

# THE DEMAND FOR FINANCIAL SERVICES

Micro-level analysis of the behavior of financial services users can complement the broad picture of access provided by measures of the supply of such services. So, to complement the supply indicators in chapter 1 and better understand who has access to what and why in Nepal, the 2006 Access to Financial Services Survey was conducted. The survey was the first attempt to measure Nepalese households' access to deposit, credit, and payment services, broken down by types of providers.

The survey team held several consultative meetings with government officials, development partners, and private sector actors to put the results of the survey in Nepal's political economy context. The team also visited some of the country's main financial institutions—including apex microfinance institutions, which deal with clients across the country—and the general view was that the survey results reflected the political economy environment in which the different service providers have been operating.

Institutions providing financial services are grouped into two broad categories: formal and informal. Formal institutions are banks, finance companies, microfinance development banks and regional rural development banks,<sup>1</sup> and financial NGOs and cooperatives<sup>3</sup>—both licensed and not licensed by Nepal Rastra Bank. Informal institutions include family members, friends, moneylenders, hundi, dikhuti (informal institutions similar to rotating savings and credit associations), shopkeepers, landlords, and employers.

Because Access to Financial Services is a cross-sectional survey of household access in 2006, it does not allow for comparisons of trends over time. The survey covered 1,710 households and was constructed to be representative of the entire country (see appendix C for details on the survey's main building blocks, methodology, and sampling).

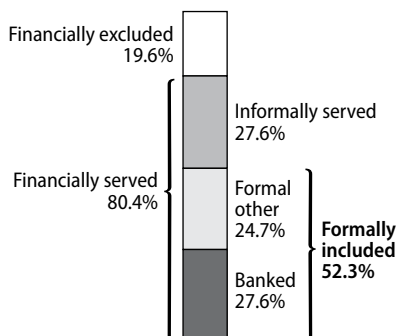
Just 28 percent of Nepalese households have an account with or loan from a bank (figure 2.1). Another 25 percent have an account with or loan from a formal financial institution other than a bank. Some 28 percent rely solely on informal financial services, and 20 percent are financially excluded—with no services from the formal or informal financial sector.

Comparable data on access to bank accounts are scarce. Still, available data indicate that Nepal performs poorly relative to other countries (table 2.1).<sup>3</sup> Among

FIGURE 2.1

**About half of Nepal's households have access to formal financial services, 2006**

Percentage of households



Note: A household with an account in a bank and a loan from the informal sector belongs to the "banked" group.

Source: Access to Financial Services Survey 2006.

TABLE 2.1

**Access to bank accounts in various countries**

(percentage of population with a bank account)

Country	Percent
Botswana	43
Brazil	43
Colombia	39
Kyrgyz Republic	5
Mexico	23
Namibia	51
Nepal	4
South Africa	47

Source: Chidzero, Ellis, and Kumar 2006 and World Bank staff data.

the countries for which data are available, the Kyrgyz Republic is probably the most comparable. Although its GDP per capita (\$500) is slightly higher than Nepal's (\$270), it has similar geographic conditions as both countries are mountainous and landlocked. In the Kyrgyz Republic 5 percent of the population is estimated to have a bank account; in Nepal, 4 percent.

In addition, access to bank accounts and use of payment services is worse in rural Nepal than in rural India (World Bank 2006b). Among other South Asian countries, only India has data on access to financial services, but only for rural areas. In rural India 21 percent of households have a bank account, while in rural Nepal only 16 percent do. Moreover, 48 percent of rural Indian households receive their incomes in cash, compared with 66 percent in Nepal.

### **MOST DEPOSIT ACCOUNTS ARE HELD BY BANKS, FOLLOWED CLOSELY BY FINANCIAL NGOS AND COOPERATIVES**

Only 49 percent of Nepalese households have a deposit account with any financial institution.<sup>4</sup> Not surprisingly, access to accounts is concentrated in urban areas (where 74 percent of households have one; table 2.2), in the Terai (52 percent), and among the wealthy (32 percent in the bottom quintile, compared with 79 percent in the top; table 2.3).<sup>5</sup> This report considers low-income households to be those that fall in the three bottom spending quintiles.

In particular, households in the bottom quintile in the Western and Central regions had the highest percentage of households with no account (87 percent and 84 percent, respectively). Two surprising facts emerged from the regional data on

access to deposits. First, access is below the national average in the Central and Western regions—unexpected given their relatively high GDP per capita (table 2.4). Second, access is above the national average in the Far and Mid Western region, which has the country’s lowest GDP per capita.

But when the data are disaggregated, these anomalies are explained by the high presence of financial NGOs and cooperatives in the Far and Mid Western region and the low presence of these institutions in the Western and Central regions. (Such institutions served 26 percent of households in the Far and Mid Western region, 4 percent in the Western region, and 13 percent in the Central region.) As expected, households in the Central and Western regions had the highest shares of

TABLE 2.2

**Household access to bank accounts in urban and rural areas, 2006**

(percentage of households in each area)

Area	No account	Bank	Finance company	MFDB or RRDB	FINGO or cooperative	Multiple accounts
Katmandu and Lalitpur	23.8	50.5	9.5	1.0	2.4	12.9
Other urban areas	27.1	43.3	3.3	1.0	12.9	12.3
Rural	55.4	15.9	0.2	4.4	19.3	4.7
Average	51.0	20.4	0.9	3.9	17.9	5.9

*Source:* Access to Financial Services Survey 2006.

TABLE 2.3

**Household access to bank accounts by spending quintile, 2006**

(percentage of households in each quintile)

Quintile	No account	Bank	Finance company	MFDB or RRDB	FINGO or cooperative	Multiple accounts
Bottom	68.3	11.4	0.0	4.0	13.7	2.6
2	63.0	8.4	0.0	9.2	18.0	1.4
3	59.9	15.0	0.5	2.6	20.2	1.8
4	41.9	23.4	0.6	3.0	21.1	10.1
Top	21.5	43.7	3.6	0.7	16.7	13.7
Average	51.0	20.4	0.9	3.9	17.9	5.9

*Source:* Access to Financial Services Survey 2006

TABLE 2.4

**Household access to bank accounts by administrative region, 2006**

(percentage of households in each region)

Region	No account	Bank	Finance company	MFDB or RRDB	FINGO or cooperative	Multiple accounts
Eastern	41.5	14.3	0.7	5.4	29.8	8.2
Central	57.1	20.2	1.8	2.6	13.4	5.0
Western	61.8	26.5	0.5	4.8	3.9	2.5
Far and Mid	39.5	22.0	0.0	3.8	26.4	8.4
Average	51.0	20.4	0.9	3.9	17.9	5.9

*Source:* Access to Financial Services Survey 2006

households with accounts in banks and finance companies and availed themselves of several financial services. By contrast, households in the Western and Far and Mid Western regions use financial institutions primarily for loans.

Although access to deposit services is higher in the Terai than in the Hills and Mountains, the difference does not appear to be large.<sup>6</sup> In fact, despite the more difficult geographic conditions, 44 percent of households had at least one account in the Hills and Mountains, while in the Terai (excluding Kathmandu) 51 percent did (table 2.5). Moreover, low bank penetration in the Hills and Mountains is compensated by a higher presence of financial NGOs and cooperatives: 45 percent of households with an account in a financial institution were served by financial NGOs and cooperatives.

Almost one-third of households with a deposit account had infrequent contact with the financial institution where they had the most-used account, contacting it less than once a month. Use of bank accounts is particularly low: 54 percent of households with such accounts reported going to the bank less than once a month.<sup>7</sup>

Most households who had a deposit account as well as savings in the previous year kept any cash earned at home; only 37 percent deposited it in financial institutions. Rural households did not save in financial institutions mainly because the institutions were too far away (45 percent), while urban households avoided it mainly because deposit and withdrawal procedures were too cumbersome (41 percent). This was true both for poor and wealthy households (21 percent in the bottom spending quintile, 36 percent in the top).

Because procedures are cumbersome, personal relationships matter when dealing with financial institutions. Nearly two-thirds of households with an account in a financial institution said that they knew someone in the institution who had facilitated the opening of the account.

Of the 49 percent of households with a deposit account, 42 percent are served by banks—followed closely by financial NGOs and cooperatives, which serve 37 percent (table 2.6). Banks tend to serve urban areas (61 percent of accounts there) and the wealthy (56 percent of accounts held by the top spending quintile, compared with 36 percent of the bottom; table 2.7). Surprisingly, among households without a deposit account, just 1 percent have ever applied for one. Of households that have never applied, 23 percent claimed that they did not need an account (many of these households were in Kathmandu and had no account with any financial institution), 21 percent said that financial institutions were too far away (most of these households were in rural areas and among the poorest quintiles), and 19 percent said that they had no money to put in an account (mainly in the poorest quintiles).

Among households with a bank account in one that had savings in the previous year, 55 percent preferred not to save there—and 45 percent saved at home. A third of these households preferred not to save in their bank because it was too far away (these households were mainly rural), and a third because procedures were too

TABLE 2.5

**Household access to bank accounts by agroclimatic region, 2006**

(percentage of households in each region)

Region	No account	Bank	Finance company	MFDB or RRDB	FINGO or cooperative	Multiple accounts
Terai	48.8	21.3	0.4	7.1	17.5	4.9
Hills and Mountains.	56.0	16.6	0.9	0.1	19.7	6.7
Kathmandu and Lalitpur	23.8	50.5	9.5	1.0	2.4	12.9
Average	51.0	20.4	0.9	3.9	17.9	5.9

Source: Access to Financial Services Survey 2006

TABLE 2.6

**Types of bank accounts in urban and rural areas, 2006**

(percentage of households in each area)

Area	Bank	Finance company	MFDB or RRDB	FINGO or cooperative	Multiple accounts
Kathmandu and Lalitpur	66.3	12.5	1.3	3.1	16.9
Other urban areas	59.4	4.6	1.4	17.7	16.9
Rural	35.7	0.6	10.0	43.2	10.6
Average	41.5	1.9	8.0	36.5	12.1

Source: Access to Financial Services Survey 2006

TABLE 2.7

**Types of bank accounts by spending quintile, 2006**

(percentage of households in each quintile)

Quintile	Bank	Finance company	MFDB or RRDB	FINGO or cooperative	Multiple accounts
Bottom	35.9	0.0	12.7	43.2	8.1
2	22.6	0.0	24.9	48.6	3.9
3	37.3	1.3	6.6	50.2	4.6
4	40.3	1.0	5.1	36.2	17.3
Top	55.7	4.6	0.9	21.3	17.5
Average	41.5	1.9	8.0	36.5	12.1

Source: Access to Financial Services Survey 2006

complicated (these households were evenly spread across urban and rural areas, and among spending quintiles).

As noted, financial NGOs and cooperatives are the second biggest provider of deposit accounts. In addition, they are the biggest provider in rural areas (43 percent) and the preferred provider for the three bottom quintiles. They are also close to being the top provider in the fourth quintile, providing 36 percent of accounts compared with 40 percent for banks (see table 2.7).

Microfinance development banks and regional rural development banks are a distant third provider of deposit accounts—serving less than a tenth of households that have accounts, mainly the poor. These banks mainly serve rural areas and the Terai, where they hold 10 percent and 13 percent of accounts, respectively. Although microfinance development banks and regional rural development banks serve the poor, they serve more in the second spending quintile (providing 25 of

accounts held in the quintile) than in the first (13 percent).

Finance companies serve only 2 percent of the population and focus almost exclusively on the wealthiest (nearly 5 percent of the top quintile, compared with 0 percent of the bottom) and urban areas (nearly 7 percent, compared with less than 1 percent in rural areas).

### **FOR LOANS, FINANCIAL NGOS AND COOPERATIVES ARE THE LARGEST PROVIDERS**

Just over two-thirds of Nepalese households have an outstanding loan, whether from a formal financial institution, informal provider, or both (table 2.8).<sup>8</sup> Nearly 38 percent had one from the informal sector only and 15 percent from the formal sector only. The rest had loans from both formal financial institutions and the informal sector. When considering all the sources for both formal and informal loans, financial NGOs and cooperatives are by far the largest providers (28 percent), followed by banks (24 percent) and family and friends (20 percent).

Informal borrowing is more prevalent only in rural areas (reaching 40 percent of rural households), the Hills and Mountains (46 percent; table 2.9), and especially among the poorest households (47 percent in the bottom quintile, compared with 25 percent in the top; table 2.10). But it is also significant in urban areas (26 percent) and among the wealthiest households (25 percent). Exclusive reliance on informal lending is more common in the Western region (52 percent of households; table 2.11), especially for poorer households (70 percent in the bottom quintile), and for the bottom quintile of the Central region. As with deposit accounts, the prevalence of informal lending in the Central and Western regions is explained by the limited penetration of financial NGOs and cooperatives, which in the Eastern and Far and Mid Western regions are the largest providers of credit to the poorest quintile.

### **FORMAL LENDING**

Financial NGOs and cooperatives are the largest providers of formal loans, serving 41 percent of households with a loan from a formal institution (table 2.12). They are the largest providers in rural areas (45 percent of households) and the Hills and Mountains (60 percent; table 2.13), though they are also substantial providers in the Terai (35 percent). They are also the largest provider of credit for every quintile except the top one—though even there they serve more than a third of households with loans (table 2.14).

Financial NGOs and cooperatives are the largest providers of household loans under NRs 50,000, which account for 79 percent of the total. Even households with bank accounts borrow mainly from financial NGOs and cooperatives for loans under NRs 50,000. These institutions seem to be preferred over other providers because they are faster at issuing loans (11 days once all required documents have been provided), require physical collateral only for just 38 percent of loans, and

TABLE 2.8

**Households with and without credit in urban and rural areas, 2006**

(percentage of households in each area)

Area	None	Formal only	Informal only	Both
Urban	43.4	18.3	26.0	12.3
Rural	30.0	14.4	39.6	16.0
Average	32.1	15.0	37.5	15.5

Source: Access to Financial Services Survey 2006

TABLE 2.9

**Households with and without credit by spending quintile, 2006**

(percentage of households in each quintile)

Quintile	None	Formal only	Informal only	Both
Bottom	26.8	11.0	47.3	14.8
2	29.5	10.7	42.6	17.2
3	36.0	12.5	40.1	11.4
4	27.1	20.7	32.6	19.5
Top	40.9	19.9	24.7	14.5
Average	32.1	15.0	37.5	15.5

Source: Access to Financial Services Survey 2006

TABLE 2.10

**Households with and without credit by agroclimatic region, 2006**

(percentage of households by region)

Area	None	Formal only	Informal only	Both
Terai	27.8	19.7	32.8	19.6
Hills and Mountains	34.8	8.8	45.5	10.9
Katmandu	63.8	14.8	15.2	6.2
Average	32.1	15.0	37.5	15.5

Source: Access to Financial Services Survey 2006

TABLE 2.11

**Households with and without credit by administrative region, 2006**

(percentage of households in each region)

Region	None	Formal only	Informal only	Both
Eastern	26.4	17.6	30.8	25.2
Central	40.1	14.6	38.5	6.8
Western	25.2	13.7	51.7	9.4
Far and Mid	30.2	13.8	29.3	26.6
Average	32.1	15.0	37.5	15.5

Source: Access to Financial Services Survey 2006

TABLE 2.12

**Households with credit from formal institutions in urban and rural areas, 2006**

(percentage of households in each area)

Area	Bank	Finance company	MFDB or RRDB	FINGO or cooperative
Katmandu and Lalitpur	43.2	43.2	4.5	9.1
Other urban	56.1	9.6	10.0	24.3
Rural	31.7	1.4	22.4	44.6
Average	35.1	3.4	20.4	41.1

Source: Access to Financial Services Survey 2006

TABLE 2.13

**Households with credit from formal institutions by agroclimatic region, 2006**

(percentage of households in each region)

Area	Bank	Finance company	MFDB or RRDB	FINGO or cooperative
Terai	37.1	1.1	26.7	35.1
Hills and Mountains.	29.3	5.9	5.4	59.5
Kathmandu and Lalitpur	43.2	43.2	4.5	9.1
Average	35.1	3.4	20.4	41.1

*Source:* Access to Financial Services Survey 2006

TABLE 2.14

**Households with credit from formal institutions by spending quintile, 2006**

(percentage of households in each quintile)

Quintile	Bank	Finance company	MFDB or RRDB	FINGO or cooperative
Bottom	29.2	0.3	26.2	44.3
2	21.1	0.0	40.5	38.4
3	36.6	0.7	24.0	38.7
4	38.0	2.4	15.6	44.0
Top	46.5	11.7	2.7	39.1
Average	35.1	3.4	20.4	41.1

*Source:* Access to Financial Services Survey 2006

more readily accept movable collateral (53 percent of loans with collateral are collateralized with movable assets).

Banks are the second largest provider of formal credit, serving 35 percent of households with a loan from a formal financial institution. Banks tend to serve urban areas (54 percent) and the wealthiest households (47 percent). Banks also mainly serve the Terai, where 37 percent of households have a loan from them. Banks are the largest providers of loans larger than NRs 50,000—and by far the largest provider of loans larger than NRs 100,000.

Microfinance development banks and regional rural development banks serve 20 percent of households with formal loans, mainly in rural areas and in the Terai, and are the largest providers of credit to the second quintile. The large difference between households with a deposit account in these institutions (8 percent) and an outstanding loan from them (20 percent) is because they mostly finance their loan portfolios through the deprived sector lending windows of commercial banks (see figure 1.4) rather than through client deposits. Microfinance development banks and regional rural development banks mainly serve clients for loans under NRs 50,000. Finance companies are the least preferred providers, reaching just 3.4 percent of households with loans from formal institutions—almost exclusively in urban areas around Kathmandu and mainly in the top quintile.

**INFORMAL LENDING**

Family and friends are by far the largest providers of informal loans, accounting for 64 percent, followed by moneylenders, with 29 percent. Moneylenders are more active in rural areas (accounting for 33 percent of loans to households in such areas) and among poor households—though not for the poorest, who borrow more from family and friends (25 percent from moneylenders compared with 56 percent from family and friends). Rather, moneylenders lend mostly to the second (49 percent of loans to households in the quintile) and third quintiles (60 percent; box 2.1). Most loans from informal providers are less than NRs 50,000. For loans provided by family and friends, 42 percent charge interest rates. On average, poorer households paid informal sources 10 percentage points more interest than did wealthier households for a similar loan.

Only 15 percent of households with informal loans had tried to borrow from a formal financial institution; the rest did not apply to such institutions because their processes were perceived as being too long. That informal lenders are much faster in disbursing loans is confirmed by the purposes for which such loans were used: 20 percent were for health care, while only 5 percent of loans from formal institutions were used for that purpose. Moreover, informal providers required physical collateral for just 8 percent of loans, compared with 64 percent for formal loans.

The informal sector is competitive with the formal one even for households with a bank account. Half of those in the wealthiest quintile had only informal loans, because they considered procedures at formal institutions too lengthy.

**FOR PAYMENT AND REMITTANCE SERVICES,  
THE INFORMAL SECTOR DOMINATES**

Nepal is predominantly a cash economy, with the formal payment system virtually unused. The 2006 Access to Financial Services Survey found that less than 1 percent of households received their income—and just 0.2 made their largest non-routine payment outside their district—through the formal payment system. Although the wealthiest households tend to use the formal payment system,<sup>9</sup> slightly more than the poorest, the difference is marginal (with 3.8 percent of the top quintile and 0 percent of the bottom receiving their income through the payment system).

More than two-thirds of remittances from abroad (including India) come through informal channels, with family and friends being the most common delivery mode.<sup>10</sup> A far larger portion of rural households receive remittances through family and friends—73 percent, compared with 34 percent of urban households (table 2.15). Poorer households also prefer informal channels, which are used by 86 percent in the bottom quintile compared with 29 percent in the top (table 2.16).

Family and friends are the preferred remittance providers even by households with bank accounts. Among such households receiving remittances, 31 percent got them through family and friends, 27 through remittance companies, and just

TABLE 2.15

**International remittances by area and mode of payment, 2006**

(percentage of households in each area)

Area	Personal delivery	Remittance company	Transfer to own bank account	Transfer to other's bank account	Check or Bank draft	Money order	Hundi
Urban	33.9	29.7	25.4	3.4	3.4	2.5	1.7
Rural	73.4	16.5	4.0	0.0	1.8	4.3	0.0
Average	68.8	18.1	6.5	0.4	2.0	4.1	0.2

Source: Access to Financial Services Survey 2006

TABLE 2.16

**International remittances by spending quintile, 2006**

(percentage of households in each quintile)

Quintile	Personal delivery	Remittance company	Transfer to own bank account	Transfer to other's bank account	Check/ Bank draft	Money order	Hundi
Bottom	86.3	6.7	0.0	0.0	3.7	3.4	0.0
2	95.7	4.0	0.4	0.0	0.0	0.0	0.0
3	62.0	24.0	10.1	0.0	0.0	3.9	0.0
4	39.0	29.2	13.5	1.4	5.2	11.0	0.7
Top	27.9	44.1	16.6	1.4	2.8	6.6	0.7
Average	68.8	18.1	6.5	0.4	2.0	4.1	0.2

Source: Access to Financial Services Survey 2006

TABLE 2.17

**Use of most recent remittance by spending quintile, 2006**

(percentage of households in each quintile)

Quintile	Savings	Education	Health	Consumption	Built home	Invested in agriculture	Livestock	Paid loan	Other
Bottom	3.7	21.7	7.3	39.4	3.4	3.0	5.0	16.6	0.0
2	0.0	6.0	10.4	46.7	6.2	0.0	0.0	26.4	4.3
3	5.2	19.3	3.4	33.4	6.4	0.0	0.0	32.3	0.0
4	19.0	18.2	1.4	23.3	12.0	0.0	0.0	15.1	11.1
Top	12.4	19.0	15.3	20.6	13.5	2.1	0.0	5.6	11.4
Average	6.4	15.9	7.7	35.2	7.5	1.0	1.1	20.7	4.6

Source: Access to Financial Services Survey 2006

TABLE 2.18

**Use of most recent remittance in urban and rural areas, 2006**

(percentage of households in each area)

Area	Savings	Education	Health	Consumption	Built home	Invested in agriculture	Livestock	Paid loan	Other
Urban	19.5	26.3	8.5	22.0	9.3	2.5	0.0	2.5	9.3
Rural	4.7	14.5	7.6	37.0	7.3	0.8	1.3	23.1	3.9
Average	6.4	15.9	7.7	35.2	7.5	1.0	1.1	20.7	4.6

Source: Access to Financial Services Survey 2006

## BOX 2.1

***FINANCING MIGRATION BETWEEN NEPAL AND QATAR***

Migrating from Nepal to work in Qatar cost about \$1,500, including official fees (about \$400 for authorities in both countries), middleman agencies (that is, the Qatari staffing agency that matches the Nepalese agency with a Qatari company), migration agency fees for the staffing agencies, and travel costs. To pay this, many migrants borrow from moneylenders or staffing agencies, usually at annual interest rates above 24 percent. As a result remittances sent by migrant workers in the first year or two are used to repay loans—limiting the amount that can actually be used by recipient families.

In 2005 Nepal's government designed a loan migration scheme to encourage banks to lend to migrants, to make migration costs more affordable. The government would direct potential migrants to Nepalese banks. The banks would finance the loans using their own funds, but would be guaranteed (in case of default) up to 75 percent by the Credit Guarantee Corporation. Under this scheme the banks were not able to select the borrowers. In addition, the banks did not have access to the future earnings of the migrants—for example, automatically deducting loan payments from their salaries. Four banks participated in the scheme, and almost the entire loan portfolio is in arrears. No other bank has since participated in the scheme.

24 percent through their bank account.

Among the households surveyed, 47 percent considered speed the most valued feature of remittance providers, while 38 percent said reliability. Speed and reliability were the most valued features for both urban and rural and for poor and wealthy households. Interestingly, low fees were more valued by wealthier than poorer households (cited by 2 percent as the most valued feature in the bottom quintile, compared with 16 percent in the top).

Just 6 percent of the most recent remittances were saved in a financial institution, while 35 percent were used for consumption and 21 percent to repay a loan (table 2.17). Not surprisingly, the percentage of poorer and rural households that used their most recent remittance to repay a loan was higher than the percentage of wealthy and urban households that did so. Among urban households, considerably higher shares used remittances for savings and education (table 2.18).

**CHAPTER 2 NOTES**

- 1 Microfinance development banks and regional rural development banks are grouped into one category because they essentially provide the same services.
- 2 Differences in the legal status of financial NGOs and cooperatives are often not understood by borrowers. Borrowers from financial NGOs often must make deposits to get loans, just as members of cooperatives must deposit equity contributions to join. Many Nepalese interviewees referred to the two types of institutions interchangeably. Hence, after the pilot of the survey, it was decided to

put the two in one category. During the pilot it also became clear that many clients of these institutions were not aware of whether they were licensed by Nepal Rastra Bank. Thus while the supply analysis in chapter 1 refers only to financial NGOs and cooperatives licensed and supervised by Nepal Rastra Bank—a very small subset of the total—the data collected by the survey are for all such institutions, both licensed and not licensed.

3 Data are for 2002 for Brazil, Colombia, Mexico; for 2004 for Botswana and Namibia; for 2005 for South Africa; and for 2006 for Nepal and the Kyrgyz Republic. Data for all countries except the last two were collected through individual-level surveys and measure the number of people with a bank account as a percentage of the total population. In Nepal the number of people with a bank account had to be estimated from data collected through a household survey. The number of accounts was estimated by multiplying the number of households (obtained by dividing the total population by average household size) by the percentage of households with accounts. During the survey test it became clear that households with more than one account—2.7 percent of the total, with 2.2 percent having two accounts and 0.5 percent having three or more—use the name of the same family member for all accounts. Hence, because the goal was to determine the number of people with a bank account as a percentage of the total population (that is, the banked population), it seemed reasonable to treat households with more than one account as just one person with an account. Data for the Kyrgyz Republic were estimated from central bank data and estimate the ratio of personal accounts to the total population, so it does not adjust for people holding more than one account.

4 All the data in this section are for households with just one account. Only 6 percent of the Nepalese households surveyed (and 12 percent of those with accounts in financial institutions) had accounts in multiple institutions. About 46 percent of these households were in the top spending quintile, and 93 percent had at least one account in a bank (99 percent in urban areas and 90 percent in rural areas).

5 This section expresses welfare in terms of per capita spending by quintile, which was imputed from data on household and housing characteristics from the National Living Standards Survey II. To estimate the level of welfare enjoyed by households, rather than asking direct questions about income—a time-consuming endeavor—the Access to Financial Services Survey used information on consumption from the National Living Standards Survey II. That survey collected information on consumption and a number of variables correlated with it (such as demographic characteristics, household assets, and housing characteristics). The same questions on variables correlated with consumption were included in the Access to Financial Services Survey. Using data from the National Living Standards Survey II, household consumption levels were estimated by regressing consumption on the correlates mentioned above, then the estimated coefficients were multiplied by the values of the correlates found by the Access to Financial Services Survey.

6 For the purposes of the Access to Financial Services Survey and for practical reasons, the Hills and Mountains are grouped in one agroclimatic region. Although access in the Hills is expected to be much higher than in the Mountains, the Mountains account only for 7 percent of Nepal's population. Moreover, with an altitude of 4,000 meters or higher, inclement climatic conditions, and rugged topographic conditions, the Mountains have very limited economic activities.

7 In Nepal the use of online banking is almost nil. Hence, going to a bank or automated teller machine (ATM) is synonymous with using the account.

8 The data in this section refer to outstanding loans. If a household had more than one outstanding loan, questions were asked about the most recent loans.

9 Non-routine expenditures are defined as those other than for food, matches, and cigarettes.

10 Appendix C includes an analysis of households that receive remittances.