 0.4 | 0.4 | 0.4 |
| None | 70.0 | 71.3 | 70.6 |
| **Total** | **100** | **100** | **100** |

*A1.5 Usage of payment services by gender*

| Provider | Male | Female | Total |
|---|---|---|---|
| Bank | 76.9 | 71.8 | 74.5 |
| Other formal | 1.1 | 2.5 | 1.8 |
| Informal | 2.8 | 3.6 | 3.2 |
| Friends/Family | 1.2 | 1.5 | 1.4 |
| None | 17.9 | 20.5 | 19.2 |
| **Total** | **100** | **100** | **100** |

*A1.6 Usage of remittance services by gender*

| Provider | Male | Female | Total |
|---|---|---|---|
| Bank | 17.7 | 19.1 | 18.4 |
| Other formal | 8.9 | 8.0 | 8.5 |
| Informal | 10.0 | 10.8 | 10.4 |
| Friends/Family | 2.9 | 3.8 | 3.3 |
| None | 60.5 | 58.3 | 59.4 |
| **Total** | **100** | **100** | **100** |

## A2. Usage of financial services by level of education

*A2.1 Overall usage of financial services by level of education*

| Provider | No school | Less than secondary | Secondary | Above secondary | Total |
|---|---|---|---|---|---|
| Bank | 71.4 | 77.3 | 84.6 | 94.5 | 81.0 |
| Other formal | 13.2 | 10.2 | 7.4 | 2.1 | 8.8 |
| Informal | 5.1 | 4.8 | 2.9 | 0.8 | 3.6 |
| None | 10.4 | 7.7 | 5.2 | 2.6 | 6.6 |
| **Total** | **100** | **100** | **100** | **100** | **100** |

*A2.2 Usage of loan services by level of education*

| Provider | No school | Less than secondary | Secondary | Above secondary | Total |
|---|---|---|---|---|---|
| Bank | 30.6 | 35.2 | 33.5 | 39.8 | 34.1 |
| Other formal | 14.2 | 14.3 | 13.3 | 6.6 | 13.1 |
| Informal | 9.0 | 9.1 | 6.0 | 4.5 | 7.3 |
| Friends /Family | 13.9 | 13.6 | 12.7 | 13.5 | 13.3 |
| No credit | 32.3 | 27.9 | 34.6 | 35.7 | 32.3 |
| **Total** | **100** | **100** | **100** | **100** | **100** |

*A2.3 Usage of savings services by level of education*

| Provider | No school | Less than secondary | Secondary | Above secondary | Total |
|---|---|---|---|---|---|
| Bank | 19.8 | 29.0 | 40.8 | 61.4 | 35.6 |
| Other formal | 26.7 | 29.0 | 26.3 | 19.5 | 26.5 |
| Informal | 2.8 | 2.5 | 1.9 | 0.6 | 2.1 |
| At home | 21.5 | 18.5 | 15.0 | 14.2 | 17.1 |
| None | 29.2 | 20.9 | 15.9 | 4.3 | 18.6 |
| **Total** | **100** | **100** | **100** | **100** | **100** |

*A2.4 Usage of insurance services by level of education*

| Provider | No school | Less than secondary | Secondary | Above secondary | Total |
|---|---|---|---|---|---|
| Bank | 3.6 | 6.0 | 8.6 | 8.7 | 6.9 |
| Other formal | 12.3 | 17.2 | 26.3 | 36.6 | 22.1 |
| Informal | 0.3 | 0.7 | 0.3 | 0.0 | 0.4 |
| None | 83.8 | 76.1 | 64.9 | 54.8 | 70.6 |
| **Total** | **100** | **100** | **100** | **100** | **100** |

*A2.5 Usage of payment services by level of education*

| Provider | No school | Less than secondary | Secondary | Above secondary | Total |
|---|---|---|---|---|---|
| Bank | 60.9 | 68.6 | 80.5 | 91.2 | 74.5 |
| Other formal | 2.3 | 1.2 | 2.2 | 1.0 | 1.8 |
| Informal | 5.4 | 4.0 | 2.2 | 1.3 | 3.2 |
| Friends /Family | 1.6 | 1.8 | 1.1 | 0.5 | 1.4 |
| None | 29.8 | 24.5 | 14.0 | 6.0 | 19.2 |
| **Total** | **100** | **100** | **100** | **100** | **100** |

*A2.6 Usage of remittance services by level of education*

| Provider | No school | Less than secondary | Secondary | Above secondary | Total |
|---|---|---|---|---|---|
| Bank | 11.6 | 16.3 | 21.2 | 24.5 | 18.4 |
| Other formal | 5.9 | 5.3 | 10.6 | 13.9 | 8.5 |
| Informal | 8.5 | 9.5 | 12.1 | 9.2 | 10.4 |
| Friends /Family | 2.0 | 4.4 | 2.9 | 4.3 | 3.3 |
| None | 72.0 | 64.5 | 53.2 | 48.1 | 59.4 |
| **Total** | **100** | **100** | **100** | **100** | **100** |

## A3. Usage of financial services by source of income

*A3.1 Overall usage of financial services by source of income*

| Provider | Formal employment | Self-employment | Farming and renting | Informal work | Transfer from abroad | Transfer from local | No income | Total |
|---|---|---|---|---|---|---|---|---|
| Bank | 95.6 | 87.2 | 75.3 | 82.8 | 80.8 | 80.9 | 76.5 | 81.0 |
| Other formal | 2.9 | 5.7 | 11.5 | 7.1 | 11.1 | 7.6 | 11.9 | 8.8 |
| Informal | 0.0 | 2.9 | 5.2 | 3.6 | 1.9 | 2.7 | 1.1 | 3.6 |
| None | 1.5 | 4.2 | 8.0 | 6.5 | 6.1 | 8.8 | 10.5 | 6.6 |
| **Total** | **100** | **100** | **100** | **100** | **100** | **100** | **100** | **100** |

*A3.2 Usage of loan services by source of income*

| Provider | Formal employment | Self-employment | Farming and renting | Informal work | Transfer from abroad | Transfer from local | No income | Total |
|---|---|---|---|---|---|---|---|---|
| Bank | 45.4 | 38.3 | 32.6 | 31.6 | 31.1 | 28.8 | 27.4 | 34.1 |
| Other formal | 9.9 | 15.1 | 13.9 | 12.4 | 12.6 | 8.2 | 11.3 | 13.1 |
| Informal | 3.0 | 4.2 | 8.9 | 11.2 | 5.2 | 7.8 | 7.8 | 7.3 |
| Friends/Family | 11.9 | 14.1 | 13.4 | 15.6 | 12.6 | 8.6 | 15.5 | 13.3 |
| None | 29.8 | 28.3 | 31.2 | 29.3 | 38.5 | 46.6 | 38.0 | 32.3 |
| **Total** | **100** | **100** | **100** | **100** | **100** | **100** | **100** | **100** |

*A3.2 Usage of loan services by source of income*

| Provider | Formal employment | Self-employment | Farming and renting | Informal work | Transfer from abroad | Transfer from local | No income | Total |
|---|---|---|---|---|---|---|---|---|
| Bank | 61.1 | 43.6 | 28.9 | 29.9 | 35.4 | 36.6 | 26.5 | 35.6 |
| Other formal | 19.3 | 25.1 | 28.5 | 28.7 | 25.3 | 22.8 | 31.5 | 26.5 |
| Informal | 1.6 | 1.3 | 2.6 | 2.6 | 2.4 | 2.8 | 0.4 | 2.1 |
| At home | 10.6 | 14.9 | 19.3 | 17.1 | 19.4 | 18.5 | 12.0 | 17.1 |
| None | 7.3 | 15.1 | 20.7 | 21.8 | 17.4 | 19.2 | 29.7 | 18.6 |
| **Total** | **100** | **100** | **100** | **100** | **100** | **100** | **100** | **100** |

*A3.2 Usage of loan services by source of income*

| Provider | Formal employment | Self-employment | Farming and renting | Informal work | Transfer from abroad | Transfer from local | No income | Total |
|---|---|---|---|---|---|---|---|---|
| Bank | 12.5 | 9.2 | 5.2 | 6.4 | 3.9 | 7.4 | 5.4 | 6.9 |
| Other formal | 31.3 | 27.3 | 17.9 | 18.1 | 25.9 | 28.8 | 7.5 | 22.1 |
| Informal | 1.1 | 0.4 | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 |
| None | 55.2 | 63.1 | 76.3 | 75.6 | 70.1 | 63.8 | 87.0 | 70.6 |
| **Total** | **100** | **100** | **100** | **100** | **100** | **100** | **100** | **100** |

*A3.5 Usage of payment services by source of income*

| Provider | Formal employment | Self-employment | Farming and renting | Informal work | Transfer from abroad | Transfer from local | No income | Total |
|---|---|---|---|---|---|---|---|---|
| Bank | 94.1 | 80.7 | 68.8 | 72.9 | 79.3 | 75.2 | 60.9 | 74.5 |
| Other formal | 0.3 | 0.7 | 1.8 | 0.8 | 7.4 | 2.5 | 4.9 | 1.8 |
| Informal | 0.9 | 2.6 | 4.1 | 3.0 | 3.1 | 3.0 | 1.8 | 3.2 |
| Friends/Family | 0.4 | 0.9 | 1.4 | 0.7 | 6.2 | 1.5 | 1.0 | 1.4 |
| None | 4.3 | 15.2 | 23.9 | 22.6 | 4.1 | 17.8 | 31.4 | 19.2 |
| **Total** | **100** | **100** | **100** | **100** | **100** | **100** | **100** | **100** |

*A3.6 Usage of remittance services by source of income*

| Provider | Formal employment | Self-employment | Farming and renting | Informal work | Transfer from abroad | Transfer from local | No income | Total |
|---|---|---|---|---|---|---|---|---|
| Bank | 25.8 | 16.4 | 15.8 | 19.3 | 49.9 | 16.2 | 12.3 | 18.4 |
| Other formal | 9.9 | 9.6 | 7.1 | 8.4 | 18.7 | 6.5 | 7.9 | 8.5 |
| Informal | 9.4 | 11.3 | 10.1 | 7.0 | 10.7 | 13.3 | 10.0 | 10.4 |
| Friends/Family | 4.0 | 2.9 | 2.6 | 2.1 | 10.4 | 6.1 | 1.0 | 3.3 |
| None | 51.0 | 59.9 | 64.4 | 63.2 | 10.3 | 57.8 | 68.8 | 59.4 |
| **Total** | **100** | **100** | **100** | **100** | **100** | **100** | **100** | **100** |

## A4. Usage of financial services by location – rural/urban

*A4.1 Overall usage of fin. services by location – rural/urban*

| Provider | Rural | Urban | Total |
|---|---|---|---|
| Bank | 76.7 | 83.5 | 81.0 |
| Other formal | 10.6 | 7.7 | 8.8 |
| Informal | 4.2 | 3.3 | 3.6 |
| None | 8.5 | 5.5 | 6.6 |
| **Total** | **100** | **100** | **100** |

*A4.2 Usage of loan services by location – rural/urban*

| Provider | Rural | Urban | Total |
|---|---|---|---|
| Bank | 32.3 | 35.1 | 34.1 |
| Other formal | 12.4 | 13.5 | 13.1 |
| Informal | 9.1 | 6.3 | 7.3 |
| Friends/Family | 13.8 | 13.0 | 13.3 |
| None | 32.4 | 32.2 | 32.3 |
| **Total** | **100** | **100** | **100** |

*A4.3 Usage of savings services by location – rural/urbant*

| Provider | Rural | Urban | Total |
|---|---|---|---|
| Bank | 30.3 | 38.5 | 35.6 |
| Other formal | 28.2 | 25.6 | 26.5 |
| Informal | 2.6 | 1.9 | 2.1 |
| At home | 17.7 | 16.8 | 17.1 |
| None | 21.2 | 17.2 | 18.6 |
| **Total** | **100** | **100** | **100** |

*A4.4 Usage of insurance services by location – rural/urban*

| Provider | Rural | Urban | Total |
|---|---|---|---|
| Bank | 6.5 | 7.2 | 6.9 |
| Other formal | 20.3 | 23.1 | 22.1 |
| Informal | 0.7 | 0.2 | 0.4 |
| None | 72.6 | 69.5 | 70.6 |
| **Total** | **100** | **100** | **100** |

*A4.5 Usage of payment services by location – rural/urban*

| Provider | Rural | Urban | Total |
|---|---|---|---|
| Bank | 69.2 | 77.4 | 74.5 |
| Other formal | 1.9 | 1.7 | 1.8 |
| Informal | 3.7 | 2.9 | 3.2 |
| Friends/Family | 1.7 | 1.2 | 1.4 |
| None | 23.4 | 16.8 | 19.2 |
| **Total** | **100** | **100** | **100** |

*A4.6 Usage of remittance services by location – rural/urban*

| Provider | Rural | Urban | Total |
|---|---|---|---|
| Bank | 18.1 | 18.5 | 18.4 |
| Other formal | 8.8 | 8.3 | 8.5 |
| Informal | 11.1 | 10.0 | 10.4 |
| Friends/Family | 3.0 | 3.6 | 3.3 |
| None | 59.1 | 59.6 | 59.4 |
| **Total** | **100** | **100** | **100** |

## A5. Usage of financial services by region

*A5.1 Overall usage of financial services by region*

| Provider | Hill | Mountain | Terai | Total |
|---|---|---|---|---|
| Bank | 82.5 | 71.7 | 81.0 | 81.0 |
| Other formal | 7.9 | 12.4 | 9.0 | 8.8 |
| Informal | 3.6 | 6.9 | 3.2 | 3.6 |
| None | 6.0 | 9.1 | 6.8 | 6.6 |
| **Total** | **100** | **100** | **100** | **100** |

*A5.4 Usage of insurance services by region*

| Provider | Hill | Mountain | Terai | Total |
|---|---|---|---|---|
| Bank | 7.8 | 3.0 | 6.7 | 6.9 |
| Other formal | 22.5 | 19.2 | 22.1 | 22.1 |
| Informal | 0.8 | 0.1 | 0.1 | 0.4 |
| None | 68.9 | 77.8 | 71.2 | 70.6 |
| **Total** | **100** | **100** | **100** | **100** |

*A5.2 Usage of loan services by region*

| Provider | Hill | Mountain | Terai | Total |
|---|---|---|---|---|
| Bank | 31.1 | 29.2 | 37.2 | 34.1 |
| Other formal | 11.6 | 9.4 | 14.8 | 13.1 |
| Informal | 8.3 | 9.8 | 6.2 | 7.3 |
| Friends/Family | 14.2 | 14.2 | 12.4 | 13.3 |
| None | 34.8 | 37.4 | 29.5 | 32.3 |
| **Total** | **100** | **100** | **100** | **100** |

*A5.5 Usage of payment services by region*

| Provider | Hill | Mountain | Terai | Total |
|---|---|---|---|---|
| Bank | 76.8 | 65.2 | 73.8 | 74.5 |
| Other formal | 2.1 | 1.5 | 1.5 | 1.8 |
| Informal | 3.5 | 5.8 | 2.7 | 3.2 |
| Friends/Family | 1.3 | 0.6 | 1.5 | 1.4 |
| None | 16.3 | 26.9 | 20.6 | 19.2 |
| **Total** | **100** | **100** | **100** | **100** |

*A5.3 Usage of savings services by region*

| Provider | Hill | Mountain | Terai | Total |
|---|---|---|---|---|
| Bank | 37.1 | 28.6 | 35.2 | 35.6 |
| Other formal | 27.5 | 26.7 | 25.7 | 26.5 |
| Informal | 2.6 | 3.0 | 1.7 | 2.1 |
| At home | 16.1 | 21.1 | 17.5 | 17.1 |
| None | 16.7 | 20.7 | 20.0 | 18.6 |
| **Total** | **100** | **100** | **100** | **100** |

*A5.6 Usage of remittance services by region*

| Provider | Hill | Mountain | Terai | Total |
|---|---|---|---|---|
| Bank | 21.7 | 10.0 | 16.6 | 18.4 |
| Other formal | 8.3 | 13.5 | 8.1 | 8.5 |
| Informal | 13.4 | 11.0 | 7.8 | 10.4 |
| Friends/Family | 3.1 | 3.1 | 3.6 | 3.3 |
| None | 53.6 | 62.3 | 64.0 | 59.4 |
| **Total** | **100** | **100** | **100** | **100** |

## A6. Usage of financial services by province

*A6.1 Overall usage of financial services by province*

| Provider | Province 1 | Madhesh | Bagmati | Gandaki | Lumbini | Karnali | Sudurpashchim | Total |
|---|---|---|---|---|---|---|---|---|
| Bank | 73.3 | 79.7 | 82.0 | 89.2 | 82.8 | 79.8 | 85.3 | 81.0 |
| Other formal | 14.4 | 9.9 | 8.5 | 6.6 | 5.9 | 6.5 | 5.2 | 8.8 |
| Informal | 4.4 | 2.2 | 4.0 | 2.2 | 3.7 | 6.0 | 3.9 | 3.6 |
| None | 7.8 | 8.2 | 5.5 | 2.0 | 7.7 | 7.8 | 5.7 | 6.6 |
| **Total** | **100** | **100** | **100** | **100** | **100** | **100** | **100** | **100** |

*A6.2 Usage of loan services by province*

| Provider | Province 1 | Madhesh | Bagmati | Gandaki | Lumbini | Karnali | Sudurpashchim | Total |
|---|---|---|---|---|---|---|---|---|
| Bank | 29.9 | 38.1 | 30.4 | 33.0 | 36.5 | 39.0 | 35.4 | 34.1 |
| Other formal | 12.3 | 16.0 | 12.0 | 10.1 | 11.5 | 11.2 | 17.6 | 13.1 |
| Informal | 7.4 | 5.5 | 6.3 | 5.8 | 10.5 | 9.1 | 7.8 | 7.3 |
| Friends/Family | 11.8 | 14.1 | 13.0 | 15.1 | 11.1 | 16.6 | 14.9 | 13.3 |
| None | 38.7 | 26.2 | 38.3 | 36.1 | 30.4 | 24.1 | 24.4 | 32.3 |
| **Total** | **100** | **100** | **100** | **100** | **100** | **100** | **100** | **100** |

*A6.3 Usage of savings services by province*

| Provider | Province 1 | Madhesh | Bagmati | Gandaki | Lumbini | Karnali | Sudurpashchim | Total |
|---|---|---|---|---|---|---|---|---|
| Bank | 39.7 | 26.7 | 34.0 | 42.0 | 39.9 | 26.8 | 40.6 | 35.6 |
| Other formal | 27.8 | 21.7 | 31.8 | 30.8 | 22.0 | 23.1 | 28.5 | 26.5 |
| Informal | 3.2 | 0.2 | 2.2 | 1.3 | 4.7 | 3.4 | 0.0 | 2.1 |
| At home | 11.7 | 25.0 | 18.3 | 13.7 | 14.7 | 15.0 | 17.4 | 17.1 |
| None | 17.7 | 26.4 | 13.7 | 12.2 | 18.8 | 31.7 | 13.6 | 18.6 |
| **Total** | **100** | **100** | **100** | **100** | **100** | **100** | **100** | **100** |

*A6.4 Usage of insurance services by province*

| Provider | Province 1 | Madhesh | Bagmati | Gandaki | Lumbini | Karnali | Sudurpashchim | Total |
|---|---|---|---|---|---|---|---|---|
| Bank | 6.0 | 7.4 | 8.5 | 7.8 | 7.7 | 4.3 | 3.5 | 6.9 |
| Other formal | 33.1 | 15.6 | 19.5 | 28.4 | 20.9 | 15.5 | 20.5 | 22.1 |
| Informal | 0.8 | 0.0 | 0.3 | 0.3 | 0.7 | 0.1 | 0.5 | 0.4 |
| None | 60.1 | 77.0 | 71.6 | 63.6 | 70.7 | 80.2 | 75.5 | 70.6 |
| **Total** | **100** | **100** | **100** | **100** | **100** | **100** | **100** | **100** |

*A6.5 Usage of payment services by province*

| Provider | Province 1 | Madhesh | Bagmati | Gandaki | Lumbini | Karnali | Sudurpashchim | Total |
|---|---|---|---|---|---|---|---|---|
| Bank | 66.4 | 71.9 | 77.0 | 84.8 | 76.8 | 61.1 | 82.6 | 74.5 |
| Other formal | 3.1 | 0.2 | 2.3 | 1.5 | 1.7 | 1.1 | 2.2 | 1.77 |
| Informal | 4.3 | 2.0 | 4.3 | 3.3 | 2.5 | 2.6 | 2.8 | 3.2 |
| Friends/Family | 3.0 | 1.1 | 0.5 | 1.2 | 0.8 | 1.7 | 1.8 | 1.36 |
| None | 23.2 | 24.8 | 16.0 | 9.2 | 18.3 | 33.6 | 10.6 | 19.18 |
| **Total** | **100** | **100** | **100** | **100** | **100** | **100** | **100** | **100** |

*A6.6 Usage of remittance services by province*

| Provider | Province 1 | Madhesh | Bagmati | Gandaki | Lumbini | Karnali | Sudurpashchim | Total |
|---|---|---|---|---|---|---|---|---|
| Bank | 16.9 | 15.3 | 16.1 | 35.0 | 19.1 | 11.1 | 18.7 | 18.4 |
| Other formal | 10.9 | 1.7 | 11.4 | 6.8 | 9.5 | 6.0 | 13.5 | 8.5 |
| Informal | 14.2 | 3.4 | 15.8 | 8.1 | 10.1 | 6.2 | 11.3 | 10.4 |
| Friends/Family | 6.4 | 2.7 | 2.2 | 5.4 | 1.8 | 2.9 | 2.7 | 3.3 |
| None | 51.7 | 77.0 | 54.6 | 44.6 | 59.6 | 73.9 | 53.7 | 59.4 |
| **Total** | **100** | **100** | **100** | **100** | **100** | **100** | **100** | **100** |

## B. Financial Knowledge and Awareness

(percentage of total respondents, age 18+)

### B.1 Awareness about financial service providers

| Provider | % aware |
|---|---|
| 1. Banks | 97% |
| 2. Insurance | 90% |
| 3. ATM | 85% |
| 4. Money transfer | 79% |
| 5. Others (Savings and credit cooperatives, etc.) | 78% |
| 6. Microfinance Institutions | 77% |
| 7. Mobile money services | 71% |
| 8. Mobile Money Agents | 41% |

### B.2 Main source of knowledge about financial products

| Provider | % aware |
|---|---|
| Family or friends | 53% |
| Financial service provider | 38% |
| Advertisement in the media (TV, radio, newspaper, billboards) | 6% |
| Employer | 2% |
| Other | 1% |
| **Total** | **100%** |

## C. Financial Behavior

(percentage of total respondents, age 16+)

### C.1 Financial planning and use of debt

| | Have plan to use household money | Stick to the plan to use money | Have money left after food and other necessary expenses | In the past 12 months, ran short of money for food or other necessary expenses | Borrowed in the past 12 months to pay for food or other necessary expenses | Borrowed in the past 12 months to pay off debts | Currently have debts |
|---|---|---|---|---|---|---|---|
| Yes/Always/Regularly | 21% | 47% | 12% | 4% | 4% | 2% | 55% |
| Sometimes | 51% | 52% | 51% | 43% | 83% | 51% | n/a |
| No/Never | 28% | 1% | 37% | 53% | 13% | 47% | 45% |
| **Total** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** |

### C.2 Most popular money management and coping strategies

| Top 10 strategies to use extra money that is left after paying for food and other necessary expenses (multiple responses) | |
|---|---|
| 1. Save/keep money for unforeseen things, emergencies, medical fees | 40% |
| 2. Save/keep money for food and other necessary items | 29% |
| 3. Save/keep money for a known major expenditure | 29% |
| 4. Spend it on education (for children or for self) | 28% |
| 5. Spend money on food and other necessary items | 23% |
| 6. Invest money in business | 22% |
| 7. Save/keep money to cover fluctuations in income | 17% |
| 8. Save/keep money for planned future purchase | 15% |
| 9. Save/keep money for any other reason | 13% |
| 10. Invest money in assets | 12% |

| Top 10 strategies to cope when run short on money to pay for food and other necessary expenses (multiple responses) | |
|---|---|
| 1. Borrow from family (in or outside the household), friend or work colleague where you are expected to repay | 56% |
| 2. Borrow from an informal money lender | 26% |
| 3. Spend or use savings | 26% |
| 4. Borrow from a formal financial institution (e.g., bank, MFI) | 23% |
| 5. Buy on credit informally from shops | 23% |
| 6. Work extra hours or find extra work/jobs | 13% |
| 7. Spend less on essentials/ necessary items (e.g., food, health, education) | 9% |
| 8. Sell personal or household assets | 8% |
| 9. Spend less on non-essentials (e.g.,cigarettes, games) | 5% |
| 10. Borrow from employer/salary advance | 5% |

### C.3 Least popular money management and coping strategies

| 5 least popular strategies to use extra money that is left after paying for food and other necessary expenses (multiple responses) | |
|---|---|
| 1. Spend money on self/buying non-essential items (e.g., cigarettes, games) | 1% |
| 2. Repay debts | 6% |
| 3. Give/send it to family members | 7% |
| 4. Other | 11% |
| 5. Lend it to others | 12% |

| 5 least popular strategies to cope when run short on money to pay for food and other necessary expenses (multiple responses) | |
|---|---|
| 1. Stop paying back credit / loan | 0% |
| 2. Use credit card | 1% |
| 3. Borrow from the village savings and loan association | 2% |
| 4. Pawn jewelry or other goods | 2% |
| 5. Get cash gifts from relatives or friends where you are not expected to repay | 3% |

### C4. Self-assessment of indebtedness level

| Level of total debt compared to total monthly income | |
|---|---|
| Less than or equal to one month of income | 31% |
| Between 2 and 12 months of income | 17% |
| More than 12 months of income | 7% |
| No debt at all | 45% |
| **Total** | **100%** |

| Feeling about the amount of money borrowed by household | |
|---|---|
| Could afford to borrow more if wanted or needed to | 62% |
| Borrowed to one's limit and could not afford to borrow more | 30% |
| Borrowed more than could really afford | 8% |
| **Total** | **100%** |

### C.5 Most important financial need

| | |
|---|---|
| Paying school fees | 27% |
| Paying off a debt | 14% |
| Building or upgrading your home / property | 12% |
| Other | 9% |
| Investing in a farm | 8% |
| Saving/paying for health-related expenses | 7% |
| Starting own business | 6% |
| No financial need | 6% |
| Growing your business or a family member's business | 4% |
| Buying land | 2% |
| Taking care of relatives | 1% |
| Preparing for marriage/wedding | 1% |
| Acquiring furniture and household utensils | 0% |
| Going abroad for work | 1% |
| Saving for retirement | 0% |
| **Total** | **100%** |

### C.6 Having a pension and contributing to a pension scheme

| | Currently receive a pension from either the government or a scheme set up through employer | Personally contribute to a pension from either the government or a scheme set up through employer |
|---|---|---|
| Yes, from the government | 6% | 3% |
| Yes, through employer (provident fund) | 1% | 1% |
| Yes, through a private scheme | 0% | 1% |
| Yes, from a combination of the government, through the employer (provident fund) or through a private scheme | 0% | 0% |
| No | 93% | 94% |
| **Total** | **100%** | **100%** |

### C.7 Planning for old age

| | |
|---|---|
| No strategies/has not thought about it | 60% |
| Savings or other financial assets | 19% |
| Inheritance | 14% |
| Insurance | 11% |
| Will always work (employed or self-employed) | 9% |
| Non-financial assets (house, livestock, valuables such as jewelry) | 7% |
| Own pension from the government payable to everyone | 5% |
| Business (income from buying or selling) | 5% |
| Financial help/support from family, village or clan | 3% |
| Other | 2% |
| Own pension provided by your employer | 1% |
| Other own pension (not from government, neither from employer) | 1% |
| Pension in the name of another household member | 1% |
| **Total** | **100%** |

**D. Financial Attitude**

(percentage of total respondents, age 16+)

*D.1 Agreement/disagreement with statements reflecting financial attitudes*

| | Strongly agree | Agreed to some extent | Disagree to some extent | Strongly disagree | Total |
|---|---|---|---|---|---|
| 1. You only focus on the short term. | 20% | 14% | 12% | 54% | 100% |
| 2. You live more for the present day than for tomorrow. | 32% | 16% | 8% | 44% | 100% |
| 3. You think future will take care of itself. | 57% | 16% | 6% | 22% | 100% |
| 4. You do things without giving them much thought. | 18% | 9% | 12% | 61% | 100% |
| 5. You are impulsive. | 17% | 19% | 14% | 50% | 100% |
| 6. You say things before you have thought them through. | 16% | 17% | 14% | 53% | 100% |
| 7. You always look out for opportunities for improving your situation. | 86% | 9% | 2% | 3% | 100% |
| 8. You have many aspirations. | 83% | 10% | 3% | 5% | 100% |
| 9. You always work hard to be among the best at what you do. | 88% | 9% | 1% | 1% | 100% |
| 10. Money is there to be spent. | 47% | 29% | 11% | 12% | 100% |
| 11. You pay your bills on time. | 90% | 6% | 2% | 2% | 100% |

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