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Understanding the Demand for Financial Services in Nepal

November 2014

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Sida

MicroSave
Market-led solutions for financial services

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We trust that this report will be helpful in building a deeper understanding of the demand for financial products and services in Nepal, of how specific needs are being fulfilled, and of the steps that need to be taken to overcome existing gaps and to increase footfall and the volume of transactions for existing agent channels.

MicroSave Research Team

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List of acronyms

ATM	automated teller machine
AusAid	Australian Agency for International Development
BAFIA	Banks and Financial Institutions Act
DANIDA	Danish International Development Agency
FGD	focus-group discussion
FGT	Foster-Greer-Thorbecke
FI	financial institution
FSP	financial service provider
FSTA	financial sector trend analysis
GDP	gross domestic product
IFC	International Finance Corporation
LDC	least developed country
MFI	microfinance institution
MM4P	Mobile Money for the Poor
MNO	mobile network operator
NRB	Nepal Rastra Bank
SACCO	savings and credit co-operative
Sida	Swedish International Development Cooperation Agency
SMS	short messaging service
UN	United Nations
UNCDF	UN Capital Development Fund

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Executive summary

Nepal has a unique geography consisting of mountains, hills and *Terai*, which makes it difficult for any financial institution to provide financial services to every part of the country. Formal and informal financial service providers have been attempting to reach more customers at various levels and provide them with a range of financial services. Various studies have shown that people have become aware of different types of financial services, which suggests that people use them more now than they did in the past.

This research was an attempt to take a deeper look at people's experience of existing financial services and their providers. In addition, it aimed to identify definitive indicators that would help to create a roadmap for the delivery of effective financial services in Nepal. The research covered 25 districts spread over five development regions. During the research, the team spoke to 1,019 respondents and tried to understand their perspectives on existing financial services using six different qualitative research tools: focus-group discussions, lifecycle analysis, financial sector trend analysis, seasonality analysis, product attribute ranking and relative preference ranking.

Financial service providers in Nepal include formal entities such as banks, microfinance institutions and co-operatives, as well as informal entities such as moneylenders, unofficial groups and friends. This research clearly indicated that preference for formal financial service providers has grown in the last 10 years, while the use of informal financial service providers such as moneylenders, relatives, friends and *Dhukuti* groups has decreased. Interestingly, the use of informal groups to meet financial needs (i.e., women's, mothers' and sisters' groups) has increased in the past 10 years. Research also highlighted seasonal patterns of income, expenditure, credit and savings of respondents, and the underlying reasons for peaks and troughs.

Respondents rated the following as key life events requiring financial assistance: children's education, marriage in the family, illness of family members and celebration of festivals. When asked why these financial needs were not always fulfilled, respondents highlighted the following reasons, amongst others: high interest rates on loans, lack of need-based products, and long distances from service delivery points.

Another aspect of the research was meant to capture the attributes respondents sought when choosing financial service providers. Two key attributes were trustworthiness and ease of access. Research also identified the service providers that people preferred because of the attributes those service providers embodied. Respondents rated banks, microfinance institutions, co-operatives and informal groups, amongst others, on various attributes that were important to them.

Having analysed the research data, five broad recommendations can be made to facilitate the delivery of financial services in Nepal. These recommendations are aligned completely with public demand. They are the following:

1. Using technology-driven alternative delivery channels to improve accessibility of financial services and to reach out to more people.
2. Developing need-based, innovative financial products to attract more customers.
3. Focusing on improving financial literacy and awareness of financial products.
4. Providing in-demand skill-development training along with financial services.
5. Developing mechanisms to assess, monitor and improve client protection best practices.

These recommendations are detailed and elaborated further in this report.

It is sincerely hoped that this report will go a long way toward creating more understanding of customers' perspectives of prevailing financial products and services in Nepal and identifying key areas where specific interventions can develop more inclusive and effective financial services in the country as a whole.

1 Use of financial services in Nepal

1.1 Overview of the financial services sector in Nepal

Nepal Rastra Bank (NRB) is the central bank of Nepal. It is responsible for the licensing and regulation of financial institutions (FIs) under the Nepal Rastra Bank Act, 2002. This act authorises NRB to license, regulate and supervise banks and FIs. The Banks and Financial Institutions Act (BAFIA), 2006, broadly guides Nepalese financial systems. NRB issues necessary directives according to those guidelines.[1] NRB issues licenses according to four categories of FIs based on minimum capital requirements and the authorisation to collect deposits from the public. Institutions under Class A, as outlined below, belong to the banking sector, and those under Class B, Class C and Class D belong to the non-banking sector:[2]

- Class A: Commercial banks
- Class B: Development banks
- Class C: Finance companies
- Class D: Microcredit development banks.

Other FIs include savings and credit co-operatives (SACCOs), financial intermediary non-governmental organizations, Postal Savings Banks, insurance companies and contractual saving institutions (such as the Employees Provident Fund and Citizen Investment Trust).

The informal sector is characterised by informal groups or associations of people that pool savings funds to extend credit to their members, such as *Dhukuti* groups,[3] moneylenders, traders, friends and relatives.

Table 1 lists the licensing authority and governing act for each of these FIs. NRB's four-pronged regulatory framework, which classifies FIs into four groups, has resulted in overlapping regulations for institutions providing microfinance services, especially for SACCOs and financial intermediary non-governmental organizations.[4]

1 Government of Nepal, 'Banks and Financial Institutions Act, 2063 (2006),' November 2006.

2 *MicroSave*, 'Deposit Assessment in Nepal' (page 10), May 2011.

3 *Dhukuti* can be defined as a rotating saving and credit association in which equal amounts of money are collected from the participants at regular intervals and allocated to one member at a time. Its rotation is mostly determined by secret tender, with the fund going to the lowest bidder, except for the first and last payouts of a round. These groups are not as prevalent now as they were in the past, according to the findings of this research (refer to the section 'Research findings on use of financial services in Nepal' for more details).

4 For more details, refer to this Micro-Credit Ratings International Limited document: Sanjay Sinha and Swetan Sagar, 'The Regulation Muddle in Nepal,' October 2007.

Table 1
Financial institutions and governing acts

FINANCIAL INSTITUTION	GOVERNING ACT	LICENSING AUTHORITY
Commercial banks	BAFIA, 2006	NRB
Development banks	Established under Company Act, 1964, and governed by Development Bank Act,1996 (later by all-encompassing BAFIA,2006)	NRB
Finance companies	Finance Company Act, 1985	NRB
Microcredit development banks	Development Bank Act, 1996 (later by BAFIA, 2006)	NRB
Savings and credit cooperatives	Co-operative Act, 1992	NRB or Department of Co-operatives (NRB has provided limited banking licenses to only 16 SACCOs, while there are approximately 3,000 unlicensed SACCOs in the informal sector. The latter are registered under the Department of Co-operatives)
Financial intermediary non-governmental organizations	Financial Intermediary Societies Act, 1999	NRB
Postal Savings Banks	Post Office Saving Bank Regulations, 1976	NRB
Insurance companies	Insurance Act, 1992	Insurance Board
Contractual saving institutions (Employees Provident Fund and Citizen Investment Trust)	Citizen Investment Trust Act, 1990, and Karmachari Sanchaya Kosh (Employees Provident Fund) Act, 1962	NRB

In order to increase the reach of formal FIs, NRB introduced in 2012 the circular—an official document providing guidelines on branchless banking (electronic and mobile banking). Prior to this, a 10-point directive issued by NRB provided guidance to FIs that wanted to implement branchless banking operations in Nepal. The directive was basic in nature and did not cover all aspects of mobile and branchless banking. In the new guidelines issued in 2012, NRB added to previous directives and referred to four types of services, as shown in table 2.

Table 2
Branchless banking services permitted by Nepal Rastra Bank

SERVICE	BANKING SERVICES PERMITTED	PROVIDERS (permitted by NRB)
Branchless banking	• Deposit cash into accounts, make payments and transfer cash • Check balances and statements of transactions • Make payments in instalments of approved loans and deposits	Banks and FIs Classed A, B and C (in areas other than municipality/ sub-metropolitan/metropolitan cities)
Mobile banking	• Check balances and statements of transactions • Transfer amounts into accounts of third parties • Receive SMS alert messages as confirmations of transactions • Request cheque books	Banks and FIs Classed A and B (in areas other than municipality/sub-metropolitan/metropolitan cities)
Internet banking	• Check balances and statements of transactions • Request services such as issuing cheque books, freezing accounts and changing passwords • Receive necessary notices/information from banks and FIs • Make transfers from or deposits into their accounts • Make payments for purchases of goods/ services	Banks and FIs Classed A, B and C
Electronic cards (Debit/Credit cards)	• Make payments • Receive details of transactions and other information on depositing and transferring amounts of money • Purchase goods/services	Banks and FIs Classed A, B and C

Since 2000, various financial sector reforms have led to an improvement in the health of the banking sector in Nepal.[5] While these changes show that the country's financial system has become stronger, it also raises concerns over sustainability as there are so many small FIs in a relatively limited market for formal finance.

Shadow banking practices—even by co-operatives that are part of semi-formal FIs—are increasing, which poses a challenge to the stability of the Nepalese financial system. Important aspects of the shadow banking issue are the following:

- As of mid-January 2013, there were 26,704 co-operatives (of all types, including savings and credit) operating in Nepal with deposits of Nr143.23 billion (US$1.43 billion).[6] Of these, 11,901 were in the SACCO category and held a dominant share of the total deposits worth Nr109.04 billion ($1.09 billion). This amount is equivalent to 10 percent of total deposits of A, B and C classed banks and FIs in Nepal.[7]

5 These reforms were introduced under the Financial Sector Reform Program initiated by the Government in 2001. The objective was to address the problems of weak bank supervision and poor performance by state-owned banks that resulted in a large non-performing loan portfolio. The reform process is ongoing, and many problems still persist. However, as per NRB's 'Financial Stability Report,' there has been improvement in key financial indicators including capital adequacy, portfolio quality and profitability. For instance, the capital adequacy ratio of commercial banks increased from -6.3 percent in 2005 to 11.3 percent in January 2013.

6 Conversion rate Nr1.000=US$0.010 (Source: www.xe.com, 25 April 2014). This conversion rate was used throughout the report.

7 NRB, 'Financial Stability Report,' January 2013.

- Deposit mobilisation of these co-operatives is increasing, which implies increased risk for the banking sector.
- A study conducted by the Department of Co-operatives in 2012 showed that many co-operatives are being run as family businesses, with family members working as directors and audit committee members. The research team recommended a moratorium on the registration of such co-operatives in urban areas.
- The Department of Co-operatives needs to improve upon its technical capabilities and gather the resources required to monitor and supervise the growing number of co-operatives. Until then, these co-operatives will continue to pose a risk to the economically vulnerable depositors who invest with them.
- A code of conduct based on high standards of corporate governance and social responsibility of businesses is also not in place.

As recommended by NRB's 'Financial Stability Report' of 2013, such shadow banking activities need be monitored regularly; a microfinance credit reporting system needs to be introduced; and, an appropriate regulatory body needs to be established to ensure that co-operatives comply with minimum financial standards.

1.1.A Supply of financial services: Coverage in Nepal and product offerings

As of mid-April 2013, the total number of FIs stood at 291, comprising 186 banks and FIs of A, B and C categories, 77 financial intermediaries licensed by NRB, 25 insurance companies, one Employees Provident Fund, one Citizen Investment Trust and a Postal Savings Bank (see table 3).

Table 3
Number of banks and financial institutions

BANKS AND FINANCIAL INSTITUTIONS	Mid-July 2008	Mid-July 2009	Mid-July 2010	Mid-July 2011	Mid-July 2012	Mid-April 2013
Commercial banks	25	26	27	31	32	32
Development banks	58	63	71	88	88	89
Finance companies	78	77	79	80	70	65
Microfinance institutions (MFIs)	12	15	18	21	24	28
NRB-licensed co-operatives (with limited banking transactions)	16	16	15	16	16	16
NRB-licensed NGOs (MFIs)	46	45	45	38	36	33
Insurance companies	25	25	25	25	25	25
Employees Provident Fund	1	1	1	1	1	1
Citizen Investment Trust	1	1	1	1	1	1
Postal Savings Bank (with 117 offices)	1	1	1	1	1	1
Total	**263**	**270**	**283**	**302**	**294**	**291**

Source: Government of Nepal—Ministry of Finance, 'Economic Survey, Fiscal Year 2012-2013.'

Despite the growth in the number and type of FIs offering banking and non-banking services, financial services have not yet reached the low-income sections of the population, especially in geographically remote areas. Most banks and FIs have concentrated on expanding in major cities and on targeting emerging areas of business activity, particularly in urban areas.

As of mid-January 2013 (see table 4), out of the total number of bank branches (2,483), 26.8 percent served the Kathmandu Valley alone (665), 31.2 percent operated in the Hill and Mountain areas (775), and 42 percent were based in the *Terai* area (1,043).[8] Therefore, there are far fewer bank branches in the Hill and Mountain areas. The districts with the highest number of bank branches are Kathmandu, Lalitpur and Rupandehi. The Far-Western and Mid-Western development regions are lagging behind in terms of financial sector expansion. Amongst banks, the state-owned banks continue to dominate the banking system, with assets worth more than 30 percent of the total banking sector. They also have the largest branch networks, which consist of more than 50 percent of the total number of bank branches in the country.

Table 4
Number of branches of banks and financial institutions

DEVELOPMENT REGION	Class A	Class B	Class C	Total
Eastern	270	95	36	**401**
Central	731	266	171	**1,168**
Western	261	267	78	**606**
Mid-Western	124	62	11	**197**
Far-Western	86	23	2	**111**
Total	**1,472**	**713**	**298**	**2,483**

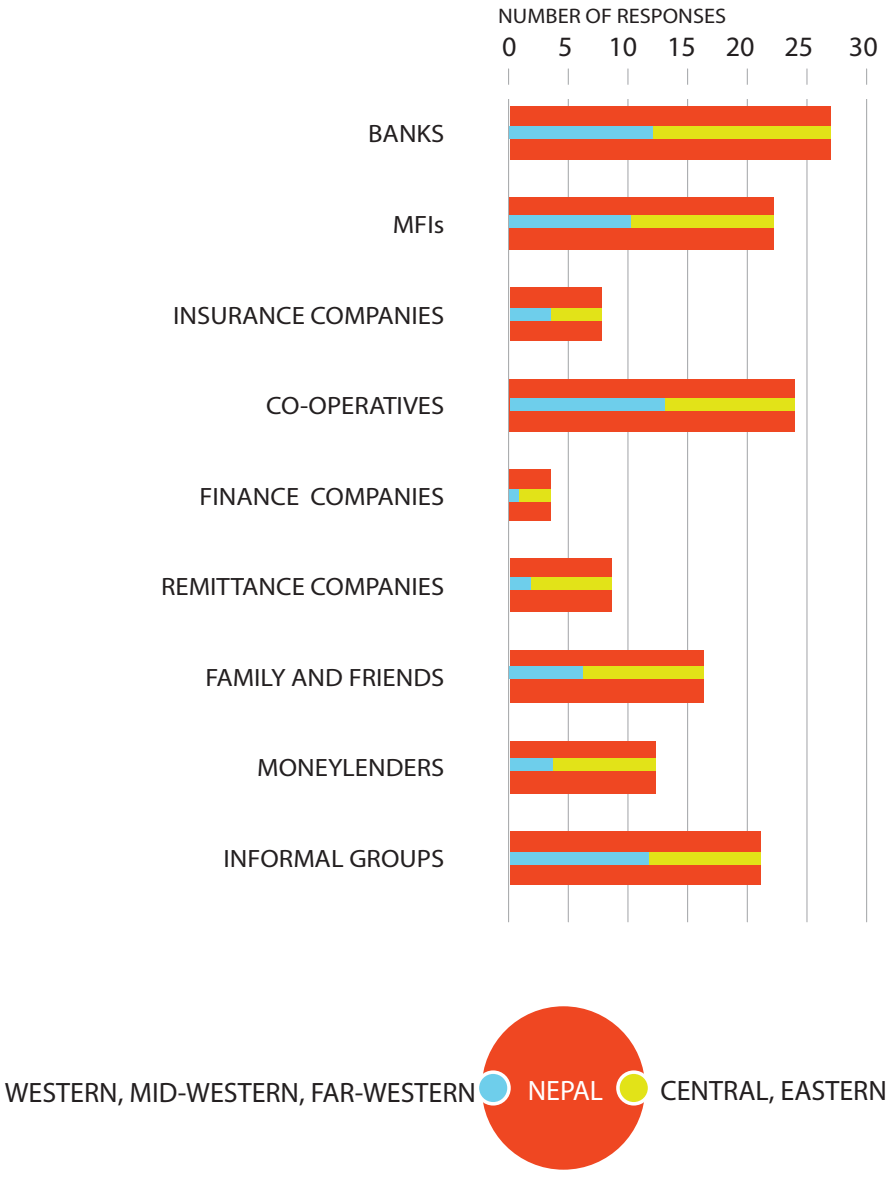
Source: Government of Nepal—Ministry of Finance, 'Economic Survey, Fiscal Year 2012-2013.'

8 NRB, 'Financial Stability Report' (page 35), January 2013.

1.2 Research findings on use of financial services in Nepal

The research clearly brought out patterns in the way Nepalese use financial service providers (FSPs).[9] Findings indicated that the respondents were using a mix of formal and informal services (see figure I).

Figure I
Financial service providers being used in Nepal
nFOCUS-GROUP DISCUSSION=28



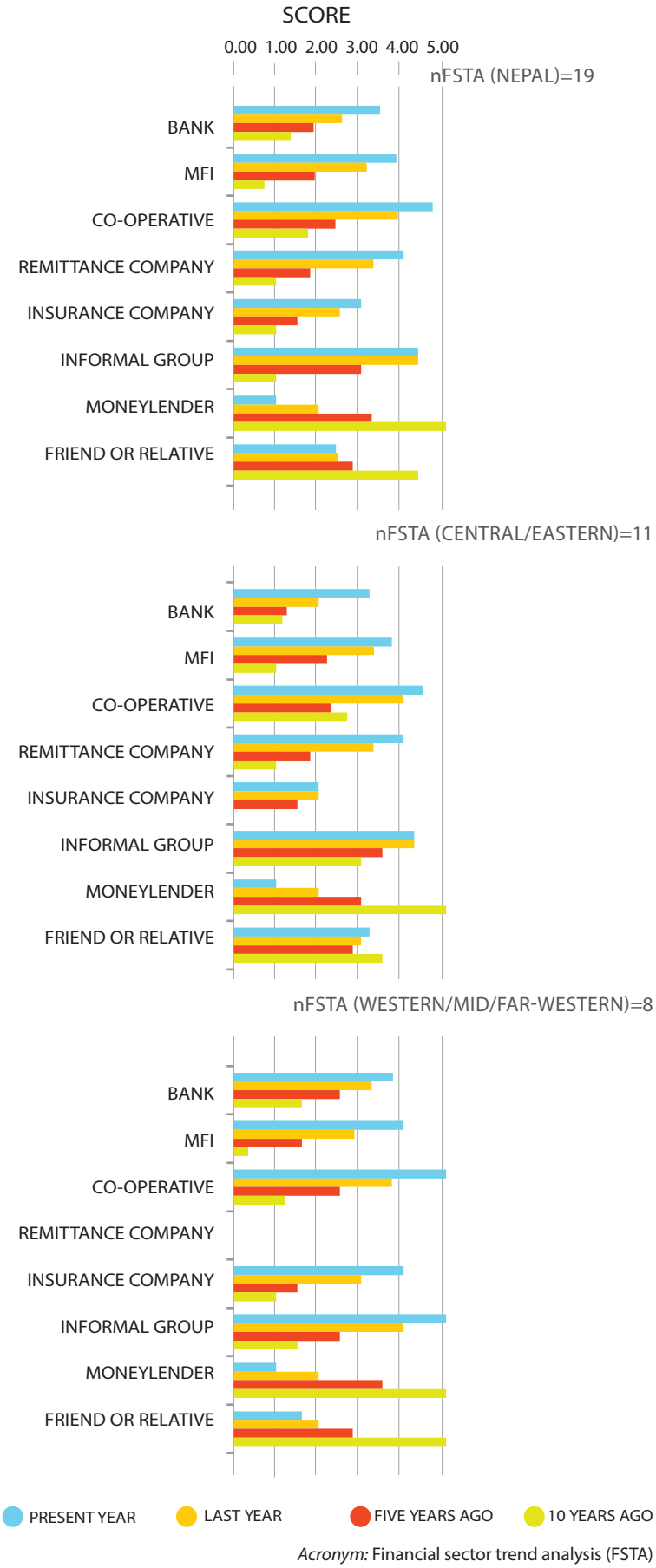
Note: In each graph, n(ToolName) refers to the number of sessions on which the results are based (e.g., in figure I, nFocus-group discussion=28 indicates that the findings in the figure were based on 28 focus-group discussions).

9 Detailed research plan including methodology and sampling are provided in Annex A.

In all geographical areas covered by the research, respondents' favourite formal and semi-formal FSPs were banks, MFIs and co-operatives, while their favourite informal FSPs were informal groups (women's groups, youth clubs, agricultural groups, etc.). Although patterns in the FSPs used by respondents were largely similar across development regions, there were some interesting digressions from these norms—for example, the use of remittance companies and moneylenders was found to be higher among respondents in Central and Eastern Nepal as compared to respondents in Far-Western, Mid-Western and Western Nepal. However, a clear reason for this behaviour could not be found.

There has also been a new trend over the last 10 years in Nepalese use of FSPs. At the country level, the use of formal services, such as through banks, MFIs, co-operatives, remittance companies and insurance companies, has increased during the period (see figure II). Following this pattern, the use of most informal services, such as through moneylenders, friends and relatives, and *Dhukuti* groups, has decreased. Interestingly, over the same period of time, respondents continued to use informal groups (women's groups, etc.) to meet their financial needs but also increased their use of formal services. This change in the pattern of usage in favour of formal FSPs can be attributed to the fact that formal financial service delivery mechanisms in Nepal have improved. As highlighted earlier, when formal FSPs began to spread their operations across Nepal, people moved away from informal sources of financial services. However, as indicated in a number of places in this report, factors such as accessibility challenges, cost considerations and trust issues have meant that people still tend to resort to informal groups for many of their financial needs.

Figure II
Changes in the usage of financial services in the last 10 years



Acronym: Financial sector trend analysis (FSTA)

In addition to identifying critical lifecycle needs, it is also important to understand the seasonal flows of income and expenditure in order to determine the consequent demand by Nepalese for credit and savings services (see figure III). Income, expenditure, savings and credit usage patterns are explained below (please see figure IV for the Nepalese calendar). The explanations are based on analysis of the research findings.

Figure III
Seasonal financial activity of respondents across Nepal
nSEASONALITY ANALYSIS=13

Figure IV
Nepalese calendar

NEPALESE MONTH*	GREGORIAN MONTH*
Baishakh	14 April–14 May
Jestha	15 May–14 June
Asar	15 June–16 July
Shrawan	17 July–16 August
Bhadau	17 August–16 September
Asoj	17 September–17 October
Kartik	18 October–16 November
Mangsir	17 November–15 December
Poush	16 December–14 January
Magh	15 January–12 February
Falgun	13 February–14 March
Chaitra	15 March–13 April

* Based on Nepalese year 2071 and Gregorian year 2014–2015

INCOME

Asoj and *Kartik* show high income trends as people who are engaged in business record higher sales when those who are employees receive bonuses from their employers for *Dashain* (*Vijaya Dashami*) and *Tihar (Diwali*) festivals during these months. Migrant workers return home during these months as well, so income levels are higher at the household level. Migrant workers who are not able to return home remit their earnings/savings to their families. Festival seasons also witness a rise in sales of livestock such as goats and hens. Further, the months of *Mangsir* and *Asar* see relatively higher incomes owing to harvest and sale of crops.

EXPENDITURE

People incur the highest expenditure in *Asoj a*nd *Kartik* when they spend money on the two key festivals just mentioned. Since festivals are marked by visits of relatives, expenditure on home renovation, clothes and food also increases during this period. As general awareness of children's education has increased, people tend to have substantial educational expenses in the month of *Baishakh* when new academic sessions start. Expenses include tuition fees, new school uniforms, stationery and books. *Asar* and *Shrawan* see higher spending for farmers, since they must plant rice and vegetables during these months. Major expenses include fertilisers, seeds and labour, as seasonal employees must be hired to do tasks like ploughing fields and driving tractors. For similar reasons, the month of *Mangsir* also means an increase in expenditure for farmers.

SAVINGS

Respondents highlighted that they save regularly, though their deposits are not very large. The largest amounts are deposited in the months of *Asoj* and *Kartik* when inward remittances are high. Even though expenses are also high during these same months, people still manage to save. These savings are mostly held by the informal groups of which they are members. As these groups come in handy when credit is urgently required, people make sure to join. After all, it is because of their small savings that people are able to take credit and meet their high expenses in the months these expenses are incurred. In the month of *Mangsir*, farmers have higher earnings as this is the time they sell their crops and vegetables. The research shows a clear trend toward higher amounts being saved in the months when income is high. Though people have started to explore ways of saving formally, co-operatives and informal groups still remain their first choice as these are easily accessible when there is an urgent need for credit.

CREDIT

People engaged in agriculture tend to incur high expenses in the months of *Asar* and *Mangsir*. Some respondents also highlighted that, if rainfall is not adequate, irrigation is an added expense. They resort to borrowing to meet their need for more money. In months like *Kartik* and *Asoj*, people also need credit to meet higher expenses. In *Baishakh,* when families need to spend money on their children's education, credit use is high as well. In the same month, people engaged in businesses take out loans to make payments for goods that they will purchase over the coming year. *Magh* and *Falgun* are peak marriage months, and people usually resort to credit to meet the expenses incurred on marriages and dowries.

Another view of the seasonality analysis results from Eastern/Central Nepal and Western/Mid-Western/Far-Western Nepal shows similar trends for income and expenditure, but reveals different trends for savings and credit by region group and as compared to the national pattern (see figure V). Unlike the national and Eastern/Central Nepal pattern, the savings and credit gap seems to be wider in Western/Mid-Western/Far-Western Nepal, especially in the months of *Jestha* and *Shrawan*.

Figure V
Seasonal financial activity of respondents by development region

Western/Mid-Western/Far-Western Nepal

nSEASONALITY ANALYSIS=7

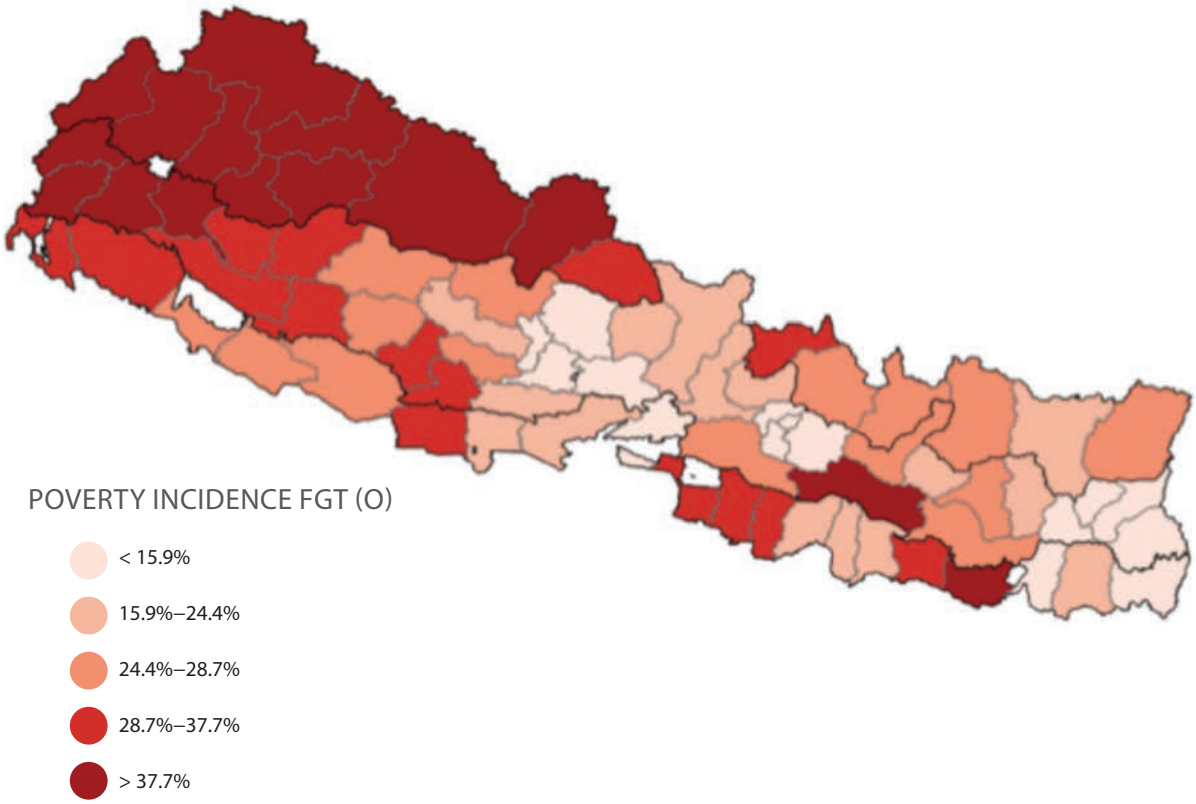
2

Lifecycle-related critical financial needs in Nepal

2.1 Financial status of the population in Nepal

The World Bank estimates that Nepal is the poorest country in South Asia and the twelfth poorest country in the world, with a population of 30 million, gross domestic product (GDP) of $42.06 billion and a per capita income of $1,500 in 2013. The real growth rate of GDP in 2013 stood at 3.6 percent. Approximately one quarter of Nepal's population lives below the poverty line. The incidence of poverty is highest in the Mid-Western and Far-Western regions, with a majority of households classified as poor. Poverty is lowest in the Central region. See figure VI for a more detailed breakdown.

Figure VI
Poverty incidence at the district level



Source: Government of Nepal—Bureau of Statistics, 'Nepal Small Area Estimates of Poverty 2011.'

Acronym: Foster-Greer-Thorbecke (FGT)

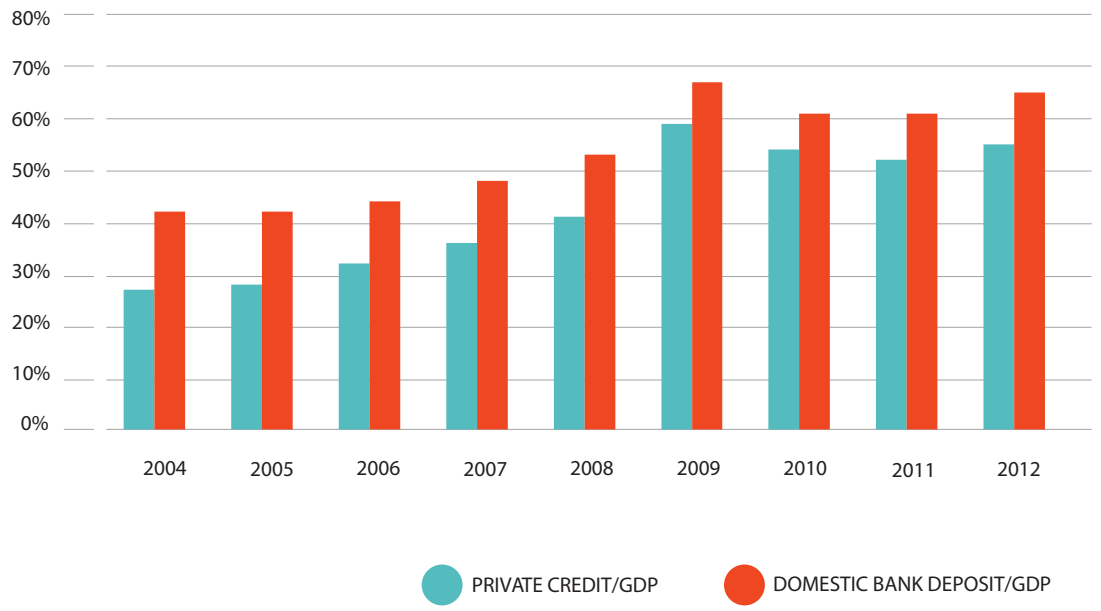
The overall poverty level in Nepal fell from 41.76 percent in FY1995/1996 to 24.4 percent in FY2011/2012. This reduction in poverty is largely attributed to the following: migration to urban areas, where better employment opportunities lead to higher levels of income; income from international remittances; and, higher wages in the agricultural sector.

2.1.A Access to financial services in Nepal

Nepal's financial sector has grown rapidly and, in most respects, access to financial services compares favourably with other low-income countries.[10] The aggregate amount of deposits, credit, branches and ATMs has been increasing steadily over the past few years. In 2012, the proportion of deposits and credit to national GDP stood at 65 percent and 55 percent of GDP, respectively, which is somewhat higher than average in South Asia. The availability of service delivery points, in general, has improved demonstrably: the number of bank branches per 100,000 adults has increased from 2.6 in 2004 to 8.4 in 2012.[11]

Similarly, the number of MFI branches per 100,000 adults has nearly tripled from 3 in 2004 to 8 in 2012. Please refer to figure VII to see the change in private credit and domestic bank deposits with respect to Nepal's GDP.

Figure VII
Gross domestic product versus private credit and domestic bank deposits



Nonetheless, significant gaps remain in the provision of financial services, both in terms of access and effective use. Access gaps are most acute in the more remote and geographically isolated parts of the country, such as the Hill and Mountain areas in the Eastern, Mid-Western and Far-Western regions, which are still sparsely covered by formal FIs.[12]

10 Government of Nepal—Ministry of Finance, 'Economic Survey, Fiscal Year 2012/13.'

11 World Bank, 'Data: Commercial bank branches (per 100,000 adults),' accessed 15 September 2014.

12 The Kathmandu Post, 'Bank services concentrated in urban areas: NRB report,' 11 March 2012.

Despite the relatively large deposit base, financial services are concentrated within the urban and male population. Of the urban adult population, 51 percent have a bank account, compared to 22 percent of the rural adult population. Similarly, a persistent gender gap exists; while about 30 percent of Nepalese adult males have a bank account, only 21 percent of females do. Moreover, access to deposit accounts does not necessarily mean that use of deposit accounts is to save for future financial needs. People use their account to receive money (i.e., salaries, government payments and remittances), but not actually to save money. According to past studies in Nepal, an average of 18 percent of Nepalese adults save money, but only 10 percent do so with a formal FI. Further, most of those savings are kept for emergencies.

2.2 Research findings on lifecycle-related critical financial needs in Nepal

Since a majority of the respondents were engaged in agriculture and small businesses, their regular financial needs related to investments and working capital expenses such as the following:

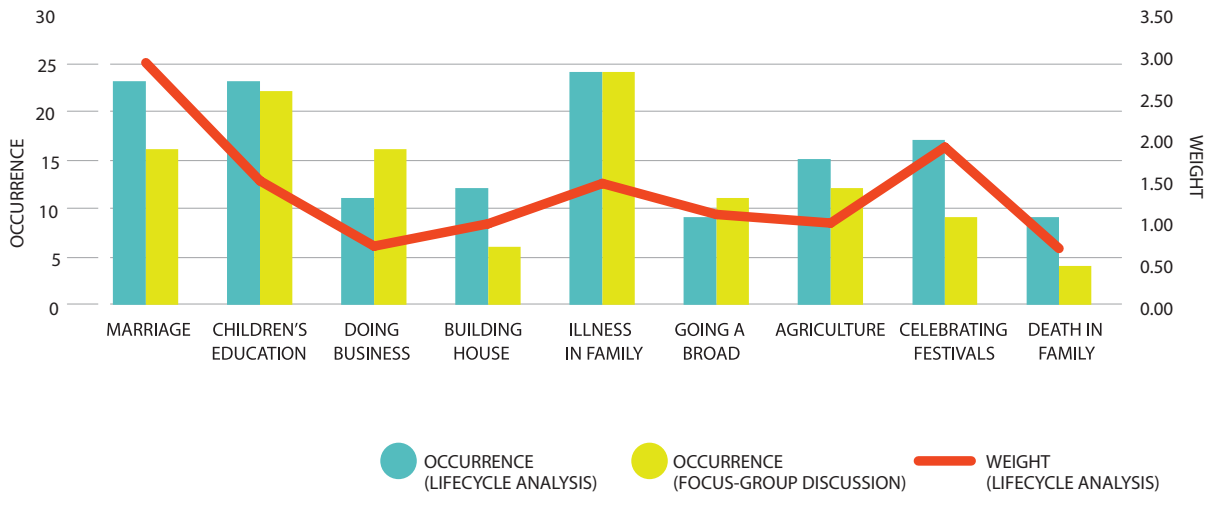
- Expenses incurred during cultivation and harvest. These include expenses for the purchase of agri-inputs (seeds, fertilisers and pesticides), storage and transportation of crops, and so on.
- Investments and expenses incurred to purchase raw materials and finished goods. These include expenses for the purchase of vegetables and other food items, grocery items, livestock, cloth, and so on.
- Investments related to construction/maintenance of houses and the purchase of other building materials.
- Expenses incurred for overseas migration, both on account of education and work.

In addition to the above-listed needs, other critical financial needs are related to the following (see figure VIII for quantitative results):

Figure VIII

Critical lifecycle events requiring financial aid

nFOCUS-GROUP DISCUSSION=28, nLIFECYCLE ANALYSIS=24



CHILDREN'S EDUCATION

The majority of respondents stated that education is a long-term investment to secure and uplift their children's future. Education is provided free of cost in government schools; however, these schools have poor reputations and limited facilities, so the majority of respondents enrol their children in a private school. The high fees charged by private schools, coupled with varying income patterns, make the cost of financing children's primary and secondary education a critical financial need on a monthly basis. Furthermore, a number of respondents pointed out that one-time expenses incurred during the commencement of new academic years, which include paying school admission fees and purchasing stationery and uniforms, also add to their critical financial needs. In addition, respondents pointed out that the expense of education varies for different education levels, with higher education and international education substantially adding to the cost.

MARRIAGE

Marriage is a one-time event and is planned in advance. Owing to close bonds within the community, a large number of guests are invited for the ceremony, which is performed over several days. It is also expected to be performed with great ceremony and splendour, so it becomes necessary to spend a good amount of money on the rituals. As a result, the expenses incurred are usually very high (up to Nr150,000, or $1,500). Apart from the ceremonial cost, the dowry is also a huge expense, which adds to the overall financial needs of respondents during marriage in their families.

ILLNESS IN THE FAMILY

Respondents stated that expenses incurred in the treatment of illness (caused by sickness, chronic disease and/or accidents) result in unexpected financial pressure. The lack of medical facilities in remote rural areas also adds expense in terms of travel to a medical centre. The degree of financial pressure increases with the loss of household income if it is the family breadwinner who falls ill or is injured. People tend to borrow from informal sources to meet these unexpected expenses.

FESTIVALS

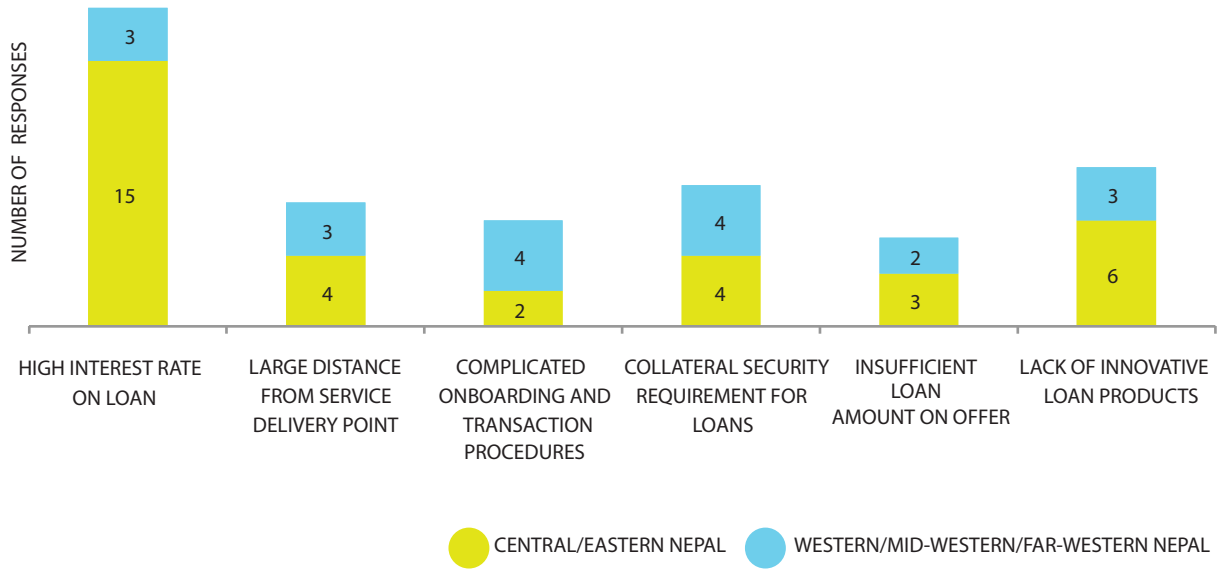
The main festivals celebrated by respondents include *Dashain*, *Tihar* and *Bhai Tika*. During these festivals, the major expenses include food, clothes and gifts for family, relatives and community members. Although the events are planned in advance, the expenses almost always breach the pre-determined limits. While some respondents said that there was no compulsion to spend on festivals, others stated that, in order to keep up with other community members, they often resorted to loans to meet festival-related expenses.

Respondents were also asked about the reasons, if any, for their financial needs not being fulfilled. As can be seen in figure IX, the most-cited reason was the high interest rate for loans offered by formal FIs across the country. This reason was more predominant in Central and Eastern Nepal, as compared to the other half of the country. The second-most cited reason was the lack of innovative loan products. By innovative products, they meant loan products that could cater to their occasional financial needs such as going abroad to study or work, having a marriage in the family, or celebrating festivals or other events in the family. Finally, a number of respondents reported that they could not obtain credit because of banks' requirement to provide collateral security.

Figure IX

Reasons why financial needs go unfulfilled

nFOCUS-GROUP DISCUSSION=28



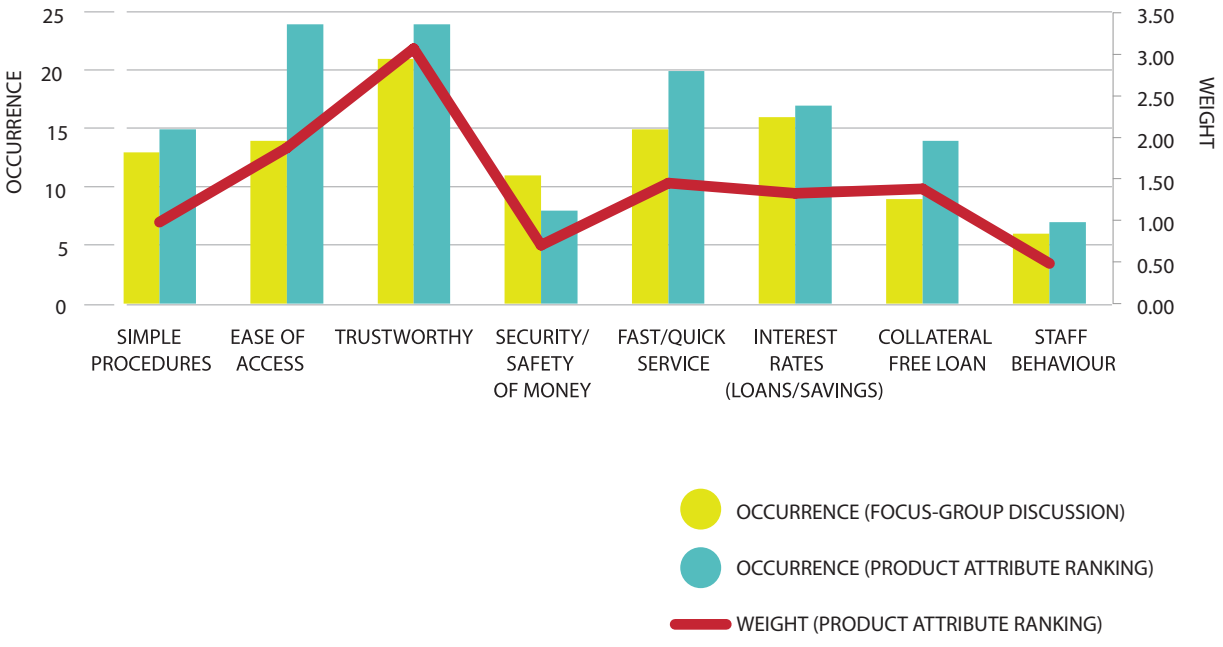
3 Customer preferences when choosing financial services in Nepal

Respondents were asked about the attributes they look for when selecting an FSP to meet their financial needs (see figure X for quantitative results). Two different tools—focus-group discussions (FGDs) and product attribute ranking—were used to elicit responses. Trustworthiness was the attribute recorded the most times and accorded the greatest weight. This result clearly indicates that, in matters of money, people prefer an FSP that is trustworthy and well known. Ease of access was the next key attribute. Services that were available nearby were preferred over service delivery points that were far away and took time to reach. Service points that provided fast service and saved respondents time were also appreciated. Another attribute mentioned repeatedly was the rate of interest charged, with preference for FSPs that give high interest rates on savings and charge low interest rates on credit. Simple transaction procedures and collateral-free loans were the other two attributes that respondents looked for when selecting an FSP.

Figure X

Attributes preferred by customers when selecting financial service providers

nFOCUS-GROUP DISCUSSION=28, nPRODUCT ATTRIBUTE RANKING=29



Regional analysis of responses showed slight differences in preference (see figure XI). Responses in Western Nepal were more aligned to national responses, while those in Central/Eastern Nepal varied. Attributes favoured in both were trustworthiness, ease of access, and service and interest rates (high for savings and low for credit). Product attribute rating in Central/Eastern Nepal, however, brought out that the most importance was placed on ease of access, trustworthiness, collateral-free loans and fast service. In Western Nepal, trustworthiness and ease of access held the most importance.

During the research, a number of FSPs were assessed on the preferred attributes. Figure XII indicates how respondents perceive banks, MFIs, co-operatives and savings groups (such as mother's groups and sisters' groups) in terms of these attributes.

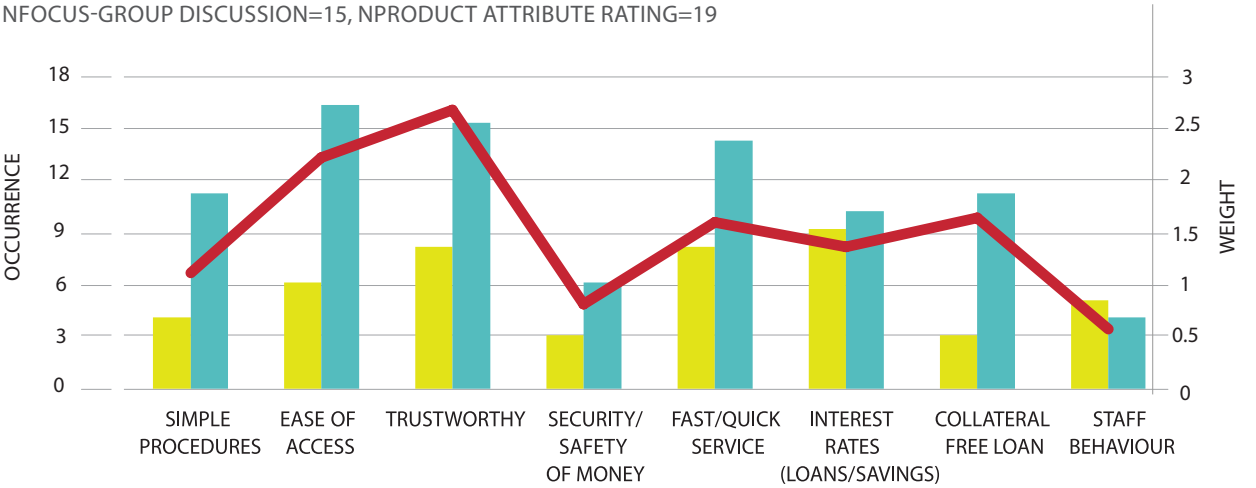
Figure XI
Preference for attributes by development region

Western/Mid-Western/Far-Western Nepal

nFOCUS-GROUP DISCUSSION=13, nPRODUCT ATTRIBUTE RANKING=10

Central/Eastern Nepal

NFOCUS-GROUP DISCUSSION=15, NPRODUCT ATTRIBUTE RATING=19



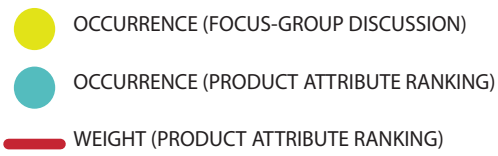
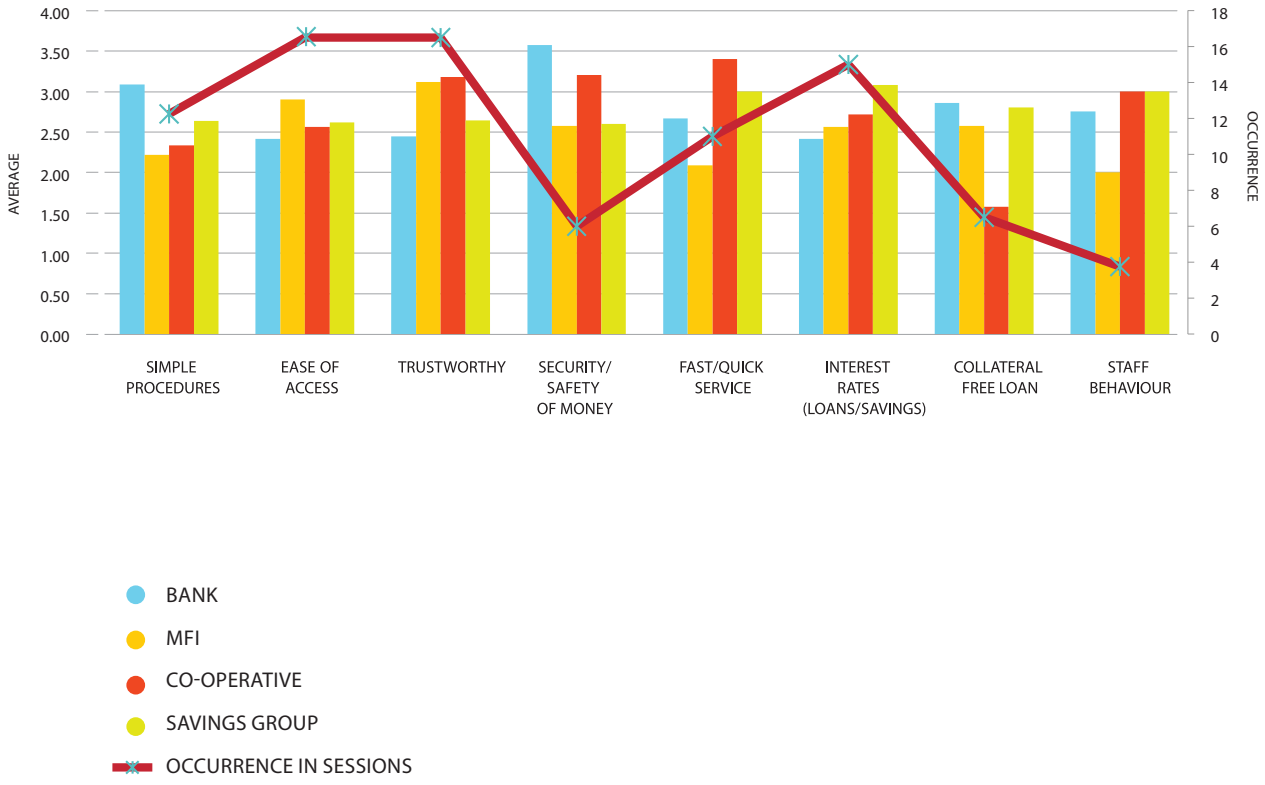


Figure XII

Respondents' relative preferences for service providers based on preferred attributes

nRELATIVE PREFERENCE RANKING=28



Analysis of the number of times attributes were mentioned in the sessions indicates that ease of access and trustworthiness were more important to respondents than other attributes like collateral-free loans and staff behaviour (the two latter attributes were rarely mentioned in the sessions). Attributes like simple procedures (on-boarding and transactions) and interest rates (charged on loans and provided on savings) were also mentioned a significant number of times. Analysis of key attributes, based on session responses, is further summarized below:

SIMPLE PROCEDURES

Respondents rated banks and savings groups higher compared to co-operatives and MFIs on this attribute, perceiving that banks, in particular, provide simple, easy on-boarding and transaction experiences to users.

EASE OF ACCESS

As MFIs provide services closer to respondents' homes, they ranked them as the most accessible.

TRUSTWORTHINESS

Since MFIs and co-operatives are semi-formal structures and involve people known by their members, respondents tended to trust them more. Although savings groups also consist of people known by their members, they are informal and less organised and hence perceived to be less trustworthy in comparison.

SECURITY/ SAFETY OF MONEY

Respondents found banks to be the most secure places for their money, as banks are well guarded and have sound security measures in place. Security guards, safe vaults, security cameras, etc. contribute a lot to this perception.

FAST SERVICE

Respondents rated savings groups and co-operatives as providing faster service than MFIs and banks. Banks and MFIs are more formal and their procedures require more forms, which lead to delays in accessing services.

AGENT-BASED BANKING

Awareness of and impressions by respondents

During the research, awareness of agent-based banking outlets was repeatedly checked with respondents. Respondents were only partially aware of agent-based banking. Most of them did not know about the range of services that these outlets offered. Those who were aware of agent-based banking provided the following impressions of the model:

POSITIVES OF THE MODEL

- Proximity, which saves a lot of time
- Convenience, for making deposits, withdrawals and transfers—even for small amounts
- Additional services, like bill payments, mobile airtime recharge and service top-ups

NEGATIVES OF THE MODEL

- Lack of trust, since it is a new service
- Limits on daily transaction amounts, which restrict usage
- Poor mobile network connectivity in remote areas, which leads to disruption of services

4 Recommendations on the future of financial services in Nepal

The NRB's 'Strategic Plan 2012–2016' observes that the growth of banks and FIs in the last two decades has been primarily urban. Thus, much of the population still does not have access to formal financial services. Poor infrastructure, challenging geography, scattered household settlements and under-developed markets are the major hurdles to the delivery of financial services at affordable costs to the disadvantaged and low-income sections of the society.

Efforts are being made at various levels in Nepal to provide low-income people with better access to financial services. NRB itself has incorporated strategies into its current plan that focus on increasing financial inclusion and strengthening formal financial services within Nepal. NRB's efforts include regulatory, strategic and operational interventions and improvements. NRB anticipates that about two thirds of the population will have access to formal finance by mid-July 2016, through its concerted efforts.

Since NRB is making significant efforts to create a congenial environment for financial inclusion in Nepal, it is opportune to talk about the future of financial services in the country in this report. While one objective of this research into financial demand was to understand the current perception and use of financial services by the people of Nepal, the other was to identify gaps in the present arrangements and use the findings to develop concrete recommendations that could help to create an inclusive financial sector in Nepal. Having analysed the research data (shared in previous sections of this report), a set of recommendations can now be provided and used as guidelines for improving the delivery of financial services in Nepal:

- **Use technology-driven alternative delivery channels to improve accessibility of financial services and to reach out to more people:** The research clearly revealed that distance from a service delivery point is a major deciding factor in the adoption of financial services in Nepal. As just mentioned, Nepal is a tough terrain for financial services delivery. Thus, alternative channels like agent networks, ATMs, ultra-small branches, kiosks and credit service centres can, by their proximity, play a crucial role in improving accessibility for a large number of customers. Findings presented on agent-based banking also add substance to the development of accessible, affordable and reliable formal financial service delivery channels. While banks scored lowest on trustworthiness (see figure XII), extension of their services through an agent network could help build communities' trust in them. If banks choose respected and trusted local agents, from the area where they are to operate, these agents could play an important role in addressing the current trust deficit.

  While alternative delivery channels surely are the way forward, they also come with a number of fundamental challenges: adoption of technology by poorly educated people, limited and/or intermittent network connectivity (especially in remote areas), and quality of service both for customers and for agents interacting with staff of bank

branches. While these challenges can be overcome, they will need to be handled carefully through advanced planning, commitment, and investment of resources, and then by constant monitoring and improvement of service delivery.

- **Develop need-based, innovative financial products to attract more customers:** A high percentage of respondents pointed out that their financial needs were mostly large and urgent, and that some of them were unplanned. However, the services that were offered to them by formal and informal sources were either too small or too costly for them to use comfortably or for long periods. The research revealed three broad types of financial needs in Nepal: 1) a financial need that is almost constant (e.g., education of children, running costs of businesses, or agricultural expenses); 2) a financial need that is sudden and unexpected and that requires a large amount of money (e.g., illness or death in the family); 3) and, a financial need that is not sudden nor unexpected but that requires a relatively large amount of money (e.g., building a house or celebrating a festival). Research analysis highlights that, while the financial needs of people are varied, the financial services they have been using have not gone beyond regular savings and credit products. In a vast and varied terrain such as Nepal, the needs of people are not uniform. It is imperative that a geography-based segmentation be completed (driven by area and development regions), and that innovative but efficient products like flexi-recurring deposits, short-term purpose-specific loans, micro-insurance (including for livestock and agriculture), micro-pensions, season-specific loans for agriculture and small- and medium-sized enterprises, etc. be rolled out through various FIs based on that segmentation. Along with conventional channels, alternative delivery channels can play a key role in driving these new, innovative products to be accepted and used. For example, agent networks are alternative delivery channels that have been seen to influence savings habits of customers in a positive way in other countries.[13] When they have accumulated enough money in savings, customers can look at taking larger amounts of credit.

- **Focus on improving financial literacy and awareness of available financial products:** Innovation in financial services has already started, to some extent, in Nepal (occasional banking and remittance agents in nearby market places are a case in point). However, it is customers' lack of awareness of available financial services—along with other factors like distance, the high cost of products and the need for collateral for loans—that has been a major barrier to their use of formal financial services. A number of times while travelling to session locations for the research, the research team spotted agents; however, many people involved in the sessions were not aware of the services that were offered at agent points. Similarly, though respondents repeatedly talked about their critical financial needs, very few of them were aware of existing products that suited their financial needs and were offered by FIs. Products like insurance and money-transfer facilities were only used by a few of the respondents. However, it has been observed globally that rolling out need-based products is only half of the solution. The products only achieve their intended objective if they are marketed and communicated with the right messaging and information. A high proportion of the Nepalese population is still not accustomed to formal financial services, so it is equally vital to conduct financial-

13 See, for example, this MIT document: William Jack and Tavneet Suri, 'The Economics of M-PESA,' 2010. *MicroSave* has been working with a number of banks, microfinance institutions, mobile network operators and agent network managers in Bangladesh, India, Indonesia, Kenya, the Philippines, Uganda, the United Republic of Tanzania, etc. During these engagements, *MicroSave* has worked intensively to build their alternative delivery channels. Where savings has been the focus and strategy of the mobile money service (and, sometimes, even where it has not), their customers use the service to set money aside.

education campaigns as it is to share product information among these customers. Financial education will help them to understand the importance and features of various types of formal financial services and will, along with awareness-raising campaigns, help them choose the right kinds of products for their needs. Such initiatives will also help new customers become familiar with the formal procedures followed by FIs and will ease their anxiety about using formal FSPs. Based on *MicroSave*'s extensive experience of working in the development and delivery of financial-education programmes, it would be appropriate to point out that product-backed campaigns, which have a specific aim of educating customers on the features and benefits of particular products available to them, have proved far more effective than traditional, 'sit them down and lecture them' financial-education programmes. Clearly, agents offering services through alternate delivery channels can also play a key role in helping educate customers on available financial services and are in a good position to identify 'teachable moments,' when it is best to provide this product-based guidance. It will therefore be important to train and incentivise agents to provide this financial education.

- **Provide in-demand skill-development training along with financial services:** While need-based, short- and medium-term credit is a prime requirement of respondents, it was interesting to note that a high number of respondents—especially in the *Terai* area—mentioned that they would prefer to associate with an FSP that also provides skill-development training, so that they are able to reap more benefits from that FSP. They understood the importance of possessing vocational skills that would enable them to earn a living, and they felt that formal FIs could combine their products with such skill-development courses. Skill-development programmes will attract many more people to formal financial services. Having said this, it is important to note that such skill-development programmes are costly and difficult to design and implement effectively, and may lead to conflicts of interest and refusals to repay loans if delivered by FSPs themselves.

- **Develop mechanisms to assess, monitor and improve client protection best practices:** As Nepalese have shifted their preferences towards formal financial services, customers who in the past experienced poor customer service by moneylenders, informal groups, etc. will see the advantages of global best practices for client protection. By conducting independent reviews of client protection practices that are prevalent among formal FSPs, a roadmap to improve such practices in Nepal can be prepared. Global strategies to monitor such initiatives in an effective manner are evolving with time. So, NRB can keep updating its guidelines on this subject to reflect changing best practices. Also, regular national workshops can be organised to disseminate these best practices to FSPs so that they are able to deliver better financial services in Nepal.

5 Annexes

5.1 Annex A: Research plan

5.1.A Mobile Money for the Poor in Nepal

UNCDF, Swedish International Development Cooperation Agency (Sida) and Australian Agency for International Development (AusAID), with support from the Danish International Development Agency (DANIDA), launched the MM4P programme in Nepal to support the expansion of the branchless banking and mobile financial services ecosystem in the country.[a] The programme is operating in Nepal under the guidance of NRB.

MM4P's primary objectives are the following:

- To support branchless banking and mobile financial service providers that deliver to a wide range of individuals and micro-enterprises, including low-income, rural and female customers.
- To focus on a range of activities that will build and facilitate an ecosystem for the stakeholders to more efficiently serve the unbanked market with appropriate financial products and services.

5.1.B Background of the research

A number of studies and research programmes have been conducted in the past to understand the demand for and gaps in financial products and services within the low-income section of the population in Nepal. These studies and research programmes, conducted with clients of MFIs, were designed to provide direction to and enable FIs to offer products tailored for low-income people, including savings, credit and insurance. They were also intended to improve access to financial services through delivery-channel-related recommendations, such as capacity building, upgrading technology and improving the regulatory environment.

The MM4P programme intends to build from existing research and draw out findings that can be utilised to develop products that could be delivered through agent networks in Nepal. The overall objective of the programme is to create customer 'pull' and drive usage of financial services through agent networks.[b]

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a For details, please follow the links to their websites: Sida, AusAID and DANIDA.

b An 'agent network' refers to the agents appointed by banks to deliver financial services through branchless banking channels.

5.1.C Objectives of the research

As a part of the aforesaid agenda, research was conducted to better understand the needs and preferences of the low-income sections of the population vis-à-vis existing offerings (through formal/informal FSPs and channels) and the potential of unmet needs. The primary objective of the research was to identify high volume drivers of financial products and services that can increase footfall and the volume of transactions for the existing financial service delivery channels.

The research helped to address the following questions:

- What are the critical financial needs that exist at various lifecycle stages of the clients?
- Are these financial needs being fulfilled? If yes, then how?
- What are the key attributes that stimulate the clients to select a particular financial product/service and associated delivery channel?
- Is there a need to introduce new financial products and services or improve existing ones to induce the clients to use the agent network channel?

5.1.D Approach used for the research

It is a well-known and widely accepted assumption that the low-income section of the population does not have access to financial services. The assumption may be partly valid in the case of access to formal financial services. However, a wide range of informal financial services is available and used on a large scale, as the services are cost effective, efficient and reliable, or may be the only accessible or available options. Furthermore, it is sometimes assumed that a customer will automatically switch over to a formal financial service if it is made available, which in fact is not the case.

With all of the above in mind, the research was designed to identify the critical financial needs of the low-income sections of the population, gain insights into the financial services that are being used, understand the challenges and gaps that exist, and identify the financial services that may be offered through agent channels to overcome the said challenges and gaps.

5.1.E Methodology

In order to meet the objectives, the research was conducted in two phases, namely:

1. **Secondary research**
   This phase involved a review of findings from previous studies related to the use of agent networks, the use of financial products/services, and client satisfaction. It was carried out with the objective of understanding the financial landscape of Nepal, particularly the existing FSP products and channels and the reasons why the existing products are used.

2. **Primary research**
   This phase was conducted with low-income sections of the population, using the following qualitative research tools: FGDs and participatory rapid appraisal. The research was conducted with low-income respondents in urban, semi-urban and rural locations in 25 districts of Nepal to cover a substantial sample, spread across the five developmental regions and across the *Terai*, Hill and Mountain areas.

The qualitative research was carried out by a team from *MicroSave*, accompanied by a team of eight researchers from a market research agency in Nepal.

The tools used during the course of the research and their objectives are outlined below (see table A.1 for sample sizes and Annex D for detailed guides):

1. ***Focus-group discussions:*** To understand the key financial needs and preferences for existing product/service offerings, and to identify key drivers to accelerate the usage of agent network channels.

2. ***Lifecycle analysis:*** To identify key financial needs at different phases and milestones of an individual's lifecycle, to examine current coping mechanisms, and to determine the scope of financial intervention.

3. ***Seasonality analysis:*** To understand the seasonal flows of income and expenditure, and the demand for credit and savings services, in order to gain insights into the risks and pressures faced by clients and to determine the scope of financial intermediation.

4. ***Product attribute ranking:*** To understand how clients perceive the key components of financial products/services, which of those attributes are important to them and why, and clients' satisfaction/dissatisfaction with different attributes of financial products/services.

5. ***Relative preference ranking:*** To understand how clients perceive the value of different FSPs/channels on a number of parameters such as safety/security, ease of access/use, pricing, turnaround time, staff behaviour, and documentation.

6. ***Financial sector trend analysis:*** To identify which FSPs and channels have been used by clients to fulfil their financial needs over a period of five years and why, and to determine why clients have shifted from one FSP/channel to another.

Table A.1
Research tools and respondents covered

Tools	No. of sessions	No. of respondents
Focus-group discussions	28	215
Lifecycle analysis	24	215
Seasonality analysis	13	121
Product attribute ranking	29	216
Relative preference ranking	28	100
Financial sector trend analysis	19	152
Total	**141**	**1019**

5.1.F Geography covered by the research

The research was carried out in urban, semi-urban and rural locations in 25 out of the 75 districts of Nepal in order to create a diverse and representative sample. The sample was selected to ensure that all five developmental regions across the *Terai*, Hill and Mountain areas of Nepal were adequately represented (see table A.2 for greater detail on the geographical areas covered during the course of the research).

Table A.2
Geographical areas covered

Development regions	Geographical spread of sample		
	Terai	**Hill**	**Mountain**
Far-Western	Kailali Kanchanpur	Dadeldhura	
Mid-Western	Banke Bardiya	Dang Surkhet	
Western	Kapilavastu Nawalparasi Rupandehi	Gulmi Palpa	
Central	Bara Chitwan Dhanusa	Dhading Kathmandu Lalitpur Nuwakot Ramechap	Sindhupalchok
Eastern	Sunsari	Dhankuta Ilam Panchthar	

5.1.G Limitations of the research

The research was conducted using qualitative research methodology and tools to ensure in-depth understanding of respondents' behaviour and perceptions. Qualitative tools are not designed to be statistically significant and, as a result, the research does not presume to convey high levels of statistical accuracy. In addition, to cover a substantial sample size and to enable respondent interaction, the team had to rely on local FIs during the course of the research. As a result, the respondent sample does not assume high levels of homogeneity within the individual groups.

For this research, responses to research questions were presented in two different ways: individual and consensus. Individual responses are necessary when questions pertain to age, occupation, education, mobile-phone literacy and other specific aspects of respondents' profiles. In the group discussions, however, the final consensus of the group regarding various key questions is what matters. Individuals can and do change their minds during the discussion. In such cases, the final consensus, not each individual's opinion, was noted.

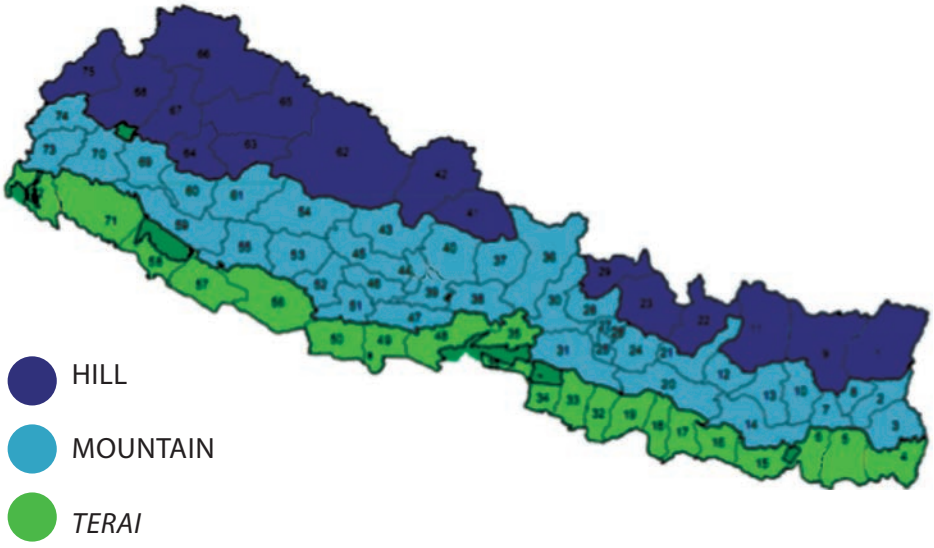
5.2 **Annex B:** Macro-economic and demographic trends in Nepal

5.2.A Geography and demography

Nepal's ecological zones run from east to west for about 800 kilometres along its Himalayan axis and from north to south for 150 to 250 kilometres, and are intersected by its river systems.

Administratively, Nepal is divided into five development regions: Far-Western, Mid-Western, Western, Central and Eastern. The five development regions are further divided into 14 zones, 75 districts and 3,915 village development committees. The country is divided into three main areas: *Terai*, Hill and Mountain (see figure B.I).

Figure B.I
Map of Nepal



The ***Terai* area** covers the southern lowlands of Nepal, which lie at the foothills of the Himalayas. *Terai* is often translated in Nepali, Urdu and Hindi as swampland at the foothills of mountains. Twenty districts fall within the *Terai*. According to the '2011 Nepal Census,' it is the most populous area, with just over half the population (50.27 percent) living there.

The **Hill** (or ***Pahar***) **area** lies between the Mountain and the *Terai* areas. This area is at altitudes of 700 to 4,000 metres above sea level. Like the rest of Nepal, the primary livelihood in this area is agriculture. However, the higher altitude, the short growing season, and the land quality imply that households must supplement agricultural income with other income-generating activities such as livestock rearing and seasonal migration. Forty-four of Nepal's 75 districts are in the Hill area, and 43 percent of the population lives there.

The **Mountain** (or ***Parbat***) **area** lies 4,000 metres above sea level. Due to the high altitude and poor weather conditions, this area is sparsely populated. Eleven districts are in the Mountain area, and about 6.73 percent of the population inhabits it.

Some other facts about the population as per the 2011 census are highlighted below and summarized in table B.1:[a]

Table B.1
Population distribution in Nepal

Area/Region	Percentage of population
Areas	
Terai	50.27%
Hill	43.00%
Mountain	6.73%
Development regions	
Far-Western	9.63%
Mid-Western	13.39%
Western	18.59%
Central	36.45%
Eastern	21.94%

- The population of Nepal as of the census day (22 June 2011) was 26.49 million, with a growth rate of 1.35 percent per annum.
- The total number of households in the country was 5,427,302, with average household size at the national level decreasing from 5.44 in 2001 to 4.88 in 2011.
- The population density (average number of people per square kilometre) at the national level was 180 in 2011, compared to 157 in 2001. The highest population density was in Kathmandu District (4,416 persons per square kilometre) and the lowest (3 persons per square kilometre) was in Manang District.
- The urban population (comprising 58 municipalities) increased from 13.94 percent in 2001 to 17 percent in 2011. Of this, 31 percent was located in the Kathmandu Valley in the Central region.
- The overall literacy rate (for those aged 5 years and above) increased from 54.1 percent in 2001 to 65.9 percent in 2011. The male literacy rate was 75.1 percent compared to the female literacy rate of 57.4 percent.

a Government of Nepal—Central Bureau of Statistics, 'Major Highlights of Census 2011.'

5.2.B Migration and remittances

Nepal is heavily dependent on remittances, which make up 22 to 25 percent of the GDP. In fact, Nepal was one of the highest receivers of remittances in the world on the basis of percent of GDP in 2011.[b] The net migration rate for Nepal, as of 2013, was 3.3 migrants per population of 1,000.[c]

Nepal is also experiencing high levels of domestic migration with people moving from rural to urban areas, particularly Kathmandu, in search of better jobs and income opportunities. Age and gender analysis of the rural and urban population reflects that younger age groups are more concentrated in rural areas compared to urban areas. However, for the age group of 20 to 49, the proportion in urban areas is higher, reflecting the phenomenon of migration for livelihood and work opportunities. With increasing numbers of Nepalese going abroad for employment, international migration is growing year by year as well. According to data from NRB, from FY2010/2011 to FY2011/2012 (end of second trimester), 2,358,710 individuals gained institutional approval for foreign employment. Malaysia is the most popular destination, providing foreign employment to 32 percent of Nepalese workers, followed by Qatar (28 percent), Saudi Arabia (20 percent) and the United Arab Emirates (13 percent).[d]

b The Himalayan Times, 'Remittance contribution to GDP rises,' 28 November 2012.

c Central Intelligence Agency, 'The World Factbook: Nepal,' last updated 20 June 2014. The net migration rate indicates the contribution of migration to the overall level of population change.

d Government of Nepal—Ministry of Finance, 'Economic Survey, Fiscal year 2011/12.'

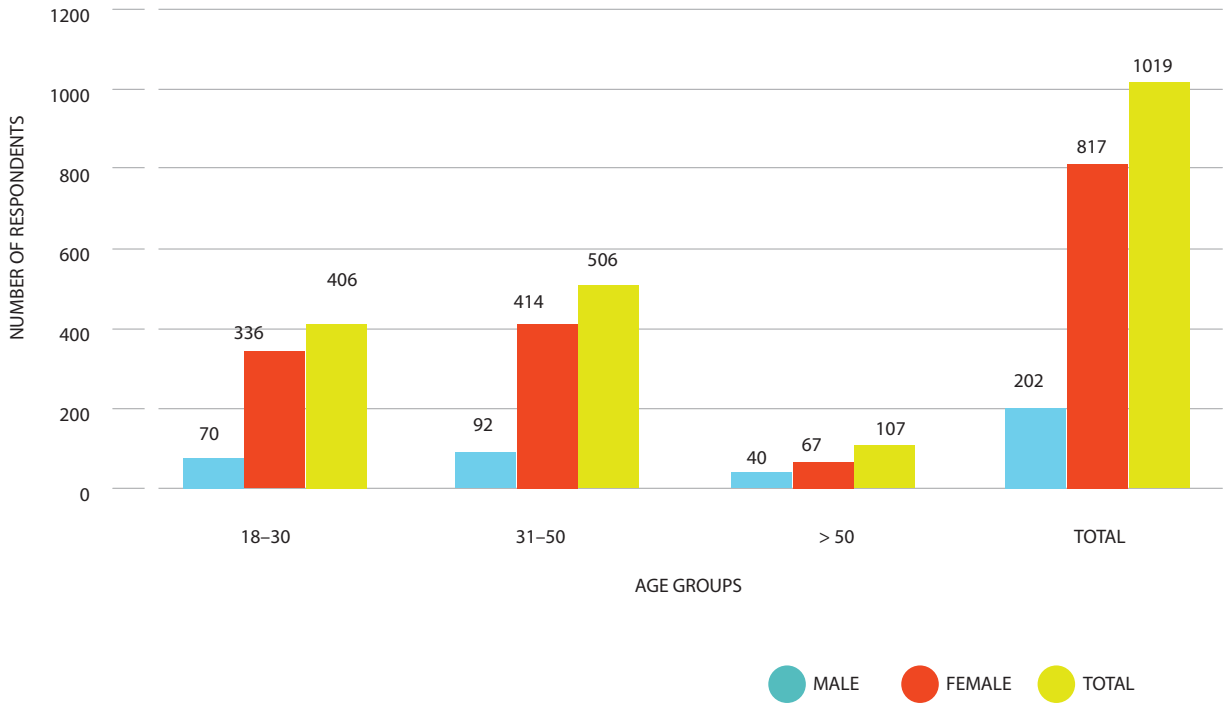
5.3 **Annex C:** Respondents' profiles

The research was conducted to understand the critical financial needs and preferences of low-income people in Nepal so that strategies could be identified for increasing footfall and volume of transactions for the existing agent channels appointed by banks. The research team endeavoured to ensure a diverse and representative mix of respondents in terms of gender, age and occupation while maintaining a level of homogeneity in individual groups, in order to facilitate an understanding of different population segments and their diverse requirements.

5.3.A Gender and age

Through the 141 participatory rapid appraisal sessions, 1,019 respondents were covered (see figure C.I). Of this sample, the majority of respondents (80 percent) were female, since most of them were clients of MFIs and/or members of different formal/informal groups. The majority of male respondents were the spouses of female respondents included in the research.

Figure C.I
Gender and age groups of respondents



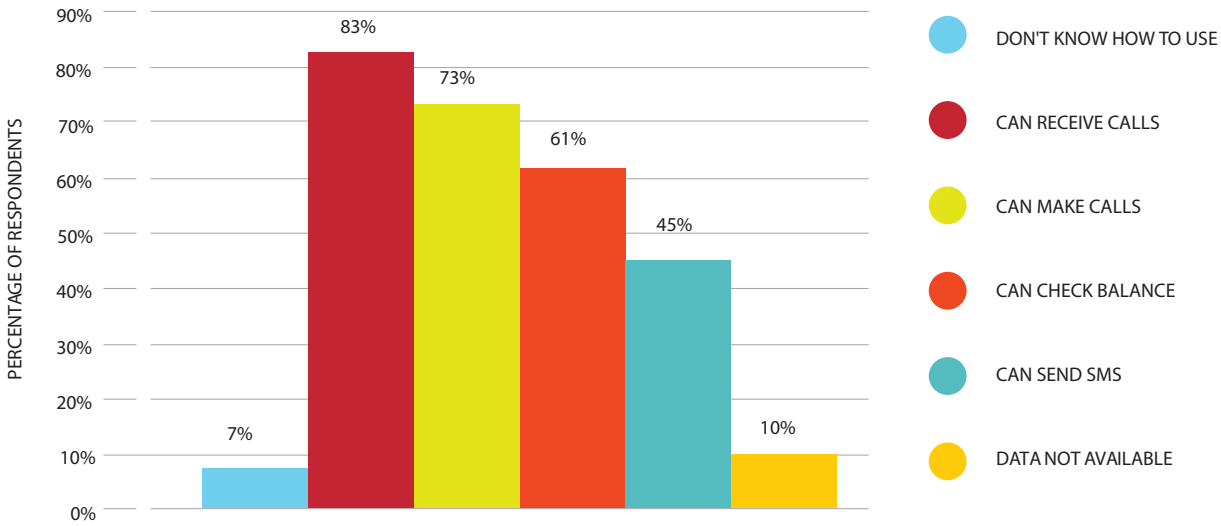
A majority of respondents (50 percent) were 31–50 years old, while 40 percent were 18–30 years old. Only 10 percent of respondents were above 50 years of age.

5.3.B Mobile-phone literacy

Since the majority of the sessions were conducted in rural and semi-urban locations, mobile phones were found to be used by the vast majority of respondents to receive and make calls (see figure C.II). The other ways in which mobile phones were used included checking balances and sending SMS. Only 7 percent of respondents reported that they were unable to operate a mobile phone.

However, data pertaining to mobile-phone literacy was not collected during the initial sessions, which added up to 10 percent of the respondent sample. The need to gather these data was identified after the initial sessions were completed.

Figure C.II
Mobile-phone literacy of respondents



5.3.C Primary occupation at the household level

Details on the major occupations of respondents are provided hereunder (see figure C.III as well):

Agriculture, allied and non-agricultural activities
Forty percent of respondents were engaged in the farming of sugarcane, wheat, rice, potato, corn, millet and/or vegetables. An additional 5 percent of respondents were employed by others as agricultural labourers. Around 3 percent of respondents who were involved in agriculture were also engaged in animal husbandry, such as livestock rearing (buffalos and goats), dairy, poultry or fish farming. Furthermore, 6 percent of respondents who were engaged in agriculture were also engaged in other non-agricultural activities such as being self employed at vegetable shops and providing skilled and unskilled labour.

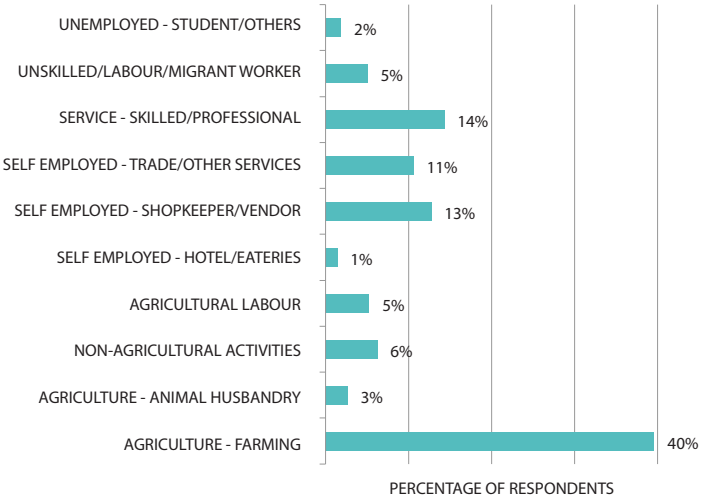
Self employed: Small-business and trading activities
Twenty-five percent of respondents were self employed in small-business and trading activities, which included *kirana* (general) and vegetable shops; poultry and dairy businesses; hotels, restaurants and small eateries; and, pharmacy, cosmetic, furniture, hardware, mobile-phone and electrical-repair shops.

Service: Skilled and unskilled activities

Around 14 percent of respondents provided skilled services and were employed as drivers, tailors, carpenters, masons, plumbers, electricians, weavers and so on, while 5 percent provided unskilled services and were daily wage earners.

A majority of the respondents involved in providing skilled and unskilled services were employed outside the country, usually in India, Malaysia and Middle-Eastern countries.

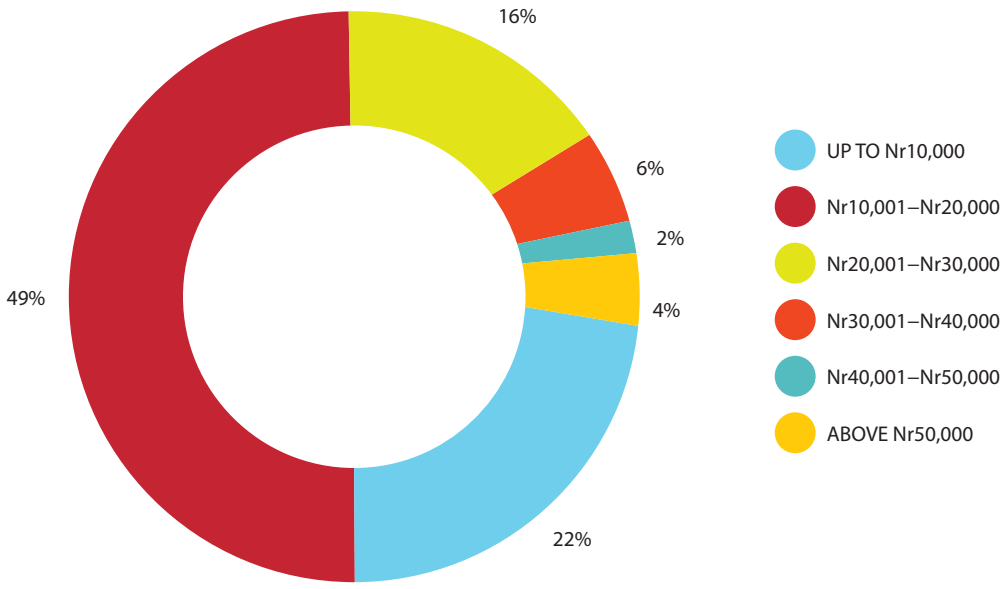
Figure C.III
Occupation of respondents at the household level



5.3.D Monthly income at the household level

Close to half of respondents (49 percent) interviewed during the course of the research reported an average monthly household income of Nr10,000–Nr20,000 ($100–$200), while 22 percent reported an average monthly household income below Nr10,000 ($100) and just 16 percent reported an average monthly household income of Nr20,000–Nr30,000 ($200–$300) (see figure C.IV for more detail).

Figure C.IV
Income of respondents at the household level



5.4 Annex D: Research tool guides

5.4.A Focus-group discussion reporting format

Session ID	
Date	
Ward/Village Development Committee/District	
Nature of the Location (Urban/Semi-urban/Rural)	
Moderator's Name	

Respondent Profile

Sr.	Name	Age	Gender	Marital Status	Primary Occupation of Respondent/ Family	Income Level of Family (monthly)	Household possesses mobile phone? 0. Yes 1. No	Mobile Phone Literacy? 0. Cannot Use 1. Receive Calls 2. Make Calls 3. Check Balance 4. Send SMS
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								

General Questions	Responses
1. What are the financial services that you use? • Probe on financial products and services that respondent uses • Probe on who provides it – • Formal service providers – banks, microfinance institutions, co-operatives, post office, etc. • Informal service providers – moneylender, *hundi, Guthi*, borrowing from friends and family, savings with gold smith, any informal groups, etc.	**1.1 What are the different financial services that you use?** a. Formal – b. Informal – **1.2 Which are the different types of service providers that are available?** a. Formal – b. Informal –
2. What are the critical financial needs that exist in your lifecycle? • Probe for financial needs which trigger taking assistance from financial institutions/individuals • Probe for financial needs of respondent since he/she became financially independent. And how critical these needs were and why?	**2.1 What are the critical financial needs for which you need to take assistance from financial institutions/individuals?**
3. Are these financial needs being fulfilled? • If no, then probe for the reasons • If yes, how? Probe for details of the service availed (8 Ps of the product) • Probe on the challenges which respondents face in availing the services • Probe on the role of agent based channel – Is it an enabler or does it cause challenges?	**3.1 If no, what are the reasons why these critical financial needs are not getting fulfilled?** **3.2 If yes, then how are these critical financial needs being fulfilled? (Capture product features, price, delivery model, etc. around 8 Ps: Product, Price, Promotion, Positioning, People, Physical Evidence, Process)** **3.3 Have you heard about the agent-based (branchless) banking channel for financial service delivery? If yes, what is your perception about the delivery of financial services through the agent-based channel?** a. Positives about the channel – b. Negatives/Challenges about the channel –
4. What makes you choose a particular financial product/service? • Probe for the attributes which respondents look for while choosing the financial service provider – Attributes may be price, ease of access, service quality, trust, etc.	**4.1 What are the attributes which you seek while choosing the financial service provider?**
5. What changes do you want in the formal financial service offerings around you? • Probe for new products/services to be offered • Probe for changes in existing products/services	**5.1 What are new financial products/services which you wish to avail?** **5.1 What are the changes you want in the existing financial products/services?**

5.4.B Lifecycle analysis reporting format

Session ID	
Date	
Ward/Village Development Committee/District	
Nature of the Location (Urban/Semi-urban/Rural)	
Moderator's Name	

Respondent Profile

Sr.	Name	Age	Gender	Marital Status	Primary Occupation of Respondent/ Family	Income Level of Family (monthly)	Household possesses mobile phone? 1. Yes 0. No	Mobile Phone Literacy? 0. Cannot Use 1. Receive Calls 2. Make Calls 3. Check Balance 4. Send SMS
1								
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8								
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10								

General Questions	Responses
1. What are the financial services that you use? • Probe on financial products and services that respondent uses • Probe on who provides it – • Formal service providers – banks, microfinance institutions, co-operatives, post office, etc. • Informal service providers – moneylender, *hundi*, *Guthi*, borrowing from friends and family, savings with gold smith, any informal groups, etc.	**1.1 What are the different financial services that you use?** a. Formal – b. Informal – **1.2 Which are the different types of service providers that are available?** a. Formal – b. Informal –

Event	Score *(Higher score refers to higher financial pressure)*	Current Coping Strategies	Issues of Importance	Opportunities for Innovation & Expansion *(Recommendations)*

5.4.C Seasonality analysis reporting format

Session ID	
Date	
Ward/Village Development Committee/District	
Nature of the Location (Urban/Semi-urban/Rural)	
Moderator's Name	

Respondent Profile

Sr.	Name	Age	Gender	Marital Status	Primary Occupation of Respondent/ Family	Income Level of Family (monthly)	Household possesses mobile phone? 1. Yes 0. No	Mobile Phone Literacy? 0. Cannot Use 1. Receive Calls 2. Make Calls 3. Check Balance 4. Send SMS
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General Questions	Responses
1. What are the financial services that you use? • Probe on financial products and services that respondent uses • Probe on who provides it – • Formal service providers – banks, microfinance institutions, co-operatives, post office, etc. • Informal service providers – moneylender, *hundi, Guthi*, borrowing from friends and family, savings with gold smith, any informal groups, etc.	**1.1 What are the different financial services that you use?** a. Formal – b. Informal – **1.2 Which are the different types of service providers that are available?** a. Formal – b. Informal –

Month	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Comments
Income													
Expenditure													
Savings													
Credit													

5.4.D Product attribute ranking reporting format

Session ID	
Date	
Ward/Village Development Committee/District	
Nature of the Location (Urban/Semi-urban/Rural)	
Moderator's Name	

Respondent Profile

Sr.	Name	Age	Gender	Marital Status	Primary Occupation of Respondent/ Family	Income Level of Family (monthly)	Household possesses mobile phone? 1. Yes 0. No	Mobile Phone Literacy? 0. Cannot Use 1. Receive Calls 2. Make Calls 3. Check Balance 4. Send SMS
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General Questions	Responses
1. What are the financial services that you use? • Probe on financial products and services that respondent uses • Probe on who provides it – • Formal service providers – banks, microfinance institutions, co-operatives, post office, etc. • Informal service providers – moneylender, *hundi, Guthi*, borrowing from friends and family, savings with gold smith, any informal groups, etc.	**1.1 What are the different financial services that you use?** a. Formal – b. Informal – **1.2 Which are the different types of service providers that are available?** a. Formal – b. Informal –

Attribute	Rank	Comments

5.4.E Relative preference ranking reporting format

Session ID	
Date	
Ward/Village Development Committee/District	
Nature of the Location (Urban/Semi-urban/Rural)	
Moderator's Name	

Respondent Profile

Sr.	Name	Age	Gender	Marital Status	Primary Occupation of Respondent/ Family	Income Level of Family (monthly)	Household possesses mobile phone? 1. Yes 0. No	Mobile Phone Literacy? 0. Cannot Use 1. Receive Calls 2. Make Calls 3. Check Balance 4. Send SMS
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General Questions	Responses
1. What are the financial services that you use? • Probe on financial products and services that respondent uses • Probe on who provides it – • Formal service providers – banks, microfinance institutions, co-operatives, post office, etc. • Informal service providers – moneylender, *hundi, Guthi*, borrowing from friends and family, savings with gold smith, any informal groups, etc.	**1.1 What are the different financial services that you use?** a. Formal – b. Informal – **1.2 Which are the different types of service providers that are available?** a. Formal – b. Informal –

Financial Service Provider (1) Attribute	FSP1	FSP2	FSP3	FSP4	Comment

5.4.F Relative preference ranking reporting format

Session ID	
Date	
Ward/Village Development Committee/District	
Nature of the Location (Urban/Semi-urban/Rural)	
Moderator's Name	

Respondent Profile

Sr.	Name	Age	Gender	Marital Status	Primary Occupation of Respondent/ Family	Income Level of Family (monthly)	Household possesses mobile phone? 1. Yes 0. No	Mobile Phone Literacy? 0. Cannot Use 1. Receive Calls 2. Make Calls 3. Check Balance 4. Send SMS
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General Questions	Responses
1. What are the financial services that you use? • Probe on financial products and services that respondent uses • Probe on who provides it – • Formal service providers – banks, microfinance institutions, co-operatives, post office, etc. • Informal service providers – moneylender, *hundi, Guthi*, borrowing from friends and family, savings with gold smith, any informal groups, etc.	**1.1 What are the different financial services that you use?** a. Formal – b. Informal – **1.2 Which are the different types of service providers that are available?** a. Formal – b. Informal –

Financial Services	*This Year*	Last Year	Five Years Before	Ten Years Before	*Reasons/Issues*	*Opportunity for Institution*

5.5 Annex E: About UN Capital Development Fund, Mobile Money for the Poor and *MicroSave*

About UNCDF

UNCDF is the UN's capital investment agency for the world's 48 least developed countries. It creates new opportunities for poor people and their small businesses by increasing access to microfinance and investment capital. UNCDF programmes help to empower women, and are designed to catalyze larger capital flows from the private sector, national governments and development partners, for maximum impact toward the Millennium Development Goals. For more information, visit http://www.uncdf.org/.

About MM4P

MM4P is a global programme funded by UNCDF, the Swedish International Development Cooperation Agency (Sida) and the Australian Agency for International Development (AusAID). The programme provides support to branchless and mobile financial services in a select group of LDCs to demonstrate how the correct mix of financial, technical and policy support can build a robust branchless and mobile financial services ecosystem that reaches low income people in LDCs. For more information, visit http://www.uncdf.org/mm4p

About *MicroSave*

MicroSave[a] is a leading financial inclusion consultancy firm that offers practical, market-led solutions to financial institutions and corporations focused on bringing value to the base of the pyramid. The market-led approach focuses on putting the customers at the centre of the business – thus gaining loyal customers, establishing more profitable organizations and ensuring greater developmental impact.

With 15 years of experience, 10 offices around the world, 100 staff, managing projects in ~ 40 developing countries *MicroSave* offers consulting services in the domain areas of Microfinance & Banking, Digital Financial Services, Micro, Small and Medium Enterprises Financing, Private Sector Development and Responsible Finance.

MicroSave works with investors, donors, financial institutions, private foundations, corporate businesses and regulators such as UN, IFC, and the Gates Foundation and rural or regional MFIs, banks, central banks, and MNOs to enable them to deliver the high quality, affordable financial services that are essential for sustainable and inclusive growth.

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a *MicroSave* is an international consulting firm in the field of financial inclusion. For more information, please visit www.microsave.net.

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