

FinScope Consumer Survey

Nepal 2014



Introduction and background

The Government of Nepal recognises the importance of a well-functioning financial sector as one of the key drivers in reducing inequality and poverty. However, challenges for financial inclusion in Nepal remain ubiquitous. Financial inclusion refers to universal access to a wide range of financial services for people who need them, provided by a diversity of sound and sustainable institutions at a reasonable cost, operating in a competitive market environment.

Nepal currently experiences a modest level of access to formal financial services, where formal credit markets are relatively underdeveloped and a large proportion of the population takes loans through informal sources. Usage of more sophisticated formal services such as insurance and electronic payment services is rare amongst people in Nepal. Access to affordable and appropriate financial instruments and products can improve the welfare of the un-served and under-served population by helping them conduct their financial lives more efficiently, increase income, manage risk, and build wealth over time.

According to the Nepal Rastra Bank (NRB), the long term objective in Nepal is to achieve a greater degree of financial inclusion, to deliver financial services at an affordable cost to the unserved and underserved populations, especially disadvantaged and low income groups. This brochure highlights some of the key findings from the Nepal FinScope Consumer Survey 2014.

Survey objectives

The survey aims to measure and profile the level of access to financial services by adults in Nepal (18 years and older), across income ranges and other demographics, and make this information available for use by key stakeholders such as policymakers, regulators, and financial service providers.

Information provided by the survey is intended to help extend the reach of financial services in the country. Additionally, it helps to provide a deeper understanding to key stakeholders, policy makers, and financial service providers of the usage of financial services, both formal and informal, since it provides an understanding of the adult population in Nepal in terms of:

- Their livelihoods and how they generate their income
- Their financial needs and/or demands
- The levels of financial inclusion (formal and informal) and the types of financial products (formal and informal, credit, savings, etc.)
- Their financial perceptions, attitudes and behaviour
- Their demographic and geographical distribution
- The obstacles they face and the factors that would have an influence on their financial situations
- Current levels of access to, and utilisation of, financial services and products (formal and/or informal)
- The landscape of access (i.e. types of products used in terms of transactions, savings, credit, insurance and remittances)
- Drivers of financial products and service utilisation
- Barriers to, utilisation of, and access to, financial products and services

Partnering for a common purpose

Making Access Possible (MAP) is a diagnostic and programmatic framework to support expanding access to financial services for individuals and micro- and small-businesses. The MAP methodology and process has been developed jointly by UNCDF, FinMark Trust and Cenfri to foster inclusive financial sector growth. MAP Nepal is managed under the overall umbrella of UNNATI – Access to Finance (A2F) project implemented by Nepal Rastra Bank (NRB) and funded by the Government of Denmark, DFID and UNCDF in partnership with UNDP. The full MAP process in Nepal will lead to the development of a strategic framework for financial inclusion in Nepal.

In Nepal, the MAP diagnostic has been initiated with the FinScope survey; a quantitative demand-side study with the overall purpose of measuring the level of financial access and utilisation of financial products by all bankable adults.

The FinScope survey is dynamic and the content is evaluated by a number of stakeholders including the private sector, Non-Governmental Organisations (NGOs), and the government to ensure that the most relevant consumer data is collected. By design, it is intended to involve a range of stakeholders, enriching the survey through a process of cross-cutting learning and sharing of information.

At the country level, the core MAP partners, collaborate with other donors to ensure an inclusive, holistic process. In addition to the above MAP members, to formalise the MAP Nepal process, there is a technical sub-committee comprising of additional members from UKAID, Central Bureau of Statistics of Nepal (CBS) and Ministry of Finance (MoF).



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Resilient nations.



Methodology

- According to the CBS of Nepal, the total population of Nepal is estimated to be 26 million for the census year 2011. FinScope focuses on the 18+ adult population. CBS estimates this population to be approximately 15 million i.e. 58% of the total population
- The sample is representative of the individual adult population of Nepal aged 18 years and older
- Sample frame and data weighting is conducted by Inter Disciplinary Analysts (IDA) and FinMark Trust and weighted to 2011 adult population. It is representative at national, urban-rural, development region and ecological region levels of Nepal
- 4 014 face-to-face interviews in 460 Village Development Committees (VCDs) in a total of 70 districts conducted by IDA between December 2014 and January 2015

Key take-outs

- 46% of the households make joint financial decisions
- 27% of the adults said they earn a regular monthly income
- Average personal monthly income is NPRs 9 000 (approx. USD90), and average household monthly income is NPRs 20 500 (approx. USD205)
- 81% of the population is rural
- 49% of Nepalese adults claim to obtain money from their own farming activities, whereas 31% claim own farming to be their main source of income

The FinScope data highlighted that although fewer people in Nepal are illiterate than in the past, there is generally a low level of education. In addition there is a heavy reliance on farming, which is associated with both erratic flows of and lower levels of income. It could be inferred that these will impact the drive to increase financial inclusion.

The recent earthquake in Nepal has had devastating effects on the country, impacting on infrastructure and its people. The effects of this will be felt for many years, mainly by the poor.

Nepal 2011 Census 18+ population

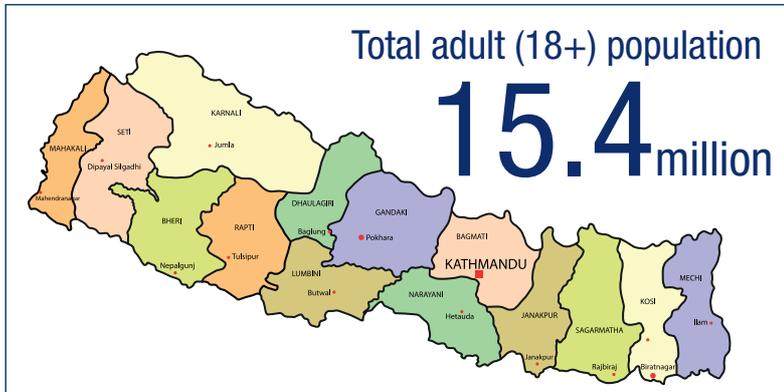
Development region	Adult population	Percentage
Eastern	3 437 430	22.3
Central	5 810 252	37.7
Western	2 888 513	18.7
Mid-Western	1 908 073	12.4
Far-Western	1 365 925	8.9
Total	15 410 193	100.0

Ecological region	Adult population	Percentage
Mountain	978 823	6.3
Hill	6 762 527	43.9
Tarai	7 668 843	49.8
Total	15 410 193	100.0



Understanding the lives of adults in Nepal

The population of Nepal is estimated to be 26 million people, of which approximately 15 million are adults and 11 million under the age of 18 years. The adult population is split between 47% male and 53% female.



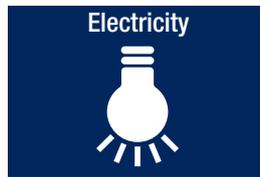
- 81%** of adults live in rural areas
- 58%** of adults are aged 18 to 39 years
- 27%** adults claim to earn a regular monthly income
- 42%** reported earning less than approximately \$2 per day

Access to basic amenities



% of individuals with inside water supply (piped or underground)

67%



% of individuals with electricity for 5+ hrs/day

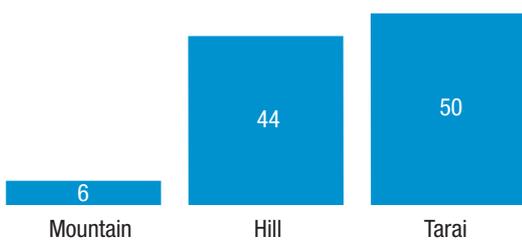
77%



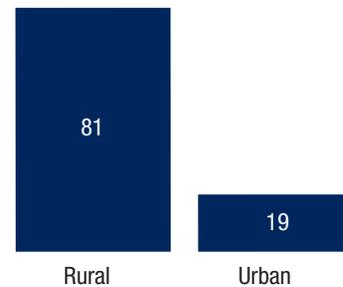
% of individuals with access to toilet facilities

78%

Population distribution – Ecological region (%)



Population distribution – Urban/Rural (%)



Time taken to reach destination (%)

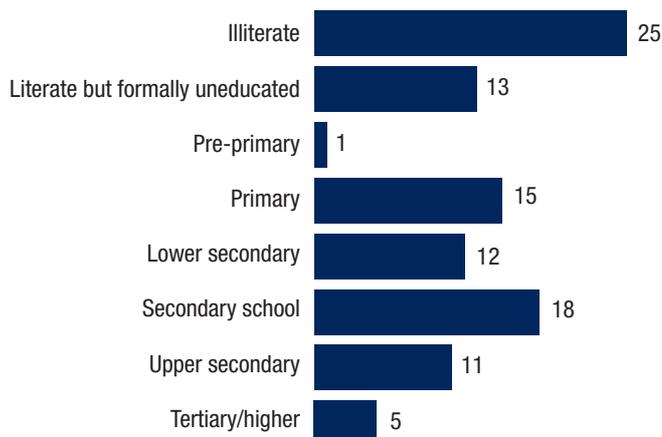
Infrastructure accessibility	Less than 5 minutes	5 – 14 minutes	15 – 29 minutes	30 – 60 minutes	61 min. – 1 hour 30 min.	1 hour 31 mins. – 1 hour 59 min.	2 – 5 hours	More than 5 hours	Don't know/ Don't use
Grocery store	56	26	8	6	2	1	1	–	–
Market	8	20	20	22	9	6	11	4	–
Post Office	3	13	17	23	11	6	7	3	17
Bank	3	11	14	22	12	7	14	10	7
ATM	3	8	9	15	8	5	8	7	37
Point of access to public transport	20	27	16	14	7	4	6	2	4
Informal market	2	6	7	6	3	1	2	1	72
Private money lender	12	27	14	8	3	1	1	1	33

The time taken to access infrastructure such as bank branches or ATM machines are important elements in improving financial access.

- 38% claim that they either do not use or know about ATMs
- 28% assert that they have access to a bank within 30 minutes
- 41% reveal that it takes between 5 and 30 minutes to reach a private money lender

Understanding the lives of adults in Nepal

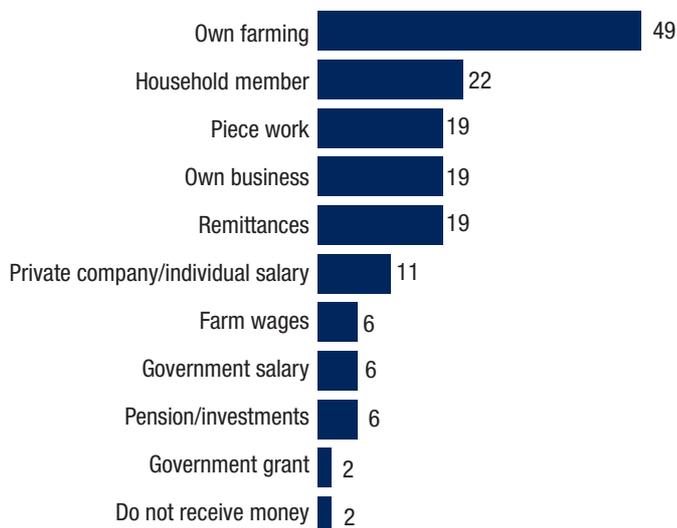
Education (%)



Personal monthly income (US\$1 = NPR99.21) (%)

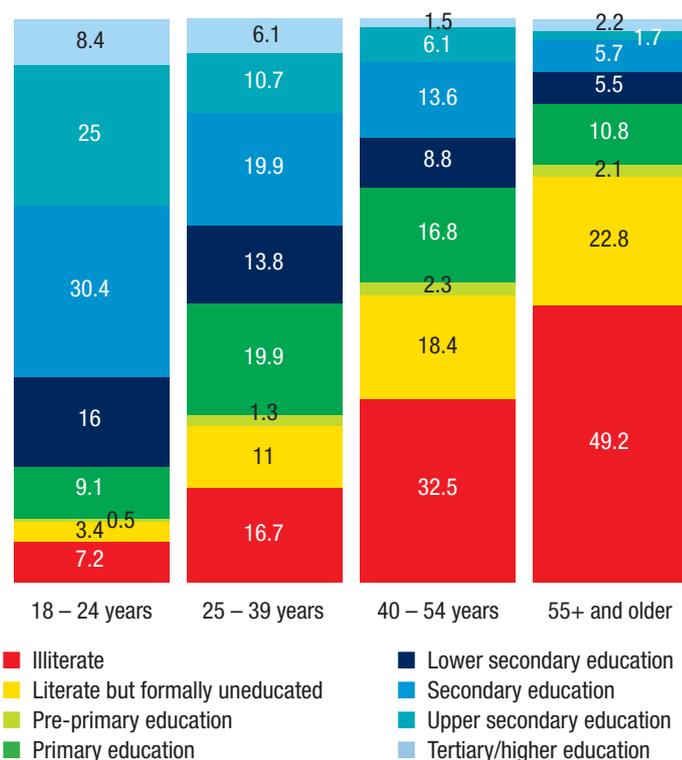


Income generating activities (multiple response) (%)

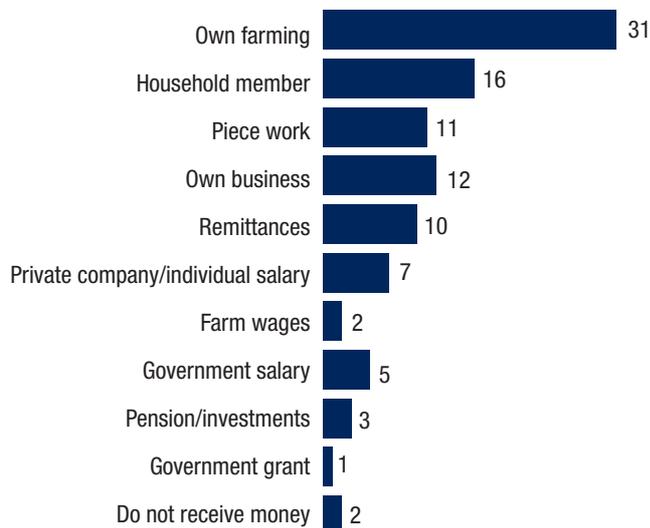


- 31% of Nepalese are reliant on their own farming for their income
- Household members are also significant contributors to family income
- Radio is the most commonly used media channel, followed by TV

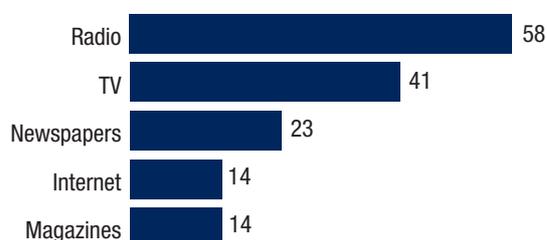
Level of education by age group (%)



Main source of income (single response) (%)



Media channel used (multiple response) (%)

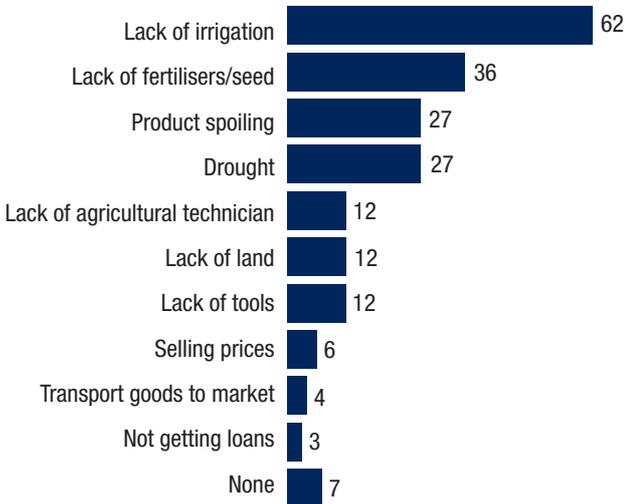


Please note that figures have been rounded to the 100% and all tables or graphs add up to 100%

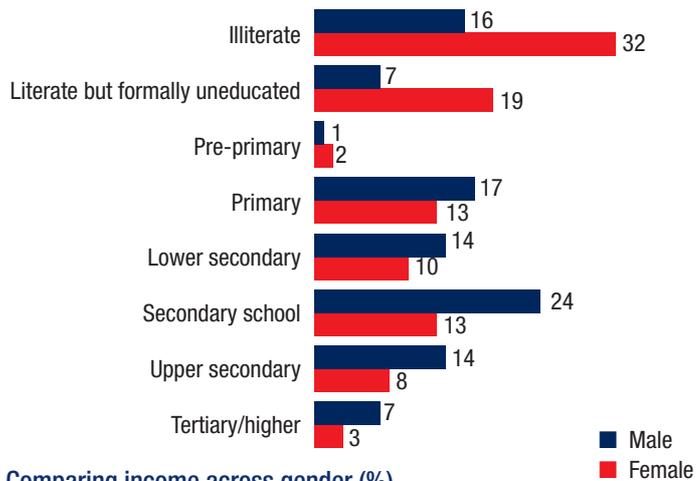
Household agriculture involvement

- 77% of households are involved in farming: 22% only farm, 55% farm and do other work and 23% are not involved in farming at all

Farming problems experienced (%)



Comparing education and main source of income across gender (%)

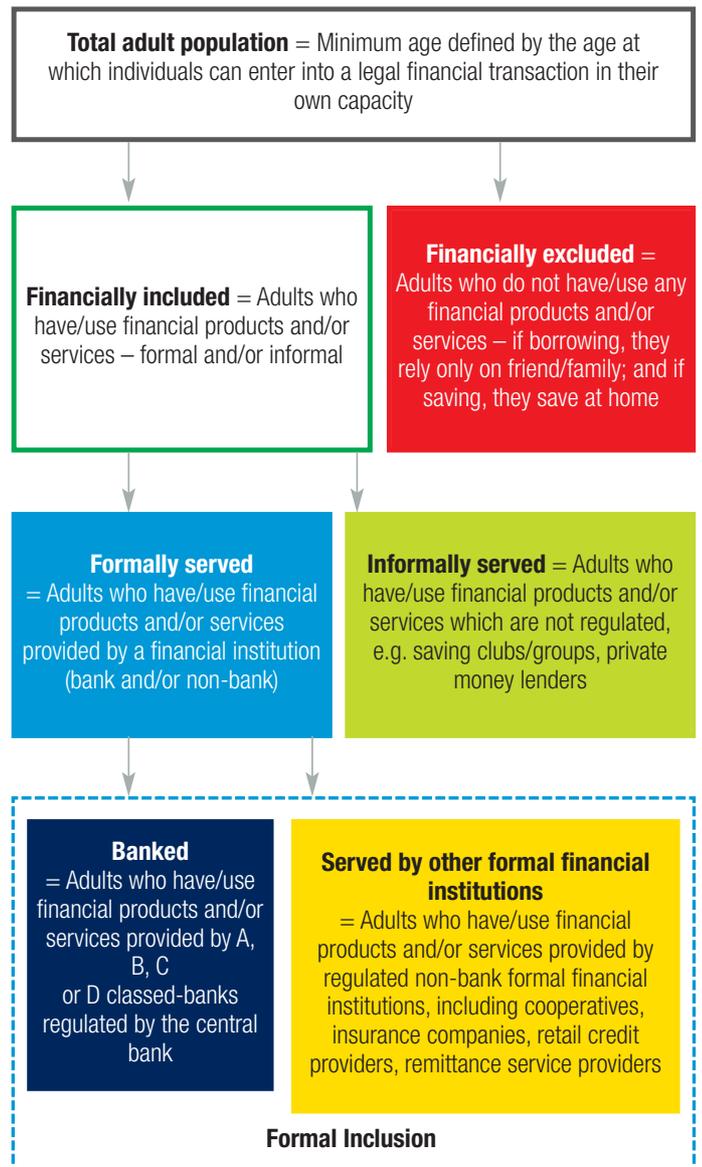


Comparing income across gender (%)



- Male adults in Nepal have higher levels of education and average personal monthly income
- 86% of households claim to be male headed
- Female adults are more likely to claim their main source of income to come from another household member or from remittances

Analytical framework



Overview

In constructing this strand, the overlap in financial products/services usage is removed, resulting in the following segments:

- Financially excluded adults, i.e. they do not use any financial products/services – neither formal nor informal – to manage their financial lives (18%)
- Adults who have/use informal mechanisms only but no formal products/services (21%)
- Adults who have/use formal non-bank products/services but no regulated bank products (21%) –they might also have/use informal mechanisms
- Adults who have/use regulated bank products/services (40%)

Overall Financial Inclusion Access Strand (%)

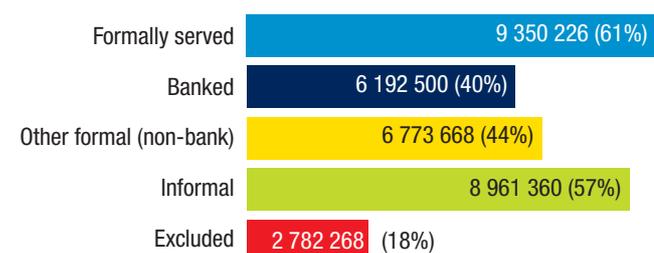


- Banked
- Other formal (non-bank)
- Informal only
- Excluded

Financial inclusion overview

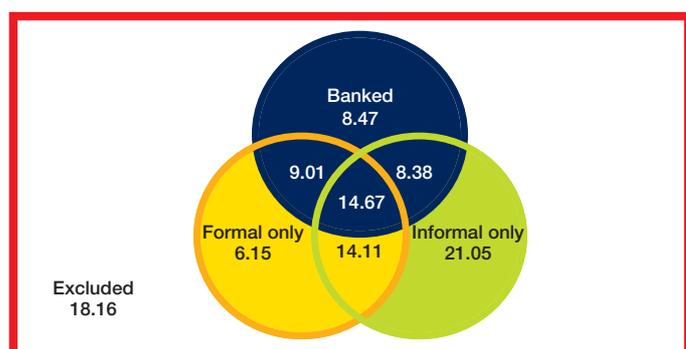
- 40% of Nepalese adults claim to be banked and 44% claim to have a product or use a service from a non-bank formally regulated financial institution
- 61% of Nepalese adults are formally served, which excludes informal institutions. In addition, 57% of Nepalese use an informal mechanism. 18% of Nepalese adults are financially excluded i.e. claim to neither use formal nor informal financial providers
- 56% of adults residing in urban areas have/use banking products vs. 36% of adult in rural areas
- More men are formally served (64%), compared to women (57%)

Financial inclusion overview with overlaps included (%)

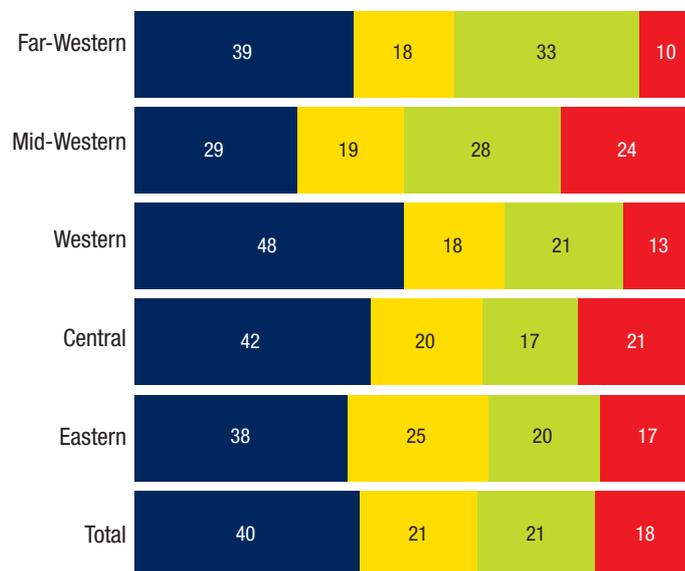


Overlaps (%)

Consumers generally use a combination of financial products and services to meet their financial needs – an individual could have a bank account and also use informal mechanisms.

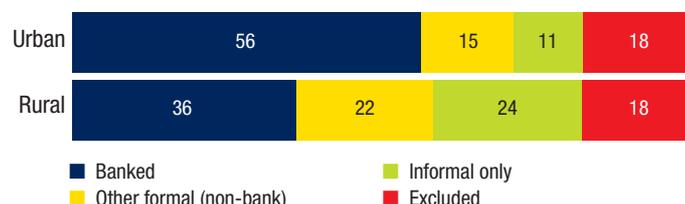


Access Strand by development region (%)



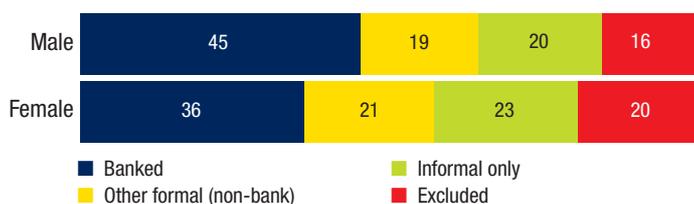
- Banked
- Other formal (non-bank)
- Informal only
- Excluded

Access Strand by location (%)



- Banked
- Other formal (non-bank)
- Informal only
- Excluded

Access Strand by gender (%)



- Banked
- Other formal (non-bank)
- Informal only
- Excluded

The interim constitution of Nepal considers the cooperative sector as important for national development. In Nepal, there are 12,983 savings and credit cooperatives (Source: NRB, Monitoring Policy, B.S. 2071/2072). Some of these cooperatives carry out banking activities under the regulatory and supervisory jurisdiction of the Nepal Rastra Bank.

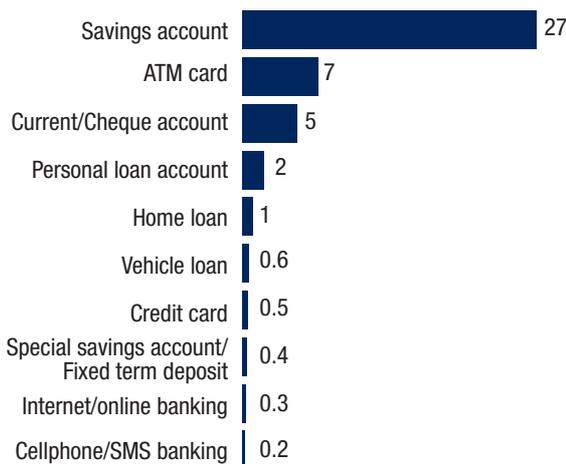
This study takes a cautious approach to the estimation of formal financial inclusion and has classified all cooperatives as formal institutions. Additionally, family and friends are considered as informal mechanisms for this survey.

Banking

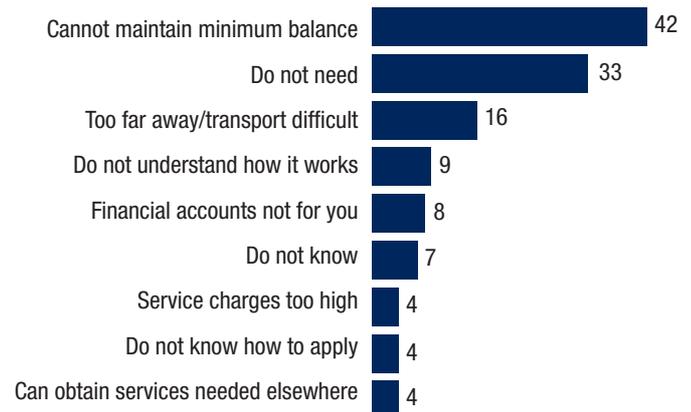
- 40% of Nepalese adults are banked. Of these banked:
 - 75% claimed to use their bank accounts to save and 45% claimed to use their bank accounts to keep their money safe
 - This compares with the 27% who have a savings account, which is 68% of banked Nepalese
- Fewer banked adults (25%) claimed to use their account to obtain credit or loans from banks

- 5% of adults claim to have used an ATM in the past three months. The use of electronic banking channels are nascent in Nepal
- 42% of unbanked adults said that they cannot maintain the minimum balance. 33% of unbanked adults claimed that they do not need a bank account. Furthermore, 16% claimed bank branches are too far away, pointing out the need for infrastructural development or perhaps using cheaper channels, such as internet and mobile banking

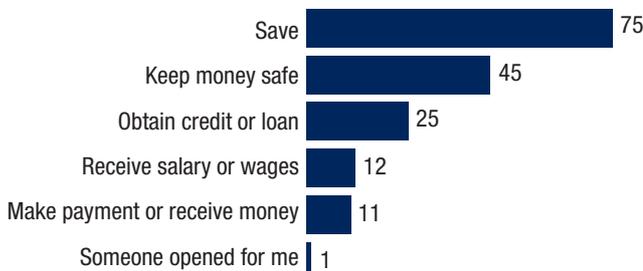
Bank products (%)



Barriers to banking (amongst the 60% unbanked) (%)



Use of bank account (%)



40% of Nepalese are banked

Drivers

Of the 40% who are banked:

- 75% said that they use their bank account to save
- 45% said that they use their bank account to keep money safe
- 25% said that they use their bank account to get credit or a loan

60% of Nepalese are unbanked

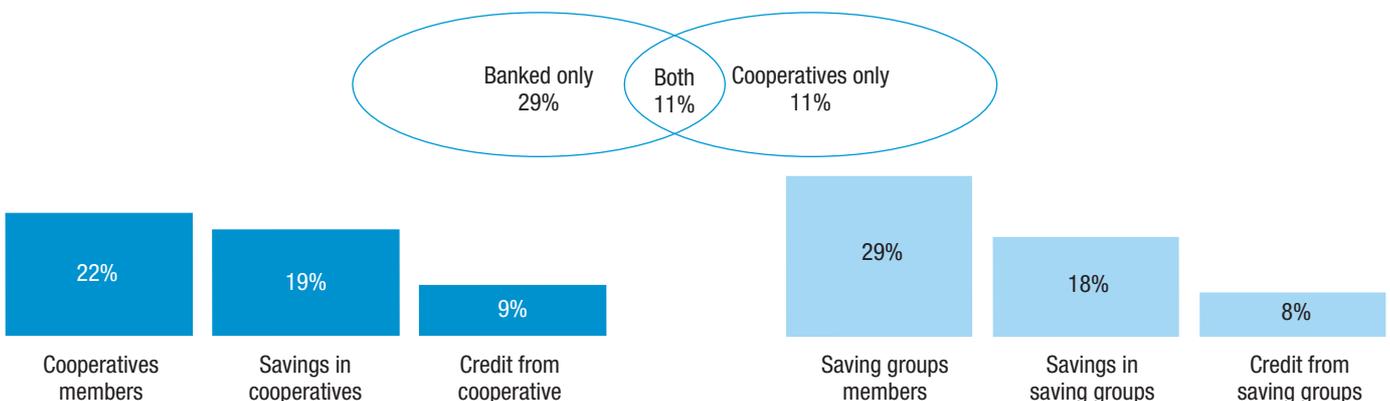
Barriers

Of the 60% who are unbanked:

- 42% said that they cannot maintain the minimum balance
- 33% said that they do not need it
- 16% said that the bank is too far away

Cooperatives and savings groups

Cooperatives and savings groups: Usage of cooperatives, savings groups and overlaps between banks and cooperatives



- 22% of Nepalese adults claim to belong to a cooperative. 19% claim to save with cooperatives, while 9% borrow from them

- 29% of Nepalese adults claim to belong to a savings group, 18% of adults claim to be saving with their groups. 8% claim to obtain credit from their savings group

Savings

Savings Strand

In constructing this strand, the overlaps in financial products/services usage are removed:

- 43% of adults in Nepal were not saving at the time of the survey
- 1% keep all their savings only at home, i.e. they do not have/use formal or informal savings products or mechanisms
- 16% rely on informal mechanisms such as savings groups (they might also save at home, but they do not have/use any formal savings products)
- 13% have/use formal non-bank savings product (they might also have/use informal savings mechanisms, but they do not have/use savings products from a regulated bank)
- 27% have/use savings products from a regulated bank (they might also have/use other formal and/or informal mechanisms, or save at home)

Overall Savings Strand (%)



57% of adults save

Drivers

Of the 57% who are saving:

- 51% said that they are saving to meet their daily living expenses
- 26% said that they save to meet their medical expenses
- 22% claimed that they save to meet educational fees

43% of adults do not save

Barriers

Of 43% who are not saving:

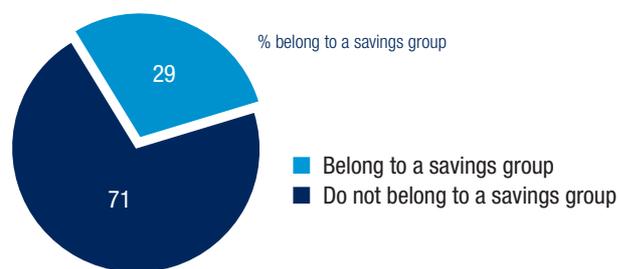
- 51% said that they do not save because there is no money left after meeting living expenses
- 35% said that they do not save because they do not earn any money
- 16% said that they have never thought about saving, perhaps revealing a financial education gap

Savings mechanisms

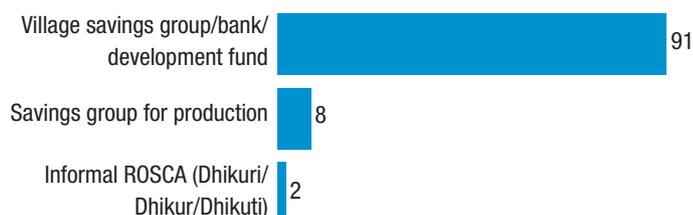
Channel	%
Bank	27
Cooperative	19
Savings group	18
Household member/friend	7
Jewelry/gold	7
Secret place	6

Informal mechanism

Savings group membership (%)

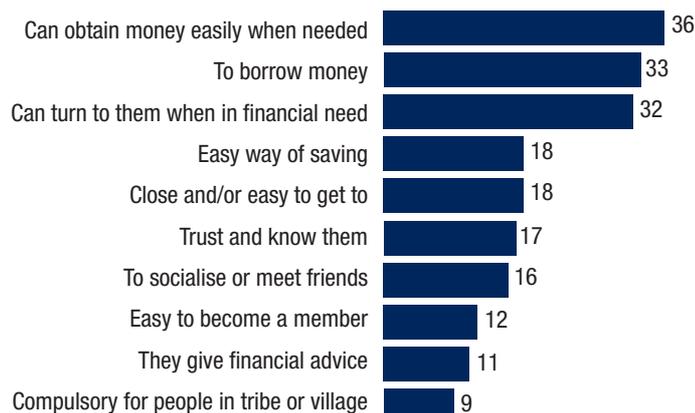


Type of savings groups belong to (%)

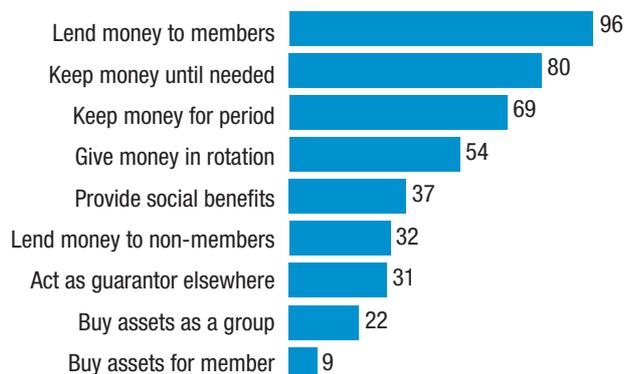


- Of the 29% of adults who are members of savings groups, 16% said that this helps them to borrow money easily when needed and 15% said that they can turn to the savings group during times of financial need
- When asked who they turn to in times of financial need, a majority of people said that they rely on family members (74%), friends (31%), children (24%), and money lenders (6%)
- The main services perceived to be provided to the members of savings groups are lending money out to members (96%), and keeping the collected money of members (86%)

Reasons for belonging to a savings group (%)



Services provided by savings group (%)



Borrowing and credit

Credit Strand

In constructing this strand, the overlaps in financial products/services usage are removed

- 10% of adults have/use credit/loan products from a regulated bank (however, they could also have other credit/loan products and or borrow from friends and family but defining characteristics are that they borrow from a bank)
- 8% have/use credit/loan products from other formal (non-bank) institutions (however, they could also have/use informal mechanisms and/or borrow from friends and family but they do not have/use credit/loan products from a regulated bank)
- 28% rely on informal mechanisms such as informal money lenders. Although they do not have any formal financial credit/loan products, they might borrow from family and friends)
- 54% claimed not to borrow at the time of survey, neither from friends/family nor from formal/informal financial service providers

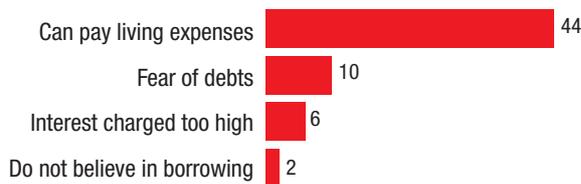
Overall Credit Strand (%)



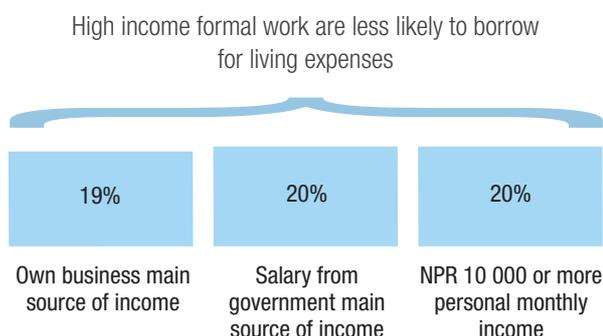
Credit Strand by location (%)



Barriers to borrowing (%)



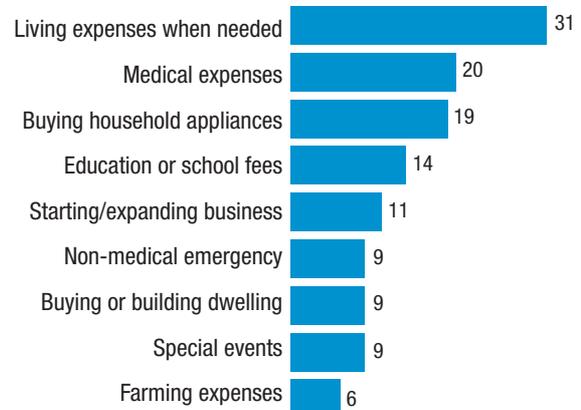
Borrowing for living expenses (amongst those that borrow (%))



Attitudes to credit

- Informal mechanisms are an important part of borrowing and credit in Nepal – 82% of adults agree that money lenders are an important part of their community
- 88% of adults said that they can borrow money from their community when they need it, and 87% said that they can obtain money from their family when they are in need
- A large proportion of adults (65%) agree with the statement that they borrow to feed their family
- 57% of adults disagree with the statement that it is embarrassing to borrow money or buy on credit, while 40% agree with this statement

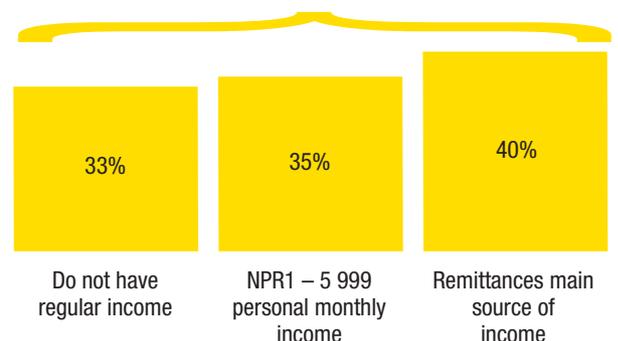
Top reasons claimed for borrowing (%)



Sources of borrowing

Channel	%
Money lender	21
Bank (including MFI)	10
Cooperative	9
Savings group	8
Family/friend	8

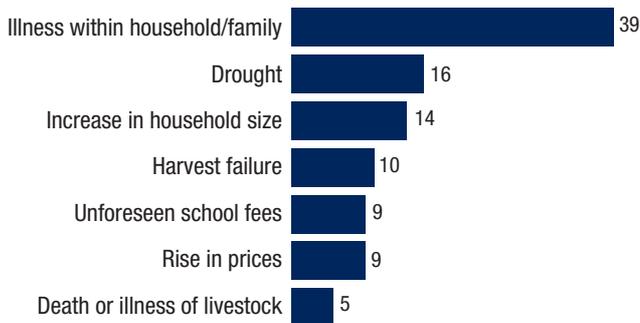
Those who tend to rely on remittances and have irregular and lower personal incomes are more likely to borrow for living expenses



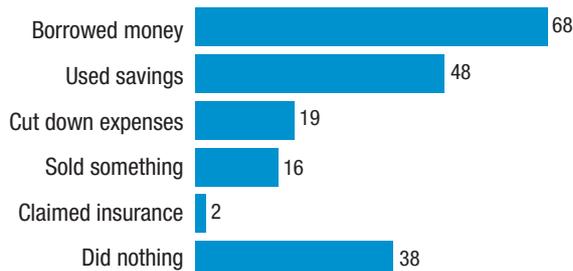
Insurance and risk management

Although the adult population has experienced insurable risks in the past 12 months, formal insurance cover is low. 28% of adults claimed to be aware of insurance and 11% claimed to have a form of formal insurance.

Costly events experienced in the past year (%)



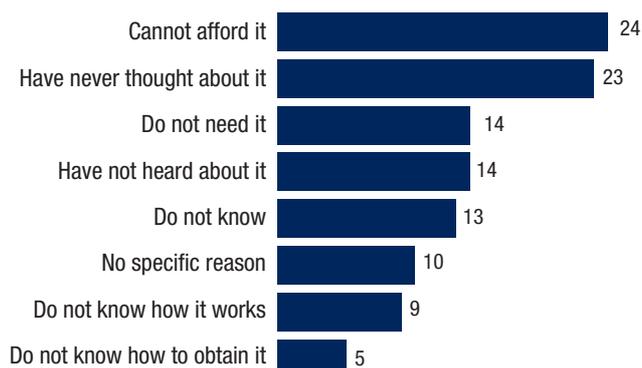
How people in Nepal cope financially with problems (%)



Insurance summary

- Only 11% of adults in Nepal have insurance despite a number of risks faced
- Besides the low awareness of insurance, the most cited reason for not having insurance is affordability (24%)
- 23% said that they have never thought about it
- Borrowing is a significant mechanism to risk mitigation
- 48% said that they use savings to cope with problems

Top reasons for not having insurance (%)

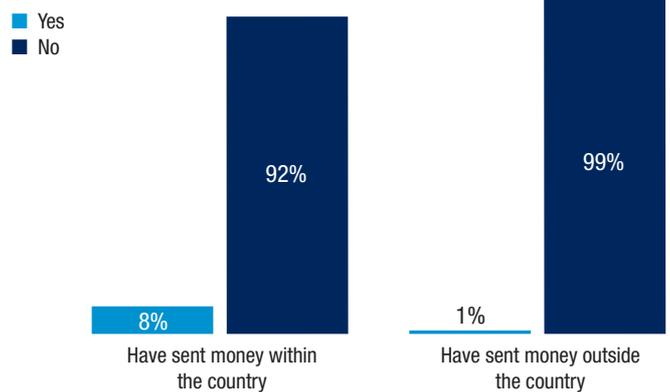


Remittances

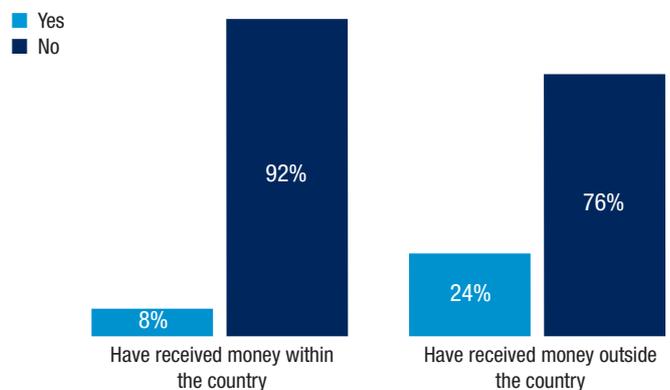
The activity of receiving money from someone outside the country is substantially higher than the activity of sending money to someone living in another country.

- 24% of adults claim that they have received money from another country
- 8% of adults claim to have received money from someone living within the country
- Only 8% of adults stated that they have sent money to someone living within the country
- 1% of adults stated that they have sent money to someone living outside the country
- Money transfer agents are the biggest channel for remitting in Nepal

Percentage of adults who sent money in the past 12 months (Both within and outside country)



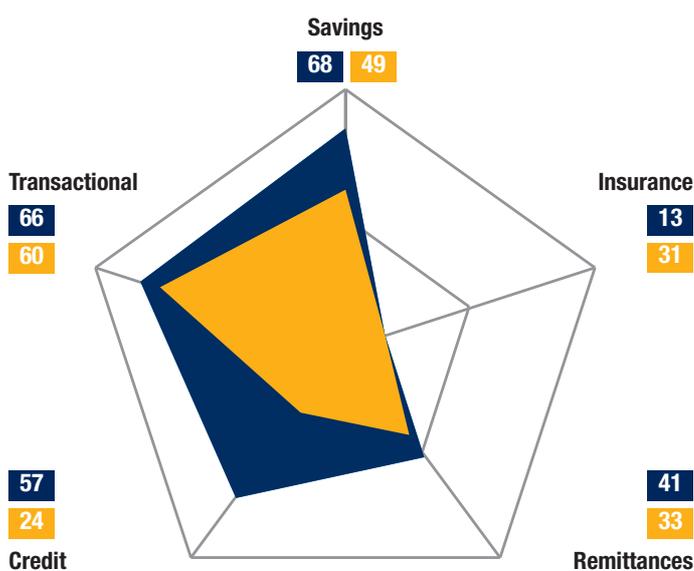
Percentage of adults who received money in the past 12 months (Both within and outside country)



Landscape of Access

The FinScope survey provides a measure and understanding of consumer demand with regards to four categories of financial products, namely transactions, savings, credit, and insurance products. The Landscape of Access serves as an indicator to describe the following:

- **Transactions:** the proportion of the adult population with a secure mechanism in which funds can be deposited, transmitted, and withdrawn to meet regular transaction needs. Please note that traditionally mobile money and remittances are also covered under transactions but in this analysis they are analysed separately
- **Savings:** the proportion of the adult population with a means of accumulating money, whether on a contractual or discretionary basis – excludes those that save at home
- **Credit:** the proportion of the adult population with funds/services having been provided in advance against a committed repayment stream
- **Insurance:** the proportion of the adult population with products/services covering a defined risk event in return for a premium (includes life, vehicle, health, and short-term insurance)



- Total usage
- Formal usage



Summary

The following summarises key aspects of financial services usage across different categories amongst the population of Nepal.

Banking

Although 94% of adults in Nepal trust banks, only 40% are classified as banked. The main barrier to greater use of banking services is affordability. 42% of unbanked adults claim that they cannot maintain the minimum balance. Another important barrier is perceived lack of need (33%). This perhaps points to products and services that should be more relevant to people.

Adults in Nepal tend to associate banks as financial institutions used for saving.

- 27% of Nepalese adults claim to have a saving account in their name
- Of those banked, 74% claimed to use banks to save, versus 27% who claimed to use banks to obtain credit or loans

Technology such as mobile banking is seen by its proponents as having the potential to deliver affordable products at lower transaction cost and with improved access. Use of technology for financial transactions in Nepal is currently low with 5% of adults using an ATM, and existing mobile and internet banking use negligible. Nevertheless, such avenues have the potential to extend banking use, particularly in rural areas of Nepal.

Of the adults who claim to have a bank account:

- 87% said they have an account in their name only
- 9% said they have a joint account with their spouse/partner
- 4% said they have a joint account with someone else
- 2% have a group account through a farmer's cooperative/community organisation/savings groups.

Savings

Of the 57% of adults in Nepal who are currently saving:

- 51% said that they are saving to meet their daily expenses, 26% to meet their medical expenses and 22% for educational fees

Of the 43% of adults in Nepal who are currently not saving:

- 51% said they do not save because there is no money left after meeting living expenses
- 35% said they do not save because they do not earn any money
- 16% of adults said they have never thought about saving

Nepalese adults consider savings as:

- Keeping money aside to stop it from being spent immediately and to use later when needed (44%)
- Keeping money in a special place or account for safety reasons (33%)

Examples of savings places used/products currently held:

- Bank (27%)
- Cooperatives (19%)
- Saving groups (18%)
- Household members/friends (7%)
- Jewellery/gold (7%)
- Secret place (6%)

Summary

Borrowing and credit

Money lenders in Nepal feature highest as a source of credit. 82% of the adults agree that money lenders are an important part of their community.

The top five sources for taking loans are:

- Money lenders in the community (21%)
- Bank (including MFIs) (10%)
- Cooperatives (9%)
- Saving groups (8%)
- Family/friends (8%)

The top five reasons for taking a loan are:

- Living expenses when you do not have money at that time (31%)
- Medical expenses either planned or emergency (20%)
- Buying household appliances, goods or furniture (19%)
- Education or school fees (14%)
- Starting or expanding a business or household business activities (11%)

Insurance

28% of adults claim to be aware of insurance, while only 11% claim to have a form of insurance. The top 3 insurable risks that are claimed to have occurred during the past 12 months:

- Household illness (39%)
- Drought (16%)
- Increased household size (14%)

The top reasons for not having insurance:

- Cannot afford it (24%)
- Have never thought about it (23%)
- Do not need it (14%)
- Have not heard about it (14%)

Remittances

- 8% claim that they have sent money to someone inside the country
- 1% claim that they have sent money to someone outside the country
- 8% claim that they have received money from someone inside the country
- 24% said that they received money from another country

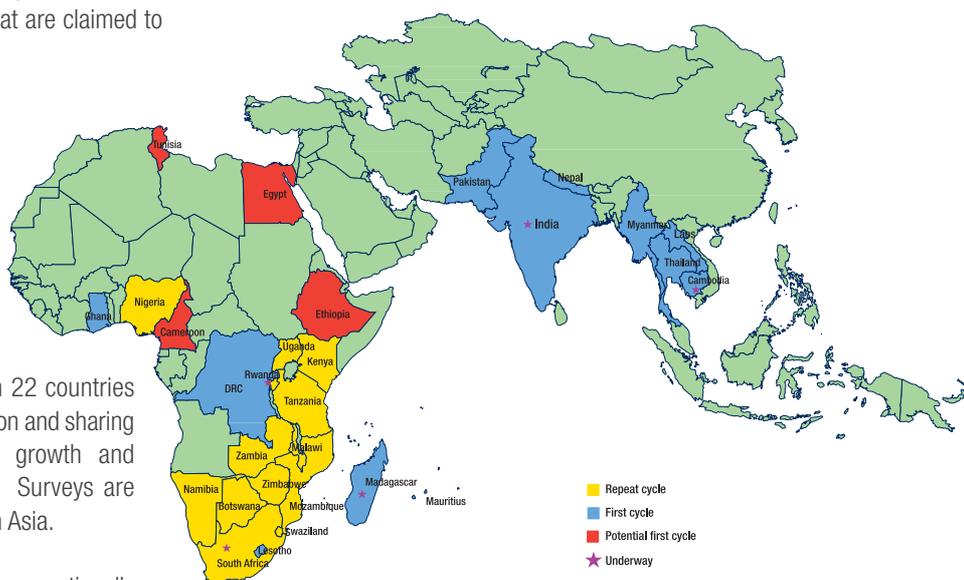
Of the adults who receive remittances, the top three channels used for receiving money are:

- Money transfer agents (63%)
- Bank transfer (23%)
- Family/friends (22%)

FinScope footprint

FinScope Consumer Surveys have been completed in 22 countries including Nepal. This allows for cross-country comparison and sharing of findings which are key in assisting on-going growth and strengthening the development of financial markets. Surveys are currently underway in 7 countries – 4 in SADC and 3 in Asia.

FinScope Nepal 2014 contains a wealth of data based on a nationally representative sample of the adult population of Nepal.



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FinMark Trust, an independent trust based in Johannesburg, South Africa, was established in 2002, and is funded primarily by UKaid from the Department for International Development (DFID) through its Southern Africa office. FinMark Trust's purpose is 'Making financial markets work for the poor, by promoting financial inclusion and regional financial integration'. This is done by promoting and supporting financial inclusion, regional financial integration, as well as institutional and organisational development, in order to increase access to financial services for the un-served and under-served. In order to achieve this, FinMark Trust commissions research to identify the systemic constraints that prevent financial markets from reaching out to these consumers and by advocating for change on the basis of research findings. Thus, FinMark Trust developed the FinScope tool, including both the FinScope MSME Survey and the FinScope Consumer Survey.