Chapter 5

ADVANCING INCLUSIVE FINANCIAL SYSTEM IN THE NEXT DECADE: A CASE OF NEPAL

By
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1. Background

1.1 Country Information

Nepal is a small and land-locked rural country[2] with more than two-thirds of the population engaged in agriculture. In FY 2013, agriculture contributed 34.8% whilst the service sector accounted for more than half of the country's gross domestic product (Figures 1 and 2). However, the industrial sector contributed 14.8% of the GDP in 2013/14. Nepal's per capita income is US$703 in 2013, and 23.8% of the population remain below the poverty line (Economic Survey, 2014).

Nepal is facing high and growing trade deficit which stood at 28.2% of the GDP in FY 2013 and almost two thirds of its total trade is with India. The major exports of the country are ready-made garments, woolen carpets, pulses, polyester yarn, textiles, jute goods and the major imports are petroleum products,[3] gold, vehicle and spare parts, other machinery and parts, electrical equipment, medicine, among others. The current account remains in surplus often times due to the contribution of remittance, which accounts more than 28 % of GDP in 2014.

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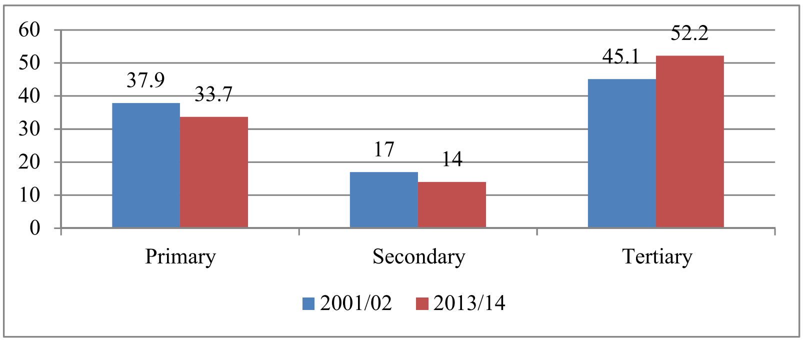
1. Deputy Director, Bank Supervision Department, Nepal Rastra Bank.

2. Population Census, 2011- the total population of the country was 26.49 million, out of which an overwhelming majority (83%) reside in the rural areas

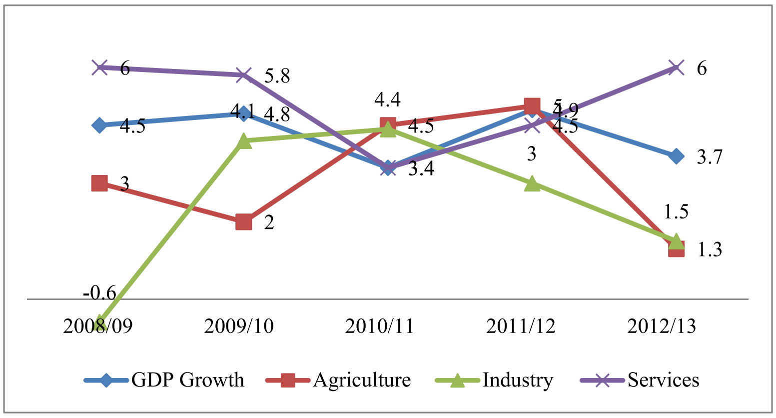
3. Total export revenue cannot cover the import of petroleum item alone, for instance total exports of the country was Rs.90.29 billion while import of petroleum products was Rs.133.18 billion in FY 2013/14.

Figure 1
Gross Domestic Product (GDP) Structure



Data Source: Economic Survey, 2013/14.

Figure 2
GDP Growth by Sectors



Data Source: Economic Survey, 2013/14.

With regard to sectoral growth, the service sector remains somewhat stable while other agriculture and industry were fluctuating in the last five years (Figure 1.2).

1.2 Financial System

The Nepalese financial sector is primarily dominated by commercial banks. The financial institutions licensed by the Nepal Rastra Bank (NRB) fall under four categories, namely Commercial Banks, Development Banks, Finance Companies and Microfinance Development Banks. Commercial banks occupy the largest share, taking almost two-thirds of the total assets in the banking sector, whereas the development banks' share is 10.7%. Nevertheless, the non-banks hold about 8.4% and insurance companies just 4.5% of the share (Table 1). The other contractual saving institutions like Employees Provident Fund and Citizens Investment Trust also hold significant percentage share.

Table 1
Structure of the Nepalese Financial Sector
(Asset size as of mid-July)

(%)

Institutions	2007	2010	2012	2013 January
NRB Regulated	**85.4**	**86.1**	**85.2**	**85.4**
Commercial Banks	72.0	65.7	65.5	66.3
Development Banks	3.4	8.8	10.0	10.7
Finance Companies	7.8	9.5	6.8	5.4
Microfinance Development Banks	1.5	1.5	1.9	1.9
Financial Cooperatives*	0.4	0.6	0.7	0.8
Financial NGOs*	0.3	0.2	0.2	0.3
Other Institutions	14.6	13.9	14.8	14.6
Employees Provident fund	8.7	7.7	7.8	7.7
Citizen Investment Trust	1.3	2.0	2.4	2.3
Insurance Companies	4.5	4.0	4.6	4.5
Postal Savings Bank	0.1	0.1	0.1	0.1

*With limited banking
Data Source: Macroeconomic Indicators of Nepal, November 2013.

The capital market is still in the developing stage in terms of availability of instruments, market penetration and transaction volume. Banks dominate the market as out of 237 listed companies in the Nepal Stock Exchange (NEPSE), banking and financial institutions (BFIs) account for 204 as at mid-July 2014 taking up about 76% share of the total market capitalisation. In terms of size of the market, the market capitalisation to GDP is 54.8% in 2014, which is far below of that of the developed economies.

1.3 Need for Inclusive Financial System

Financial inclusion is the provision of a full range of affordable financial services to economically active people, including those who have been underserved or excluded from the formal financial sector. Financial inclusion covers the aspects of access to credit, savings, insurance, payments, remittances, and others. Some important dimensions of financial inclusion are access to the appropriate financial services at affordable cost. It also includes the access and uses of financial services, consumer protection and financial literacy.

The empirical evidences suggest that financial inclusion plays a vital role in reducing poverty and income disparity facilitating higher economic growth. The importance of financial inclusion for a developing country like Nepal can be summarised as follows:

a) Tool for poverty reduction.

b) The population still have low access to finance and disparity in access across the region in Nepal. For instance, the population per bank branch in Nepal is around 8,000 in mid-July 2014. The distribution of the bank branches is uneven. Bank branch coverage is deep in the urban and semi-urban areas whereas it is less in most of the hills and mountainous areas. Among the 75 districts in the country, there are 10 districts where a branch has to serve more than 25,000 people and 2 districts serving more than 50,000 people as at mid-July 2014.

c) Small and medium enterprises may create a larger share of employment if formal access to finance is improved. However, these sectors are deprived of access to formal financial institutions and suitable products. An inclusive financial system can provide easy and affordable access to financial services for all the segments of society and can create employment opportunities, which ultimately will uplift the status of the poor and vulnerable communities.

d) Large sections of the population are using informal financial services instead of transacting with the banking units nearby. Nepal Living Standard Survey (NLSS) 2010/11 data shows that 51.1% of the population depended on relatives for household loans, while 20% received loans from the banks. As such, expanding financial literacy can help the general public to understand the importance of the formal financial sector.

e) The government has the dual responsibility of uplifting the status of the people and providing other facilities for the needy and low-income strata. Financial inclusion helps in widening the economic base of such people and co-opting them in the development process.

f) It helps in distributing social security funds in a secured and transparent manner.

g) The Rural Credit Survey, 1994 [4] revealed that only 20% of the population have used the services of formal financial institutions. The NLSS III (2010/11) also revealed the low coverage of formal financial institutions (Annex 1). Policy intervention and rigorous effort are deemed necessary in expanding financial inclusion in the country.

1.4 Financial Inclusion Policies and Institutions

1.4.1 Brief History of Financial Inclusion Policies and Programmes

With the establishment of the Nepal Bank Ltd. in 1937, the Nepalese banking system was formally introduced. After that, the NRB, the Central Bank of Nepal, was established in 1956. Consequently, the Rastriya Banijya Bank (1966) for commercial banking purpose and the Agricultural Development Bank (ADB) (1968) for the developing agricultural sector were established under government ownership.

Following the wave of globalisation and liberalisation in the mid-1980s, the Nepalese financial sector started to pursue the course of liberalisation. In the first stage, joint-venture banks were allowed to be established as private banks. The liberalisation was later further relaxed to allow the establishment of wholly domestic private sector banks. As a result of this, the number of BFIs was significantly increased. For instance, from 1990 to 2010, the NRB initiated several measures and policies to enhance banking services across the country in line with the government policies. For this, direct subsidies were provided to the state-owned banks in the early days. The ADB, having many rural branches, plays a crucial role in providing financial services to most of the rural areas in

4. There has not been any survey conducted after that, but the NRB plans to conduct one this year.

the country. The following are some of the initiatives taken for Financial Inclusion in the past:

a) To increase banking access to all districts in the country, the NRB initiated a Banking Development Programme in the late 1960s. Commercial banks were encouraged to establish branches in the specified areas with an offer of compensation for net loss incurred by the branches for the first five years of operation. The banks could claim compensation of 100%, 75%, 50%, 25%, and 10% of the loss, respectively, in the first, second, third, fourth and fifth year. The government of Nepal in her 7th five-year plan (1985-90) stipulated an ambitious target of establishing at least one bank branch per 30,000 thousand people. To meet the target, the NRB implemented the Banking Development Scheme. According to this scheme, branches which incur losses would receive interest free loan from the NRB for a period of 10 years to assist the operation of such branches.

b) From April 1997, prior approval is required from the NRB for banks to open branches in the Kathmandu valley and major cities. Pursuant to this provision, banks were required to open two branches into the nearby semi-urban areas conjoined with the municipalities or a branch in the defined rural district/ area of the country to open a branch in the Kathmandu, Pokhara, Biratnagar, Lalitpur, Bhaktapur, Birgunj and Bharatpur municipalities. This policy was later revised and the branch opening requirement was simplified in terms of opening a branch in the Kathmandu valley vis-a-vis outside the Kathmandu valley. Agriculture-based cooperatives, which were established in 1950s, was the first step in the development of microfinance services in Nepal. Initially these cooperatives which were established under the Small Farmers' Development Project were subsequently transformed into the Small Farmers Cooperatives Ltd. (SFCLs). These institutions are currently managed by the farmers themselves.

c) In order to channel the available resources of the commercial banks and to increase production and employment, especially into the rural agriculture, cottage industry and service sector, the NRB directed the banks to lend a certain percentage of their loans to the small sectors at a preferential rate; such credit extensions were later classified as priority sector loans. Following the liberalisation of the financial sector, the provision of loans at concessionary rate of interest was abolished in 1989 and a specific percentage of priority sector lending was required to be extended to the deprived sector (a deprived sector was defined as a borrower having less than 1 Bigha land in Terai, 20 Ropani in hill and income less of than Rs. 25000 yearly) from 1991/92.

The priority sector lending was phased out from 2005/06 keeping the deprived sector requirement intact. Presently, the commercial banks are required to lend 4.5%, development banks 3.5% and finance companies 3.0% of their total portfolio to the deprived sector as stipulated in the Monetary Policy, 2013/14. As of mid-January 2014, the outstanding loans to the deprived sector by commercial banks was Rs.36.62 billion, development banks Rs. 6.34 billion and finance companies Rs. 1.79 billion. The BFIs can lend directly to such sector and lend indirectly through other financial institutions.

d) Institutional Set-up

i. Grameen Bank Model

Following the Grameen Bank model of Bangladesh, the regional rural development banks were established in 1992 in the Eastern and Far Western development region. Later, two more regional development banks were established in the Western and mid-Western region in 1995. One more rural development bank was established in 1997 in the Central development region. These banks were established with the direct shareholding of GoN, NRB and the private sector banks. Apart from these institutions, the same types of institutions in the private sector have been allowed to be established across the country. As of mid-January 2014, these institutions have 50,900 centres, serving 259,219 groups, 1,422,430 members, 1,003,284 borrowers, 840,498 depositors, and with the total loans standing at Rs. 15.74 billion.

ii. Wholesale Lending Model

The Rural Self-reliance Fund (RSRF) was established by the GoN to provide credit to the rural poor for income generating activities in order to improve their standard of living through NGOs. The GoN allocated a fund of Rs. 20 million initially to operate the RSRF. From FY 2001/02, the GoN allocated a fixed amount and NRB allocated 5% of its profit yearly to increase the fund (Rs. 290 million by GoN and Rs. 253.4 million by NRB with a total of Rs. 543.4 million). Other wholesale microfinance institutions, like the Rural Micro-Finance Development Centre and the Sanakisan Bikas Bank, were established and the policy opened for the private sector to set up wholesale institutions to channel wholesale fund to the grass-root level organisations. The Youth and Small Entrepreneur Self-employment Fund was established by the GoN in FY 2007/08. The fund provides wholesale loans in group guarantee amount up to Rs.2 lakh in concessional interest rate for self-employment, like animal rearing, agriculture, horticulture, service business, cottage industry, etc.

iii. Project-based Micro-credit Model (Donor-supported)

Some donors supported project-based micro-credit programmes which were operated in the country mainly during the 1980s to late 2000s. Some of them were Production Credit for Rural Women (PCRW), Micro-credit Programme for Women (MCPW), Poverty Alleviation Project in Western Terai (PAPWT), Third Livestock Development Project (TLDP), Rural Microfinance Programme (RMP), Community Ground Water Irrigation Service Project (CGISP) (Annex 2). Enhancing Access to Financial Services (EAFS), financial support by the UNDP and UNCDF was successfully completed in 2013 (Annex 2).

Likewise, the UNCDF has been assisting the implementation of Mobile Money for the Poor (MM4P), financial support provided by the Danish government to fund the Access to Finance Programme for Inclusive Growth in Nepal targeting 7 districts in the Eastern development region. Moreover, on the grant of the Asian Development Bank, the Raising Income of Small and Medium Farmers Project (RISMFP) was established and operated in 5 districts of Far Western and 5 districts mid-Western Development region.

iv. FINGOs and SACCos Model

The NRB had issued licence to Financial NGOs (FINGOs) and Savings and Credit Cooperatives (SACCos) to conduct limited banking activities aiming to expand financial services basically for the members. Currently these institutions have been given time for them to be transformed into D-class institutions.

e) The NRB presently has a moratorium for licensing bank and financial institutions. However, licensing to establish D-class (microfinance) institutions is still encouraged with incentives into the unbanked areas. Cross-holding investment is restricted among A, B and C-class institutions, but it is allowed for D-class institutions.

f) The NRB provides direct financial support to the BFIs where the number of banking units is low. BFIs opening a branch among the specified 14 remote district headquarters will get Rs. 5 million interest free loan and Rs. 10 million, if the branch is opened outside the district headquarters. For microfinance institutions, opening a branch in the specified 22 remote districts having low banking access, they will receive Rs. 2 million interest free loan. And there are no requirements for obtaining pre-approval from the NRB to open branches in such districts for the MFIs.

g) Deposit Insurance and Credit Guarantee (DICG) schemes have been put in place (where deposits up to Rs. 0.2 million are insured in the BFIs). The Priority Sector loans had to be guaranteed by DICG in the past. As of mid-January 2014, a total of 176 BFIs representing 9.3 million depositors with deposits worth Rs. 232.31 billion have been insured (which accounts for 74% of the account volume and 17.4% of total deposits).

h) The NRB has given priority to technology-based innovative financial products like mobile and branchless banking.

i) The NRB participates as an active member in the Alliance for Financial Inclusion (AFI). The NRB committed to the Maya Declaration in 2013 upholding major four commitments: promotion of financial literacy; conducting of rural credit survey; preparation of the financial sector development strategy; and introduction of mobile money service. These commitments are required to be fulfilled by the end of 2014.

j) The National Microfinance Policy, 2010, has already been implemented. A separate microfinance authority has been proposed to regulate and supervise these institutions. Capacity building of these institutions and assurance of financial education and literacy campaign are other important aspects of the Microfinance Policy.

k) The NRB has been providing technical support to the Department of Cooperatives for conducting on-site inspection and off-site supervision of large cooperatives.

l) The Banking Promotion Board was formed in 1968 to promote banking services and educate the people. The Sub-committee of the Board regularly publishes information to create awareness through the print media. It also aired a radio programme for 40 years and an audio-visual programme was produced and broadcasted in many television programmes and channels. The Board has been handed over to the Nepal Bankers' Association and continues with the promotional activities.

m) The cooperatives sector is considered as the third pillar of national development in Nepal. According to the Department of Cooperatives, there are almost 28,000 cooperatives in the country representing 4.1 million members, Rs. 29 billion capital, Rs.147 billion deposits and Rs.137 billion loans in aggregate as of mid-January 2014.

n) In providing adequate investment opportunities to a wide general public, the NRB requires the BFIs to allocate a minimum 30% of their shares to the general public. Likewise, a mandatory provision has been implemented to allocate a certain percentage of the share of hydropower generating companies to the local people who may be directly affected by the project.

o) The GoN has embarked on the scheme of insurance of crops and animals. The GoN allocates its budget to subsidise insurance premiums to farmers as a model programme.

1.4.2 Major Plans, Policies and Programmes on Inclusive Finance

a) A financial literacy programme is being carried through the audio-visual and print media. Launching a programme, "NRB with the Student," and coordinating the universities and the Ministry of Education to incorporate financial education in the textbooks are some of the recent efforts to increase financial literacy.

b) As committed in the Maya Declaration, the NRB has formulated a five-year Financial Sector Development Strategy (FSDS). The FSDS will cover all the players of the financial sector, like Securities Board of Nepal (SEBON), Insurance Board of Nepal, Department of Cooperatives, and Ministry of Finance. The major focus of the FSDS on the financial inclusion pillar includes:

   i. Developing the institutional arrangements for expanding financial access and growth;

   ii. Strengthening the regulatory and supervisory norms for the microfinance institutions;

   iii. Promoting product innovation and effective delivery channels to expand the outreach of financial services to poor people; and

   iv. Enhancing public awareness and promoting customer protection, financial literacy and financial education.

c) There are about 13,000 Savings and Credit Cooperatives across the country as of mid- March 2014 (Economic Survey, 2014). Due to the lack of proper regulation and supervision, large numbers of customers are being cheated every year. Thus, the regulation of the MFIs and these cooperatives has been a long felt need. The microfinance policy also has envisaged a separate authority to regulate and supervise such institutions.

d) As committed in the Maya Declaration, a nation-wide survey focusing on access to finance, credit and interest rate, and financial literacy is being carried out in 2014. This will be useful in framing policies and strategies for improving rural finance.

1.4.3 Institutions Engaged in Formulation and Implementation of Financial Inclusion Policies and Programmes

A number of organisations are involved in the formulation and implementation of financial inclusion policies and programmes. The following institutions have been implementing financial inclusion programmes:

a) There is no specific financial inclusion policy issued so far in the country. However, the NRB has been implementing policies and programmes of financial inclusion.

b) The FSDS is being prepared. For this, a high level committee and a working level committee have been formed with representation from Ministry of Finance, NRB, SEBON, Insurance Board, etc.

c) The NRB works as a regulator, supervisor, promoter, and facilitator of micro finance, and formulates the policies expanding access and outreach of financial services across the country.

d) The NRB licensed banks and financial institutions (A,B,C,D class institutions, FINGOs, Cooperatives, Centre for Microfinance).

e) Deposit and Credit Guarantee Corporation (DCGC).

f) Donor organisations (ADB, UNDP, World Bank).

g) Insurance companies and the insurance regulator (Insurance Board).

h) Telephone and Internet companies: As of mid-March 2014, six telephone companies are operating services across the country. The total number of telephone subscribers reached 23,006,799 with a telephone density of 74% of the total population. Likewise, the total number of Internet subscribers was 8,146,910 with Internet density of 30.70%. This vast telecommunication network can also be used for financial inclusion purpose.

2. Current Status of Financial Inclusion

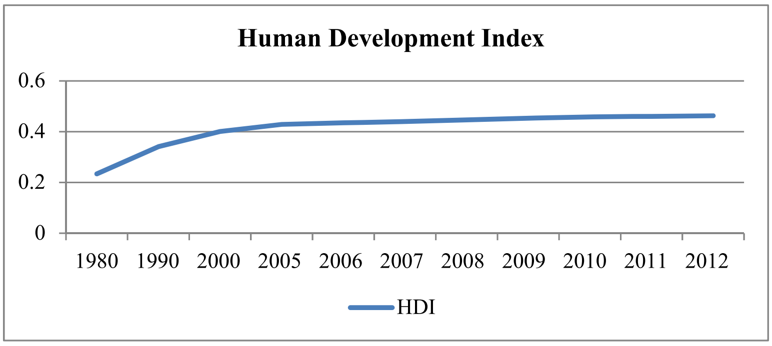
2.1 Outlook of Economic Growth, Employment and Poverty

The Nepalese economy has been witnessing slow economic growth in the recent years. The economic growth in FY 2012/13 was estimated at 3.7%. The average growth of the last three years was only 4% and the growth rate for the current FY 2013/14 is estimated to be at 5.5%. According to the Economic Survey, 2012/13, around 0.45 million youths enter the labour market yearly. Due to slow growth and low employment opportunities in the country, 30% of the labour force remains underemployed or are wholly unemployed. The population below the poverty line is estimated at 23.8% in the FY 2013/43 while it was 25.4% in the preceding year.

2.1.1 Human Development Index

Nepal is among the countries showing slow growth in the human development index. If we look at the data from 1980s to 2012, it is almost horizontal. An upward trend could be observed during the 1980s and 90s.

Figure 3
Human Development Index of Nepal

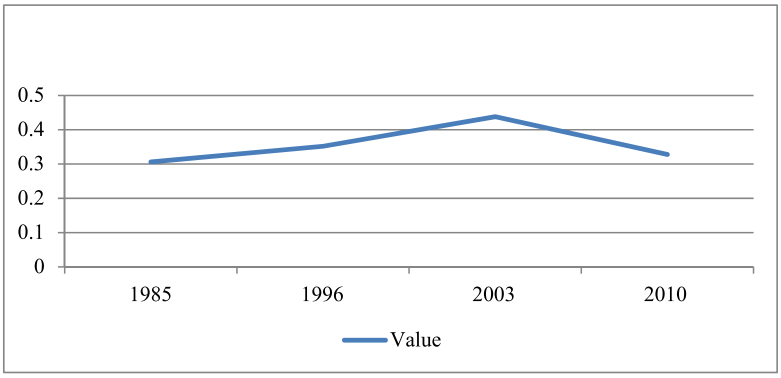


Data Source: Human Development Reports.

2.1.2 Gini Coefficient

The Gini coefficient shows income disparities in the economy. Figure 4 depicts the Gini coefficient (disparities) rising in 2003 (during that period, Nepal was severely affected by the insurgency) and declined to level out in 2010.

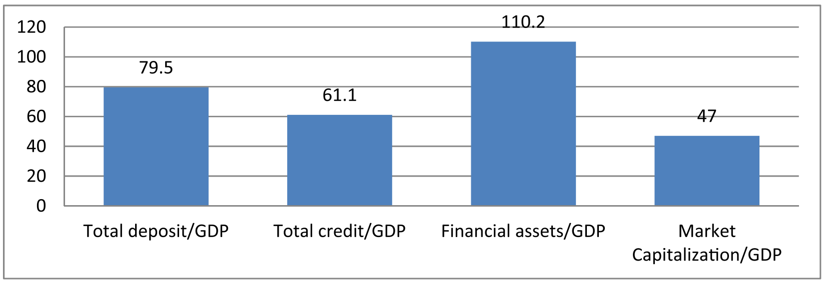
Figure 4
Gini Coefficient



2.2 State of the Financial Sector Development

As compared with the other developing countries, the Nepalese financial sector development is remarkable. The ratio of total deposits to GDP has reached up to 80% while the credit to GDP ratio is above 60%. As of mid-January, the 2014 market capitalisation to GDP ratio, a capital market development indicator reached 47%. While looking at the number of banks and financial institutions, as of mid-January 2014, there are 31 commercial banks, 87 development banks, 58 finance companies and 35 microfinance development banks (Annex 3). Figure 5 depicts the financial development state.

Figure 5
Financial Development Indicators, mid-January 2014
(as % of GDP)



Data Source: BFIRD Statistics, NRB.

The insurance penetration is very low in Nepal. As of mid-January 2014, the total number of life insurance policies stood at 234,288 (0.9% of the population) and the premium collection was Rs. 4.10 billion (0.24% of the GDP).

2.3 Financial Inclusion Indicators

There is no institution which regularly collects and compiles financial inclusion data in Nepal. Thus, we need to rely on various sources to look at the financial inclusion situation. As of mid-January 2014, one bank branch (including branches of MFIs) on average served 8,091 people whereas one ATM served 17,000 people.

Table 2
Financial Access Indicators
(As of mid-January 2014)

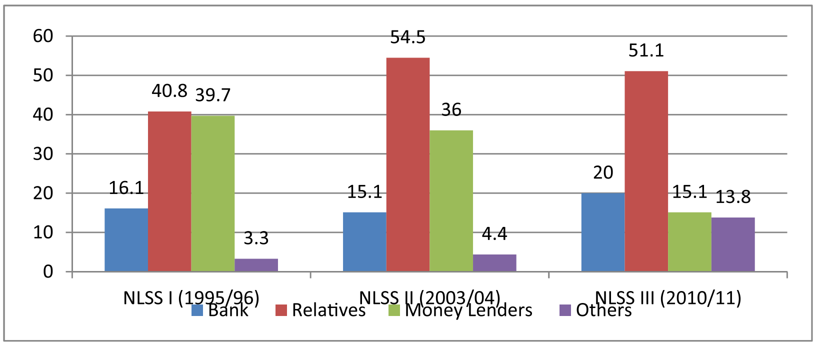
Indicators	Numbers
Bank branch per 100,000 population	12.3*
Total number Deposit Accounts (A,B,C)	12,131,298 (45.8% of population)
Total number of Loan accounts (A,B,C)	884,536 (3.3% of population)
ATM per 100,000 population	5.9
Total number of ATM card holders	3,755,485 (14.2% of population)
Total number of Credit card holders	54,064 (0.20% of population)

* Including MFI branches.
Source: BFI Statistics, NRB.

a) The National Agriculture Census, 2011, conducted by the Central Bureau of Statistics (CBS) found that only 22% of the farmers are using agricultural loans and 42% of the respondents indicated that they need loans for farming.

b) The NLSS 2010/11 revealed that only 40% of the households in the country can access the nearest bank within 30 minutes and 44% of the households can access the nearest bank within 2 hours or more. The figure was 20.7% in NLSS I (1995/96) and 27.8% in NLSS II (2003/04). The survey also revealed that 62.6% of the households have outstanding loans. The sources of loans are still dominated by the informal sectors: 51.1% by relatives, 15.1% by money lenders and 13.8% by other institutions. There is positive trend of a decline in the money lenders’ share, but the percentage of borrowing from relatives and other institutions was increased.

Figure 6
Source of Household Loans



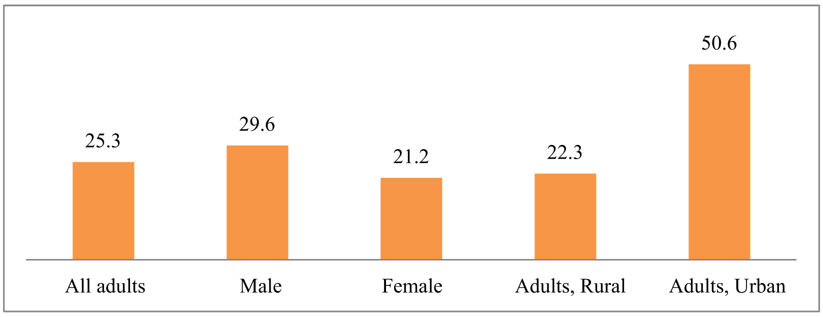
Data Source: Nepal Living Standard Survey 2010/11.

c) The Doing Business Survey, 2013 published by the International Finance Corporation ranks Nepal at 70th position out of 185 economies in the getting credit component.

d) The World Economic Forum, Global Competitive Report, 2013 ranks Nepal at 90th position in terms of availability of credit, 88th in affordability of financial services and 107th in ease of access to loans among 149 economies.

e) The World Development Indicators, Little Data Book on Financial Inclusion, 2012 (FINDEX) reveals that 25.3% of the adults (male 29.6% and female 21.2%) have bank accounts in Nepal. The level of education and income level have significant influence for operation of bank account. Only 1.8% of the youths paid for health insurance (Annex 4).

Figure 7
Account at the Formal Financial Institutions (in %)



Data Source: The Little Book on Financial Inclusion, 2012.

f) The Global Financial Development Report 2014, Financial Inclusion (by IFC, MIGA and the WB) segregating individuals and firms as banking products reveals that 25.3% adults have bank accounts and 10.8% adults have bank loans, 3.7% adults have debit cards and only 0.5% make electronic payments. At the firm level, 73.7% have saving and current accounts, 39.1% have credit line, 32.1% have working capital loans and 17.5% use banks to finance investments in Nepal.

g) As of mid-March 2013, the total number of telephone users reached 19.6 million (density 74%), mobile phone users 17.4 million (density 66.7%) and total Internet customers 6.3 million (density 24%) in Nepal.

h) Access to the Financial Services Survey, 2006 conducted by the World Bank, revealed that 19.6% of the people are financially excluded, 27.7% are informally served, 27.6% are served by the banks and 24.7% are served by other formal institutions in Nepal.

The above-mentioned data reveals that despite several efforts of extending branch banking network throughout the country, large parts of the country are still excluded financially. Also, there is lack of consolidated data and one have to depend on various sources. Though the population served per bank branch has been reduced significantly, the distribution of the branch network remains uneven across the country.

3. Empirical Analysis

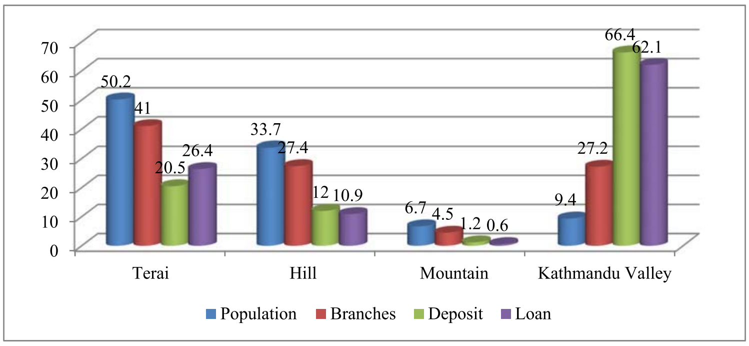
3.1 Trend Analysis

Despite numerous initiatives taken to provide financial access throughout the country, the distribution of bank branches remains uneven in Nepal. The BFIs are focused on expanding branches in the urban areas. This section looks at the distribution of bank branches, per capita deposit and loan in the districts. Additionally, poverty incidence of the districts is also presented.

3.1.1 Distribution of Bank Branch, Population, Deposit and Loan (Geographical Distribution)

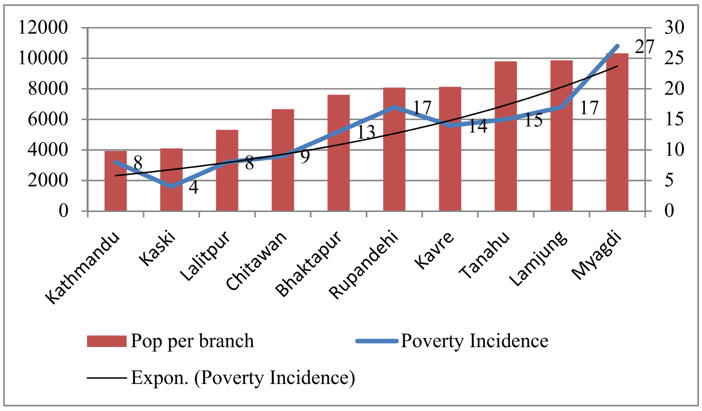
Banking service is concentrated in the Kathmandu valley (Kathmandu, Lalitpur and Bhaktapur districts). Some 9.4% of the population in the valley accounts for 27.2% of the bank branches, 66.4% deposits and 62.1% loans. However, the Terai region, which accounts for 50.2% of the total population, only has 41% of the branches, 20.5% deposits and 26.4% loans. The situation in the hills and mountainous regions is even starker (Figure 8).

Figure 8
Distribution of Population, Branch, Deposit and Loan



The population per bank branch and poverty in the banked districts (less population per bank branch) show an upward trend of poverty incidence along with the high population per bank branch (Figure 9).

Figure 9
Population per Bank Branch and Poverty in Banked Districts

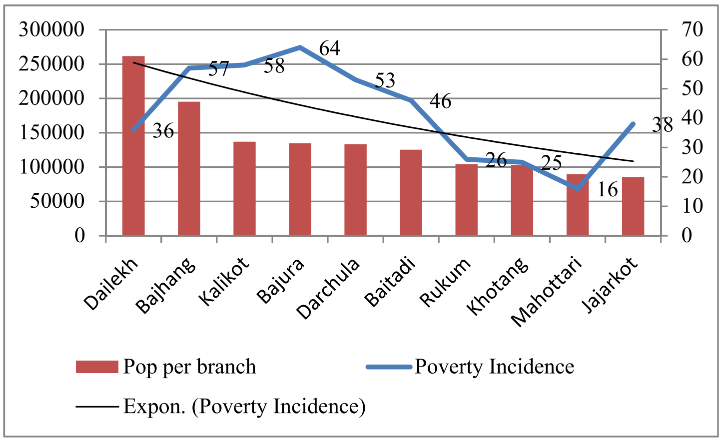


Data source: BFI Statistics and author's calculation.

On the other hand, the poverty incidence in the less banked districts is downward trend in comparatively less banked districts like Bajhang, Jajarkot, Kalikot, Bajura. These districts have more poverty incidence (Figure 10).

Figure 10

Population per Bank Branch and Poverty in Less-banked Districts

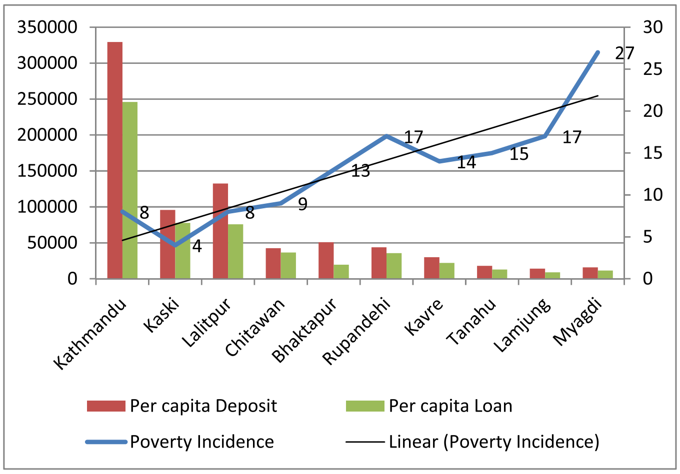


Data source: BFI Statistics and author's calculation.

It is also observed that the districts having more per capita loan is associated with less poverty incidence and vice versa. Figure 11 depicts the relation between poverty and banking services with regard to per capita deposit and per capita loan (banked or unbanked).

Figure 11

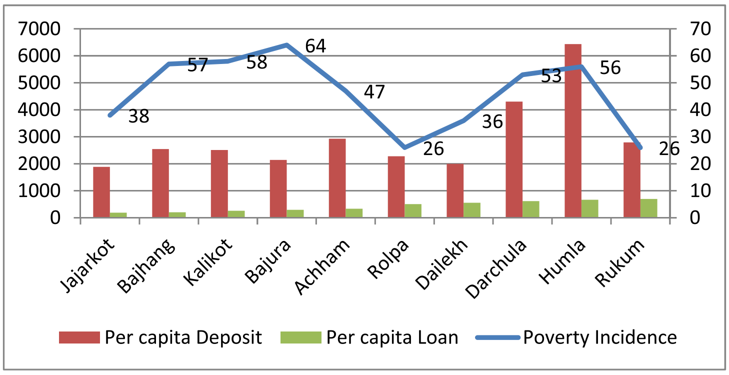
Per Capita Deposit, Loan and Poverty in Banked Districts



Data source: BFI Statistics and author's calculation.

The Figure 12 shows the poverty in less banked (per capita loan and deposit) districts. It also shows financial access help to reduce poverty or vice versa.

Figure 12
Per Capita Deposit, Loan and Poverty in Less-banked Districts



Data source: BFI Statistics and author's calculation.

3.2 Empirical Analysis

The relationship between the financial inclusion variables and poverty incidence is analysed empirically by using population per bank branch, per capita deposit, and per capita loan, including all 75 districts of Nepal for the year 2012. For the analysis, the econometric software STATA 11 is applied.

As we can observe, the decreased population per branch (meaning that people having more access to formal financial services) and increased access to deposit and credit facilities will decrease the poverty incidence, we can model this relationship as:

$$PI = \alpha + \beta_1 \log(Pop - Branch) + \beta_2 \log(PCL) + \beta_3 (PCD) + \varepsilon \qquad (1)$$

Where *PI* refers to the poverty incidence representing the percentage of population being poor; *Pop-Branch* is the division of the total population of the particular district by the total number of bank and financial institutions available in that district; *PCL* is the per capita loan which is the total loans disbursed by the banks and financial institutions in that district, divided by the population; and *PCD* is the per capita deposit of the particular district.

We hypothesised that decreased population per branch should decrease the poverty and increased per capita deposit and per capita loan should also decrease the poverty. Hence, the sign of the coefficient of *Pop-Branch* is expected to be negative and the signs of the coefficients of *PCL* and *PCD* are expected to be positive.

The data relating to population per branch, per capita deposit and loan were taken from the NRB, Statistics Division; and the data of poverty incidence was taken from the small area sample of Poverty Survey, 2011, CBS, Nepal. Data of the population was taken from the Statistical Pocket Book, 2012 of the CBS.

3.2.1 Regression Results

The estimated coefficients of the Equation (1) are presented as follows:

$$PI = \underset{(0.52)}{22.26} + \underset{(0.63)}{1.579} \log(POP\_Branch) - \underset{(-5.70)}{11.177} \log(PCL)^{**} + \underset{(3.17)}{9.075}(PCD)^{**} \quad (2)$$

Values in ( ) are t-stats. R2 = 0.53., Adj R2 = 0.51 F-Stat = 26.33
*** - significant at 1% level*

The estimated coefficients of Equation (2) show that per capita loan is significant to decrease the poverty. For instance, 1 percentage point increase in per capita loan would decrease the poverty incidence by 0.11 percentage point. However, against our assumption, per capita deposit does not have any impact in decreasing poverty. The argument can be made that as loan is taken by the poor whose income is insufficient to save, the amount deposited could be from those who are not reflected in the poverty statistics. People with sufficient income can deposit their money in the bank. Although the sign is as expected, the population per branch variable is not significant in the model. Nonetheless, if the poverty data is regressed on the financial data of 2014, all the variables become significant with the expected signs (Annex 5). Since all the t-statistics are greater than 1.96 and p>|t| smaller than 5% level of significance, all the three regressors are statistically significant.

With the financial outreach to rural areas increasing due to the NRB policies and reflected in the decreasing trend of poverty, we can infer that access to finance can significantly reduce poverty in Nepal. In contrast to this, there is the possibility that banks open branches where people have sufficient income to save. The relationship might also work the other way.

The RAMSEY Reset test confirms that there is no omitted variable bias in the model and the Breusch-Pagan/Cook-Weisberg test for heteroskedasticity confirms the constant variance of the model (Annex 6).

Box: 1 Case Study

Investment Opportunity: Maximise Wealth of Rural People

The Chilime Hydropower Company Limited, a hydropower generating company, was established in the remote district of Rasuwa, Nepal. The district was characterised by high poverty incidence, low literacy rate and lack of access to basic infrastructures. The project generates 22 mw electricity. Initially, the company was established as a subsidiary of the Nepal Electricity Authority, a state-owned enterprise. Later on, the provision for allocation of a portion of its shares to the affected area was made mandatory. Accordingly, in 2010, 31 shares for each family with a face value of Rs. 100 and 29 shares at premium of Rs. 223 were allotted to the locals. The company has been able to pay out good returns, both in cash as well in stock dividends each year. Including bonus share, the total share a family holds reached to 141 in 2014. The initial cost for 60 shares was Rs.12,467. If the present value of the share in the stock market (ignoring the cash dividend received earlier) as of August 7, 2014 is considered, a family will get about Rs. 374,000. By this, the net income from the shares will be more than Rs. 360,000. This is strong evidence that shows how an excluded poor family can benefit and maximise wealth and can come out of abject poverty. The investment made by the poor and the rich in the company is the same, but the value of such returns to the poor are greater than for the rich people. After ensuring safe investment to such projects and providing opportunities for the poor people, we can generate inclusive growth in the economy.

4. Plan for the Next Decade

4.1 Major Issues

There was an ambitious plan of expanding banking services to the every part of the country. The seventh 5-year plan which envisaged at least a bank branch for every 30,000 people was a very ambitious plan that time. (A bank branch had to serve more than 100,000 people that time). Though the branch expansion policy increased branch network significantly, the penetration of the branch networks remains uneven and many rural areas are still unbanked or are less banked. In this context, the following issues emerge in the formulation of the financial inclusion plan for the country.

4.1.1 Operational Efficiency and Affordability of Services

There are many microfinance institutions located in the Terai and accessible hills, but the interest rate of loans still remains very high. The high cost of operation and high profit margin of these institutions make their financial services more expensive and unaffordable to the poor and destitute people.

4.1.2 Duplication of Services

There are many institutions of the same kind operating across the urban and easy areas. These institutions provide basically the same types of products and services. There is a mushrooming of services in the easy areas while such services are lacking in the remote and unbanked areas.

4.1.3 Business Motives of MFIs

Most of the MFIs operating in Nepal are listed in the NEPSE and are regarded as high earners. The share prices of most of the listed MFIs are higher than that of commercial banks and some hydro power companies. They have leverage in using low-cost funds from the A,B,C institutions and can disburse loans with higher rates or park their funds safely with the same institutions.

4.1.4 Insufficient Commitment in International Arena

Nepal has committed to the Maya Declaration recently. Some of the commitments are very simple and do not require any serious effort to achieve them. The commitments in the Maya Declaration are: promotion of financial literacy; conduct of rural credit survey (a routine work); formulation of Financial Sector Development Strategy; and introduction of Mobile Money Services.

4.1.5 Lack of Periodic Review and Continuation of Programmes

The NRB hitherto has not performed any periodic review of the policy impact of the programmes and has allowed automatic continuation of programmes to expand banking services. The priority sector programme was phased out 10 years ago keeping the Deprived Sector lending intact. Without any impact assessment, the programme has been running for the past 20 years. And the donor-supported programmes were token programmes which have very little impact in expanding and improving the condition of the poor people.

4.2 Challenges

4.2.1 Difficult Geographical Terrain and Infrastructure

Large numbers of villages are still unbanked. As these villages are far from the district capital and are thinly concentrated with scattered dwellings, it is a challenge for providing basic facilities to these places, like electricity, telecommunication, banks, and health facilities.

4.2.2 Coordination among the Relevant Institutions

There are many government agencies which provide basic infrastructure and some kinds of financial services. The government is providing allowances to the old-aged people, but the money has been misused before reaching the targeted segment due to the lack of a proper channel in disseminating the funds. Besides, there is no mechanism for sharing information with the Department of Cooperatives, and also no common platform for information sharing with the Securities Exchange Board, Insurance Board and NRB. There are many donor-sponsored programmes, but they are not coordinated with the relevant agencies, including the NRB.

4.2.3 Demand- and Supply-side Constraints

There have been very few organised efforts to enhance financial literacy and education. Educating people about the services and designing suitable products for the people are some dimensions that may habituate people to the formal banking services. Moreover, it is also observed that although there are financial services available, people are not aware of it, products are not suitable for them, and/or the pulling factors are lacking for the general public to go to the BFIs. From the supply-side perspective, it is necessary to change the mindset of the banks and financial institutions for them to view the poor as customers who are bankable and can be trusted. The banks always function as profit-making institutions and require complex and burdensome documentation which hinders the poor from gaining access to the formal funds.

4.3 Recommendation and Suggestions

4.3.1 Connecting and Providing Basic Infrastructures

Most of the rural villages are deprived of basic infrastructure, like road connectivity, telecommunication, electricity, and so forth. Hence, provision of these facilities facilitates the implementation and usage of techno-based financial products. As the techno-based products are low cost and easy to operate, priority has to be given for telecom companies, ISPs, BCs, PoS, Smart cards, smart phones to deliver financial products throughout the country.

4.3.2 Activating Demand and Supply Side

Financial literacy programmes activate demand for financial products. Formal initiatives for incorporating this issue in textbooks and creation of awareness through mass media are needed. Promoting microfinance, motivating microfinance business as social business as well as reviewing and amending the existing policies will help to smooth the supply side.

4.3.3 Using Basic Bank Account to Remission of Payment by Government

Nepal is without modern, fast, convenient and reliable delivery channel for remitting payments from the government to public till now. Due to lack of this telecommunication platform, tens of thousands of rupees are misappropriated every year. Using the use of bank accounts can be a useful vehicle to provide such services to the targeted people.

4.3.4 Mapping of Poverty and Financial Inclusion/Access

The targeted programmes are achievable when the mapping of poverty and financial inclusion or access is done properly. Though district-based poverty data have been developed, it is not sufficient. To effectively implement any programme of poverty reduction or financial inclusion, mapping will be effective for the planning and implementation of such programmes.

4.3.5 Research and Development

There is very limited few research in the area of financial inclusion and its relation to poverty and economic growth. There is also lack of research on the causes of the low level of loan utilisation from the MFIs. Product development suitable for the targeted people can be another potential area for research. Conducting periodic survey on financial literacy and education, as well as collecting, compiling and disseminating financial inclusion data periodically will also help in the designing of the appropriate policy.

4.3.6 Banning Informal Financial Services and Migrating Them to Formal Channel

The NLSS reveals that loans from the informal sources, like friends and relatives and money lenders, are the major sources for household loans. Large numbers of cooperatives are beyond the regulatory and supervisory purview of the state regulators. In this scenario, banning such activities and formalising these institutions is one of the ways of increasing financial access across the country.

4.3.7 **Unique Identification Number for All Account-holders**

There are multiple deposit accounts in use by the same individuals. A unique identification number can be created for each individual and used for opening bank accounts and taking loans. On one hand, it helps to create accurate database for credit information. On the other, it supports government agencies in providing allowance to the targeted people (any payments from government to people). India and Indonesia have made remarkable progress in this area.

4.3.8 Providing Safe Investment Opportunities to the Poor

Providing safe investment opportunities helps people to maximise their wealth which ultimately promotes inclusive growth. The case study of Chilime Hydro is a good example of inclusive growth assurance. There are several hydropower projects in the pipeline in Nepal which not only provide ownership of the projects to the local people, but also improve their living standards. Hydropower projects with more than 10 mw capacity can be launched by mandate as public limited companies and minimum 10-20% share can be allotted to the local people, especially for the poor and destitute. This can be one of the useful ways to reduce poverty and co-opt people into the main stream of the development process.

4.3.9 Establish Proper Coordination Among the Relevant Agencies

Proper coordination is lacking among the different agencies working for financial inclusion, like the NRB, Insurance Board, capital market, cooperatives, Ministry of Finance, Ministry of Poverty Reduction, donor agencies, and so forth. There must be focal points assigned to coordinate, direct and review the policies executed in the propagation of financial inclusion.

4.4 Delivery Models

Many efforts have been undertaken in improving the financial access or inclusion in the country but they are not sufficient. A significant portion of the people is still deprived of formal financial services, as reflected in the per capita deposit and loan statistics for many districts. To expand the formal financial services to the all parts of the country, a new strategy and further efforts are required. This cannot be done by any single organisation, the NRB or government. The government, NRB, banking community, business houses, and donor agencies should actively collaborate and play their part. Delivery models can be bank branches, mobile phone (the subscription rate of which is very high and with coverage in most parts of the country), BCs, branchless banking, PoS and other innovative products. The MM4P (mobile money for the poor) project with the support of foreign partners is in progress.

4.5 Implementation Plan (Strategies)

Our financial inclusion plan should envision: “No one will be unbanked in next decade in Nepal.”

The following strategies can be useful in achieving the vision:

a. Increase the availability of BFI’s services in rural and remote areas;

b. Formulate national level policies for expanding financial access and inclusion;

c. Improve the institutional arrangements for expanding financial access;

d. Promote consumer protection with respect to the use of financial services;

e. Strengthen the regulatory and supervisory framework for microfinance organisations; and

f. Enhance public awareness, financial literacy and financial education.

5. Summary and Conclusion

The Nepalese economy has been witnessing slow growth, under-employed resources, low productivity and mass poverty, especially in hilly and mountainous regions of the country. Regarding financial access, these districts have low access to finance, meaning that they are financially excluded.

The paper attempts to study the relation between financial access and poverty incidence. Graphical plots and data observations show that there is some kind of relationship between them. This is also borne out by empirical analysis using cross-sectional regression. The empirical estimates indicate that poverty can be reduced by increasing access to formal financial services. The NRB, with policy support and coordination with government agencies, can facilitate the propagation of financial inclusion to reduce poverty and achieve inclusive growth. The expansion of financial inclusion is a significant measure to achieve the economic transformation of Nepal from least developed country to the status of a developing country by 2022.

As discussed earlier, the per capita deposit has no bearing on the reduction of the poverty level. It can be argued that people who deposit regularly would not be poor. Geographical hardship, lack of infrastructures, lack of technology-based products, lack of financial literacy, and products and services not compatible with the needs of the poor, are some of the reasons for the financial exclusion. Likewise, the insurance sector is also underdeveloped in Nepal. The GoN's recent initiative in embarking on a crop and livestock insurance scheme financed by the state is a positive development.

There are several challenges and issues in financial inclusion which are not easy to overcome within a short span of time. Enhancement of operational efficiency, reduction in duplication of the services, periodic review and evaluation of on-going programmes, are some of the issues to be addressed. Coordination between the relevant authorities plays a vital role in accomplishing the planned goals. In view of its rugged geographical terrain, Nepal needs to deploy technology-based banking services on a wider scale (since mobile phone service is available in almost all parts of the country). Unique Identification Number is also a useful tool to facilitate G-to-P benefits. Policymakers should pay attention to these issues and should incorporate these inputs in the forthcoming FSDS. Effective implementation of these strategies can significantly produce the desired results.

Nobel Laureate Prof. Yunus once stated that "People were poor not because they were stupid or lazy. They worked all day doing complex physical tasks. They were poor because the financial institutions in the country did not help them to widen their economic base." The NRB has an important role to play under the FSDS in focusing and aligning the business activities and operations of the BFIs towards the promotion of financial inclusion as a development strategy to benefit and make a difference in the lives of the people of Nepal.

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Annex 1: Sources of Household Loans

Source of Household Loans	NLSS I (1995/96)	NLSS II (2003/04)	NLSS III (2010/11)
Bank	16.1	15.1	20.0
Relatives	40.8	54.5	51.1
Money lenders	39.7	36.0	15.1
Cooperatives	-	-	5.1
NGO/ relief agency	-	2.3	4.1
Others	3.3	2.1	4.6

Annex 2: Project-based MF Programme Supported by Donors

Project Name	Project Period	Disbursement	District Covered	Beneficiaries	Donor
Production Credit for Rural women (PCRW)	1981/82-1995	SDR 4.75 million and US$ 1.0 Million	67	68,000 women	IFAD, FINIDA
Micro-credit programme for Women (MCPW)	1993-2002	SDR 3.54 million	15	25,000	ADB
Community Groundwater Irrigation Programme (CGISP)	1999-2005	SDR 9.93 million	12	9,404 families	ADB
Third Livestock Development Programme (TLDP)	1996-2004	SDR 12.5 million	26	10,605 families	ADB
PAPWT	1997-2004	SDR 2.57 million	8	29,000	IFAD
Rural Micro-finance Programme (RMP)*	1999-2005	SDR 14.2 million			ADB

Annex 3: Nepalese Financial System

Institutions	No	Asset (Rs. billion)	Percent
NRB Regulated		**1,601**	**85.4**
Commercial Banks	30	1,243	66.3
Development Banks	88	200	10.7
Finance Companies	58	101	5.4
Micro-finance Development Banks	36	36	1.9
Financial Cooperatives*	16	15	0.8
Financial NGOs*	25	6	0.3
Contractual Savings Institutions		**273.4**	**14.6**
Employees Provident Fund	1	145	7.7
Citizen Investment Trust	1	43	2.3
Insurance Companies	25	84	4.5
Postal Savings Bank	1	1.4	0.1
Total		**1,874.4**	**100.0**

* with limited banking activities.

Annex 4: Financial Inclusion Indicators, WB 2012	Nepal	SA	Low Income
Account with a Formal Financial Institution			
All adults (%, age 15+)	25.3	33	23.7
Male adults (%, age 15+)	29.6	40.7	27
Female adults (%, age 15+)	21.2	25	20.5
Young adults (%, age 15-24)	23.6	24.7	15.6
Older adults (%, age 25+)	25.4	36.6	28.2
Adults with a primary education or less (%, age 15+)	19	27.8	16.2
Adult with secondary education or more (%, age 15+)	41.5	54.2	35.4
Adults in income quintiles I (lowest and II (%, age 15+)	16	25.3	16.3
Adults in income quintiles III, IV, V (highest) (%, age 15+)	30.8	41	29.4
Adults living in rural area (%, age 15+)	22.3	30.8	22
Adults living in urban area (%, age 15+)	50.6	39.2	35.8
Access to Formal Accounts			
0 deposits/withdrawal in typical month (% with an account)	1.7	6.6	5.4
0 deposits in a typical month (% with an account)	1.7	11.7	8.3
1-2 deposits in a typical month (% with an account)	89.2	70.5	64.7
3+ deposits in a typical month (% with an account)	6.2	12.9	23.1
0 withdrawal in a typical month (% with an account)	6.4	15.9	21.2
1-2 withdrawals in a typical month (% with an account)	81.6	66.4	59.1
3+ withdrawals in a typical month (% with an account)	7.6	11.9	16.1
ATM is the main mode of deposit (% with an account)	0.9	2	4.3
Bank teller is the main mode of deposit (% with an account)	81.4	85.3	78.8
Bank agent is the main mode of deposit (% with an account)	15.1	5.3	9.1
ATM is the main mode of withdrawal (% with an account)	11.8	18	23
Bank teller is the main mode of withdrawal (% with an account)	75.1	68.6	62.9
Bank agent is the main mode of withdrawal (% with an account)	11.9	4	5.4
Has debit card	3.7	7.2	7.4
Use of Formal Accounts (%, age 15+)			
Use an account for business purpose	3	4	4.6
Use an account to receive wages	3.6	7.4	5.9
Use an account to receive government payments	1.2	3.5	2.5
Use an account to receive remittances	4.6	2	4.7
Use an account to send remittances	1.2	1.6	2.8
Mobile Payments (%, age 15+)			
Use mobile phone to pay bills	0.3	2	2.6
Use a mobile phone to send money	0.4	0.8	7.1
Use a mobile phone to receive money	0.3	1.9	9.1
Savings (%, age 15+)			
Saved any money in the past year	18.4	21.3	29.9
Saved at a formal financial institution in the past year	9.9	11.1	11.5
Saved using a saving club in the past year	6.3	3.3	8.2
Saved for future expenses in the past year	13.6	15.5	20.3
Saved for emergencies in the past year	15.1	17.2	22.8
Credit (%, age 15+)			

Loan from a formal financial institution in the past year	10.8	8.7	11.4
Loan from family or friends in the past year	33.2	19.5	30.2
Loan from an informal private lender in the past year	19.2	6.4	7
Outstanding loan to purchase a home	5.1	2.4	2.4
Outstanding loan for home construction	13	4.4	6.3
Outstanding loan to pay school fees	12.5	4.9	6.9
Outstanding loan for health and emergencies	23.9	14.1	16.1
Outstanding loan for funerals or weddings	5.7	3.9	5.4
Insurance (%, age 15+)			
Personally paid for health insurance	1.8	5.5	2.2

Annex 5: STATA Output of Equation (1)

```
      Source |       SS       df       MS              Number of obs =      75
-------------+------------------------------           F(  3,    71) =   26.33
       Model |  6974.61938     3  2324.87313           Prob > F      =  0.0000
    Residual |  6269.96729    71  88.3093985           R-squared     =  0.5266
-------------+------------------------------           Adj R-squared =  0.5066
       Total |  13244.5867    74  178.980901           Root MSE      =  9.3973

------------------------------------------------------------------------------
     poverty |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
lnpop_branch |   1.579185   2.506887     0.63   0.531    -3.419405    6.577775
       lnpcd |   9.075447   2.861273     3.17   0.002     3.370231    14.78066
       lnpcl |  -11.17734   1.959526    -5.70   0.000    -15.08453   -7.270157
       _cons |   22.26204   43.11523     0.52   0.607     -63.7073    108.2314
```

Regression Result of 2014 Financial Data.

```
      Source |       SS       df       MS              Number of obs =      72
-------------+------------------------------           F(  3,    68) =   34.53
       Model |  7837.9558      3  2612.65193           Prob > F      =  0.0000
    Residual |  5145.69698    68  75.6720144           R-squared     =  0.6037
-------------+------------------------------           Adj R-squared =  0.5862
       Total |  12983.6528    71  182.868349           Root MSE      =   8.699

------------------------------------------------------------------------------
          pi |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
    lpop_all |   13.77745   3.962606     3.48   0.001     5.870193    21.68471
        lpcd |   7.567366   2.627671     2.88   0.005      2.32393     12.8108
        lpcl |  -5.592369   2.389362    -2.34   0.022    -10.36027   -.8244708
       _cons |   -124.194    52.2069    -2.38   0.020    -228.3712   -20.01677
```

Annex 6: Test for Heteroskedasticity and Omitted Variable Bias

a) Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of poverty
chi2(1) = 0.16
Prob>chi2 = 0.6933

b) Ramsey RESET test using powers of the fitted values of poverty
Ho: model has no omitted variables
F(3, 68) = 1.31
Prob> F = 0.2773

Annex7: District-wise Data of Poverty, Population Per Branch, Per Capita Deposit and Per Capita Loan

S.N.	District	Poverty Incidence	Population Per Branch	Per capita Deposit	Per Capita Loan
1	Jhapa	11	12,129	19,337	17,005
2	Ilam	7	32,250	10,032	5,321
3	Panchthar	11	47,954	4,071	1,874
4	Taplejung	27	31,865	5,825	1,225
5	Sunsari	12	11,065	18,826	19,774
6	Morang	17	14,627	23,140	35,860
7	Dhankuta	16	16,341	5,954	3,744
8	Terhathum	15	25,394	4,886	2,516
9	Sankhuwasabha	21	26,457	7,020	4,075
10	Bhojpur	24	60,820	1,619	854
11	Saptari	40	79,911	4,949	2,867
12	Udayapur	26	22,681	4,806	3,042
13	Siraha	35	45,523	5,260	4,239
14	Khotang	25	103,156	1,736	1,216
15	Okhaldhunga	21	73,992	3,985	1,395
16	Solukhumbu	26	17,648	14,177	6,268
17	Sarlahi	18	51,315	3,578	2,477
18	Dhanusha	23	35,942	13,932	7,297
19	Mahottari	16	89,654	4,931	3,067
20	Dolakha	26	13,326	9,291	4,434
21	Ramechhap	27	67,549	3,708	1,537
22	Sindhuli	38	26,927	4,575	3,132
23	Bara	30	40,453	4,511	4,670
24	Rautahat	33	57,227	3,346	2,074
25	Parsa	29	11,340	27,371	55,904
26	Chitawan	9	6,666	42,655	36,484
27	Makawanpur	28	13,140	18,344	15,409
28	Kathmandu	8	3,928	329,322	245,861
29	Bhaktapur	13	7,616	50,866	19,674
30	Lalitpur	8	5,320	132,481	75,894
31	Rasuwa	32	14,433	5,709	4,188
32	Dhading	19	21,004	5,741	4,177
33	Sindhupalchok	25	13,705	6,501	3,503
34	Kavre	14	8,126	30,073	22,029
35	Nuwakot	20	25,225	8,451	6,492
36	Lamjung	17	9,866	14,106	9,088
37	Tanahu	15	9,797	17,938	12,830
38	Gorkha	20	14,266	9,572	4,729
39	Manang	37	6,538	18,623	7,039
40	Syangja	12	18,072	11,901	8,299

41	Kaski	4	4,101	95,855	77,719
42	Gulmi	26	21,551	7,014	4,213
43	Nawalparasi	17	18,386	7,580	7,055
44	Palpa	26	21,765	12,786	6,814
45	Arghakhanchi	29	28,233	6,811	3,152
46	Rupandehi	17	8,075	43,856	35,674
47	Kapilbastu	36	38,129	6,344	3,148
48	Baglung	23	15,801	10,413	6,834
49	Parbat	13	16,288	8,234	4,767
50	Mustang	40	4,484	59,811	11,530
51	Myagdi	27	10,331	15,916	11,505
52	Rolpa	26	74,835	2,281	503
53	Dang	25	14,542	12,983	9,125
54	Rukum	26	104,284	2,795	696
55	Salyan	29	80,815	1,948	724
56	Pyuthan	32	25,345	4,425	1,880
57	Jumla	49	27,230	6,986	2,352
58	Mugu	47	55,286	4,829	801
59	Humla	56	25,429	6,437	665
60	Kalikot	58	136,948	2,513	259
61	Dolpa	43	36,700	6,602	1,042
62	Dailekh	36	261,770	1,995	554
63	Surkhet	31	20,636	10,056	6,196
64	Jajarkot	38	85,652	1,890	188
65	Bardiya	29	53,322	4,437	1,810
66	Banke	26	11,698	21,285	18,064
67	Bajhang	57	195,159	2,548	204
68	Doti	49	52,937	4,236	1,132
69	Bajura	64	134,912	2,142	297
70	Kailali	34	23,506	10,206	9,151
71	Achham	47	42,913	2,931	333
72	Darchula	53	133,274	4,304	616
73	Baitadi	46	125,449	2,919	812
74	Dadeldhura	43	20,299	7,627	3,351
75	Kanchanpur	31	25,069	10,717	8,819
	Total		**14,138**	**37,080**	**28,604**