Data for
Development
in Nepal

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Microfinance in Nepal

Trends and challenges

Contents

Acknowledgements

Executive summary

Development Initiatives (DI) and Women's Entrepreneur Data (WEData), in partnership with The Asia Foundation, conducted a study using a mixed-methods approach between July and October 2022 to answer the questions:

- What are the characteristics of and the latest trends in Nepal's microfinance industry?

- What data and information exists on microfinance in Nepal, and what is its quality?

This paper provides a summary of the current and recent macro trends in Nepal's microfinance sector. Key findings from the data analysis are:

- The number of microfinance institutions (MFIs) grew until 2019 when it started to fall. At the same time the number of MFI branches, the number of people indebted to MFIs, the value of MFI loans and MFI profit have all grown more or less continually.

- The growth in MFI branch numbers has not been even across the country and has been skewed towards provinces with lower poverty rates.

- Growth in the value of MFI loans is consistently greater than the growth in the number of people indebted to MFIs. This strongly indicates that customers are borrowing larger amounts and/or individuals are increasingly taking out multiple loans.

- A change in MFI branch numbers is highly correlated with a change in the number of people indebted to MFIs.

- The level of MFI profit is moderately correlated with the number of indebted people.

On top of this, the paper has uncovered three key narratives:

1. The microfinance sector in Nepal is moving away from its original social objective because it is exclusively made up of private companies that are becoming increasingly profit oriented.

2. The government has struggled to regulate the industry in a way that has kept the original social objective of microfinance as the central focus of the sector.

3. Evidence-informed decision-making and planning is undermined by a dearth of quality data and other information (e.g. academic literature).

Introduction

DI and WEData are part of D4D, which is led by The Asia Foundation and funded by the UK's Foreign, Commonwealth and Development Office. D4D is focused on strengthening data ecosystems in Nepal to support federal, provincial and municipal governments. It is now in the third year of its second phase.

This study was originally proposed by WEData, as a review of existing data on women and microfinance. DI and The Asia Foundation then agreed to expand the scope into a broader study, including analysis of the characteristics and trends of the microfinance industry, as well as an assessment of the related data and its quality.

This study provides an up-to-date picture of the microfinance industry in Nepal. It provides analysis of macro trends and current problems in the sector. It also provides recommendations on solutions to these problems. It is based on the following research questions:

- What are the characteristics of and the latest trends in Nepal's microfinance industry?

- What data and information exists on microfinance in Nepal, and what is its quality?

Why microfinance?

Microfinance provides loans to customers who are excluded from the traditional financial system and unable to access banking services. Modern microfinance started to gain traction in the 1970s and received a lot of attention during the 1980s due to the success of Grameen Bank in Bangladesh. Modern microfinance also began in Nepal at a similar time, when the Agricultural Development Bank launched its Small Farmers Development Project in 1979/80. Since then, a number of microfinance institutions (MFIs) have been established in the country, and as of April 2022 the industry had grown to the point where MFIs have Rs 450 billion (US$3.5 billion) worth of credit currently lent out.

Discourse around microfinance has often focused on its ability to empower women. This is certainly the case in Nepal where many of the academic studies published about microfinance ask whether microfinance has contributed towards women's empowerment. Papers by Chaudary (2022),[1] Jain (2020),[2] Guvaja and Sherpa (2020),[3] Lamichhane (2020),[4] Sherpa (2019),[5] Aryal (2018)[6] and Karn (2018)[7] all conclude that to some extent microfinance does have a positive impact on women's empowerment, albeit with a few caveats. For example, Karn (2018) highlights that the 'ultra-poor' and marginalised castes (Dalits and Janjatis) are disproportionately excluded.

The profile of women who use MFIs

Many of these studies referenced above published findings on the profile of women who typically use microfinance services. Based on these it is possible to state that such women are usually married, involved in agricultural activities, aged between 26 and 40 (one study cited 50+), with basic to little education and a low annual income. Because each of the studies focuses on a different subnational area, there is a sufficient sample size to extrapolate their common findings to the national level with some confidence.

Methodology

This paper is based on a mixed-methods approach including a desk-based literature review, quantitative analysis, key informant interviews (KIIs) and a validation workshop. The process began by constructing an analytical framework to guide the desk-based research and identifying datasets that could be used in the analysis. The team consulted in-country experts to make sure the questions were valid and did not duplicate other studies. The team then conducted the literature review and quantitative analysis simultaneously. Academic and grey literature was reviewed, and data from the Nepal Rastra Bank (NRB) and the Central Bureau of Statistics (CBS) was used. Following this a questionnaire consisting of open-ended questions was designed for use in the KIIs and was informed by the findings from the desk research and the data analysis. A targeted sampling method was used to identify participants in addition to a snowball technique. In total, 12 KIIs were conducted with 16 stakeholders from 7 to 15 August 2022. After this a first draft of the report was completed alongside some additional data analysis. The draft was then presented to key stakeholders in a validation workshop, and feedback from this was interpreted and the report was edited accordingly.

Limitations

The study is limited by the very small amount of data on microfinance that is disaggregated by gender in Nepal. The total number of members of MFIs and people indebted to MFIs, published in the NRB's quarterly progress report on MFIs, is the only data on microfinance that is disaggregated by gender that this study could identify. Moreover, gender disaggregation for these indicators only started in the July–October quarter of 2020. This means that data analysis alone could not produce any meaningful insights on gender specifically. To add to this, government policy on microfinance is largely gender-blind in Nepal. This means that an analysis of policy cannot be conducted through a gender-specific lens either. However, the whole industry is heavily skewed towards women. The latest statistics from the NRB show that 97% of MFI members and indebted people are women. Therefore, analysis of general data and policies, although not explicitly about women, is very relevant to a gender-based study.

NRB data formed the bulk of data sources used in this study. However, the NRB publishes the data significantly after the time period it is for. Therefore, the most up-to-date data in this study is from April 2022. It is expected that the data for the April–July 2022 quarter will

be published during the last quarter of 2022. Similarly, the study was not able to make use of data from Census 2021 as it had not been made publicly available at the time the study was undertaken.

The use of targeted and snowballing sampling methods reduces the representativeness of the sample. In addition to this, the number of KIIs was fairly small, at 16 people in total. These factors combine to mean that the reliability of the information gained from the KIIs is limited. This was offset as much as possible by the draft report being discussed with a range of stakeholders during the validation workshop.

## Report structure

The discussion is split into two sections. The first focuses on the findings from the analysis of NRB and CBS data, summarising the recent and current trends and characteristics of Nepal's microfinance sector. The second is based on desk research and KIIs. It has multiple subsections and is organised around key problems and corresponding recommendations on how to overcome them.

Discussion

Data analysis

Data for April 2022 confirms that there are 65 MFIs in operation in Nepal. There are 61 retail MFIs (43 that operate nationally and 18 that operate at the subnational level) and 4 wholesale MFIs. This follows on from a year-on-year decline in the number of MFIs from an all-time high of 90 recorded in 2019.[8] Before 2019 there had been a rapid increase in the number of MFIs year on year, peaking at a rate of 38.5% between 2018 and 2019 (see Figure 1).

Figure 1: Number of MFIs in operation
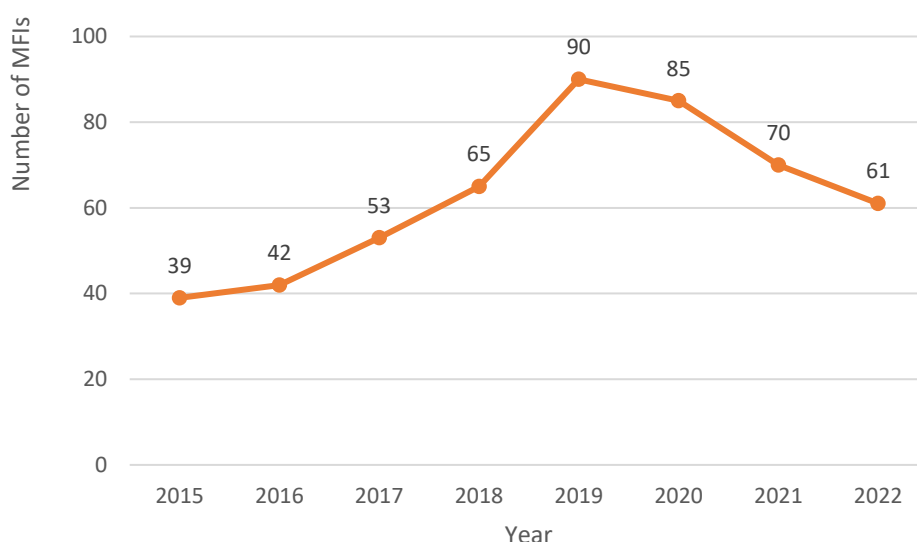
As of April 2022, NIC Asia Bank (NICA) operates the most branches of all MFIs in Nepal with 285, significantly more than second-placed Chhimek which operates 193. Between January–April 2020 and January–April 2022 NICA was also the MFI that opened the most branches (180). Other MFIs that opened a significant number of branches were Aarambha Chautari (150) and Suryodaya Womi (130).[9] Since April 2020, on average, national MFIs have opened 200 branches per quarter (5.5%), and subnational MFIs have opened 13 per quarter (3.6%).

The latest available data (2021) shows that the number of branches is not equally distributed across Nepal's seven provinces. These inequalities are growing. Between 2020 and 2021 the volume of branches increased the most in Province 2 followed by Lumbini. These were the provinces that already had the highest number of branches in 2020, whereas only eight branches were opened in Karnali, which had the fewest number of branches in 2020 (see Table 1).

Table 1: Number and volume change of branches by province, 2020–2021

Province	Number of branches (2020)	Number of branches (2021)	Volume change (2020–2021)
Province 2	754	928	174
Lumbini	900	1,038	138
Province 1	677	728	51
Sudurpaschim	338	389	51
Bagmati	596	645	49
Gandaki	518	551	33
Karnali	186	194	8

The correlation coefficient between the number of branches and the number of indebted people between January–April 2018 and January–April 2022 was 0.96.[10] This is a very high positive correlation and indicates that a new branch opening in an area is strongly correlated with more loans being taken out. This could mean that a new branch opening in an area causes more people to take out loans, or that more people taking out loans in an area leads to a new branch opening there to capitalise on this.

The total value of loans that retail MFIs had lent out in January–April 2022 (Rs 390 billion) (US$3 billion) was 215.2% greater than the total value of loans that retail MFIs had lent out in January–April 2018 (Rs 190 billion) (US$950 million). Over the four years, growth of over 5% was recorded in 11 of the 16 quarters (with a high of 25.9% in January–April 2019), and the total value only contracted in two quarters compared to the previous ones (January–April and April–July 2020). The value of the loans lent by the 10 highest lending retail MFIs was marginally greater than the aggregate value of the loans lent by all the other operational MFIs in January–April 2020, 2021 and 2022.[11]

Throughout the period from April 2020 to April 2022 the amount lent by retail MFIs consistently grew at a greater rate than the number of people taking on debt. This can mean one of two things, or more likely a combination of both: the average amount borrowed in a single transaction is increasing (perhaps because purchasing power fell as inflation increased), and the number of people with multiple loans is increasing.

The total profit of retail MFIs increased between October 2021–January 2022 and January–April 2022 by 39.2%, from Rs 5.9 billion (US$45 million) to Rs 8.2 billion (US$63 million). Similarly, 12 of the 16 quarters between January–April 2018 and January–April 2022 saw retail MFIs profits increase from the quarter before it, whereas 4 of the 16 saw the amount of profits that retail MFIs made fall from the previous quarter. The largest amount of profit that retail MFIs posted in one quarter during the period was Rs 10.8 billion (US$83 million) in April–July 2021. The national lockdown because of the Covid-19 pandemic officially began on 24 March 2020 and was lifted on 14 June 2020. Over this period MFIs continued to post profits which totalled Rs 8.6 billion (US$66 million).[12]

There was a moderate to good positive correlation (0.52) between the volume of profit and the number of indebted people between January–April 2018 and January–April 2022 in the retail sector. This means that retail MFIs make more profit as the number of indebted people increases, and/or that more profits equals an increase in the number of indebted people. There is also a moderate to good positive correlation (0.58) between the volume of profit and the number of indebted people for the five most consistently profitable retail MFIs (between January–April 2018 and January–April 2022).[13,14] This means they make more profit as the number of indebted people increases slightly more consistently than other MFIs. And/or, that the consistently profitable MFIs are more able to reinvest the profits they make into successfully gaining more customers.

As of April 2022, according to NRB data, only one retail MFI lending in the agriculture, small and cottage industries and service sectors did not charge a maximum interest rate of 15% (the maximum currently allowed by the NRB). A maximum rate of 14.7% was available to Mahila's 65,939 members. However, despite charging a maximum interest rate of 15% in some cases, in others, the Development Project Service Center (DEPROSC) set an interest rate of 8% for agriculture, small and cottage industries and service sectors lending to some of their 235,781 members. 17 MFIs only lent at the maximum 15% rate to the agricultural and service sectors and 15 MFIs only lent at this rate to the small and cottage industries sector. Therefore, according to the data, the majority of retail MFIs have not set the interest rate as high as it can be in all cases.

Problems and solutions

The social objective of microfinance in Nepal is being lost

In 2007/08 NRB regulation caused all actors delivering microfinance to become private banks with shareholders. Before this, the sector had been a mixture of civil society organisations as well as banks.[15] The NRB then encouraged more private MFIs to form and existing MFIs to open more branches in an effort to extend financial services to remote areas. However, this did not have the desired effect. Instead, more banks continued to open branches in semi-urban areas, where the cost of operations is low, and access to lower risk clients is high. In order to reach ultra-poor people in hard-to-reach locations, profit cannot be the only incentive, as the return on investment for this option will always be low.

The privatisation of microfinance means the industry has not supported the development

of decent local economies for borrowers to operate in, or borrowers' knowledge of how to operate a business. And these are all conditions that need to be present for microfinance to lead to reductions in poverty rates when it is expanded into hard-to-reach areas. In short, the profit orientation of the sector means holistic programming is largely absent, whereas it is very unlikely that this would be the case if non-governmental organisations (NGOs) or public sector organisations were more involved.

The focus on profit and low risk means that some banks prefer to take on clients who are already clients of other MFIs, as this means they have some credit history and will already have received some basic financial training. For the borrowers in semi-urban areas, it is common to have multiple loans from multiple banks, often leaving individuals with a loan portfolio they struggle to manage or afford.

High-risk clients, such as single women, Dalits and persons with disabilities, also find accessing loans particularly challenging in a profit-oriented market. While there are no overtly discriminatory policies, banks conduct risk assessments before lending, and individuals are often filtered out as higher-risk clients. These risk assessments are not regulated or standardised and are particular to each lender. There is currently no data collected about individuals being refused loans, so trends cannot be monitored, and only anecdotal information is available.

The financial education given by the MFIs to their borrowers varies greatly. Compulsory group training is not standardised or regulated, and tests given at the end are verbal. In situations where an individual is borrowing from multiple banks, a bank might decide they have no need to enrol a person in the financial literacy training as they have done it before and there is more profit when this element does not need to be delivered.

Recommendations

- **Government** should promote NGO programmes that provide holistic support to potential and existing borrowers. Higher-risk individuals need support to access loans, and borrowers need more training on financial literacy and support than the compulsory group training courses can provide. Loans must be coupled with viable business ideas if they are to be transformative.

- **Government** should accompany policies that aim to spread microfinance services to hard-to-reach areas with policies and investments that aim to strengthen local economies.

- **Government** needs to ensure that its regulations and policies are more targeted and focused. For example, if the government wants more banks to lend in hard-to-reach places, they need to regulate specifically requiring this sort of expansion from some institutions and/or to offer incentives to do so.

- **Government** should work with MFIs to standardise risk assessments.

- **Government** should provide more guidance at a policy level about the inclusion of marginalised individuals. This would improve clarity about who should be able to

access MFI loans and increase fairness.

- The issue of multiple borrowing caused by the proliferation of MFIs in semi-urban areas requires a response. There is a recommendation on this in the data section below.

Government regulations have struggled to reorient microfinance towards its social objective

The goal of the National Microfinance Policy (2064) (2005) (NMP) is to assist in poverty alleviation through sustainable, simplified and access-oriented microfinance services. To achieve this goal one of the main policies in the NMP is to:

> **"Increase access to microfinance services in areas with economically weaker families and women."[16]**

The NRB restated a very similar policy in its most recent Monetary Policy (2079) (2022/23):

> **"MFIs will be encouraged to provide financial services in remote and backward areas in accordance with the social banking concept."[17]**

In short, both policies make provisions to align microfinance with its core social objective to increase access to in areas with high poverty rates. Since the NMP, the government has enacted a number of policies that aimed to achieve this. For example, the NRB's Monetary Policy for both 2020/21 and 2021/22 prohibits MFIs from establishing new branches in wards where ones already operate, and the NRB also prohibits new branches being established in the Kathmandu Valley.

These policies have not been able to achieve their desired effect. The geographic concentration of branches is representative of microfinance activity (we already know branches are highly correlated with the number of indebted people), and the available data clearly shows the uneven distribution of branches between the provinces. When this is analysed in conjunction with poverty data, the results show that Bagmati and Gandaki provinces, which have the lowest poverty rates, have the lowest number of people living under the poverty line per MFI branch. Whereas the other five provinces, which have higher poverty rates, have significantly more people living in poverty per branch.

Table 2: MFI branches and population below the poverty line at provincial level[18]

Province	Total population	Population below the poverty line	% of population below the poverty line	Approximate number of people below the poverty line per branch	Number of wards	Average population per ward
Gandaki	2,479,745	227,000	9%	380	959	2,586
Bagmati	6,084,042	470,000	8%	670	1,042	5,839
Lumbini	5,124,225	958,000	19%	958	983	5,213
Province 1	4,972,021	773,000	16%	1,100	1,076	4,621
Madhesh	6,126,288	1,296,000	21%	1,440	1,159	5,286
Sudurpaschim	2,711,270	631,000	23%	1,580	734	3,694
Karnali	1,694,889	636,000	38%	3,180	645	2,628

There are a number of reasons the policies have fallen short. For example, the ban on new branches in the Kathmandu Valley cannot help to alleviate the core problem and contribute to a more even distribution of branches elsewhere. In addition to this, the policy on wards also has inherent problems. There are 6,743 wards in Nepal. Gandaki has 759 wards alone, yet only 551 branches, meaning MFIs have a lot more scope to add branches here, before they are forced to look elsewhere for new markets. Moreover, some wards have a population of a few thousand people, whereas others have populations of tens of thousands. Hence, even if every ward had one branch, it would leave some lagging behind others in terms of the population per branch.

As explained in the previous section, the NRB encouraged the formation of new private MFIs. This led to the saturation of the market by profit-oriented organisations. However, as per a new policy, the NRB will no longer sanction the formation of new MFIs because it is not granting the required licences. Alongside this, the NRB is also strongly encouraging existing MFIs to merge or to buy out one another. Key informants said that this is to decrease market saturation, to increase the economies of scale of the existing MFIs, and, ultimately, to pass on cheaper financial services to those who need them. These policies do not aim to reverse, or dampen, the privatisation of microfinance in Nepal. It is therefore unlikely that MFI clients will receive cheaper services in the short or medium term because of them. Not least because, as a key informant representing a large MFI explained, it is not feasible for them to reduce the current cap of 15% on interest rates, because "as private organisations they must try to make profits for their shareholders". The key informant did, however, concede that discussions need to be had on how to balance the need to make profits with the need to meet the social objective of microfinance.

At the time of writing, significant demonstrations are being held in Kathmandu and other locations throughout Nepal, by clients of MFIs who are protesting against what they allege to be widespread malpractice in the industry. One of the central claims is that the interest rates charged on loans are extortionate and often exceed the government's cap of 15%. There is anecdotal evidence that rates as high as 18% and 20% are regularly charged and some reported cases of interest rates as high as 35% being charged. The inability of government to enforce its own limit is another example of unsuccessful regulation. This shortfall in particular has had significant consequences for some of the women affected. They have been subjected to physical abuse and social exclusion by their partners and other community members for being unable to repay, and in some cases, people have even taken their owns lives. According to newspaper reports the NRB has acknowledged the problems and "made arrangements" to combat them, although nothing substantial has materialised yet.[19][20][21] On 20 December 2022, the Nepal Microfinance Bankers Association reached a 12 point agreement with representatives of those that have been protesting, aiming to overcome some of the challenges facing the industry. Some key issues, such as spiralling debt and multiple borrowing, do feature in the agreement, but lack specific and actionable solutions. The government has not taken part in the negotiations that led to the agreement, nor does it endorse the outcome, which undermines its credibility.

The NRB set a loan threshold of Rs 0.7 million in its 2020/21 Monetary Policy which has stayed constant since. However, this upper limit is ineffective, because the system the Credit Information Bureau (CIB) hosts to check credit histories is marred by problems. Regulation states that any new borrower's information must be checked in the system before a loan is granted (and that every new loan must be uploaded to the system within 15 working days). However, a weak ID system and no third-party checking means it is very difficult to identify people. Moreover, the pricing structure to use the system is an annual fee followed by a pay-per-search fee. Every search in the system is charged to the MFI branch carrying it out, and because of this, branches are less likely to search multiple ways of spelling a family name. We have also heard anecdotally that some banks do not check individuals borrowing smaller sums of money (below Rs 50,000). This all culminates to mean that people can borrow Rs 0.7 million multiple times, and access levels of debt they cannot afford.

Recommendations

- To help spread the distribution of branches more evenly, **the NRB** should adjust its Monetary Policy for 2023/24 so new branches are allowed to open in wards where an optimum ratio of branch/population has not already been reached. For this to be implemented the NRB would have to agree on a target number. This change would mean that wards with large populations are not at a disadvantage compared to wards with small populations.

- **Government, universities, donors and NGOs** should fund research on how profit can be pursued at the same time as achieving concrete social objectives. Research is urgently needed into the malpractice allegations that have fuelled the current protest movement.

- **Government** should consider policies that limit the amount of profit shareholders can receive and mandate certain levels of reinvestment in compulsory group training.

- **Government** should start formal investigations into the allegations that interest rates above the legal cap are being used and more rigorous measures should be taken to ensure enforcement of the 15% cap. It should also begin to seriously consider the feasibility of reducing the interest rate cap.

- **Government** should be engaging directly with the groups protesting about MFI practices, rather than delegating it to a voluntary association with no real power to deliver changes in the sector.

Government data

The NRB produces and publishes the majority of statistics on microfinance. Most of this data comes from the Management Information System (MIS) that, on a day-to-day basis, is managed by the CIB. The NRB is responsible for the policies that outline how the MIS should be used by banks and can request for new fields to be added to it at any time to change what data is collected. It is mandatory for MFIs to report data to the MIS.

A new 'silver blade' software system was rolled out in 2017. It enables standardised data to be collected from MFIs and to be shared with the NRB efficiently. However, key informants reported that MFIs are not fully using the updated digital system. Instead, data is often collected using paper forms and uploaded to the system at a later date, because of a lack of technical infrastructure in branches. Often the person who enters the data is not the person who originally recorded it, and handwriting can be misread, and family names can be misspelt. This leads to errors in the data held by the system.

Banks also collect information about their clients when they do their risk assessments, but this information is not held in the MIS. For example, during a risk assessment an individual is asked about their marital status, but this data is not added into the MIS. In addition to this, information about who is turned down for a loan is also not part of the MIS. Only information about people who have received loans and whether they have defaulted on any payments is centrally held.[22] This means the MIS does not produce any data about who is excluded from microfinance borrowing services. The system could easily be extended to collect information about people who are being turned down for loans if it was thought this information might be effective in informing policy, as the NRB can easily request for extensions in the data collected by the system.

Other government data

Different data on industries and businesses is held within a number of government ministries. The Ministry of Industry, Commerce and Supplies, the Department of Cottage and Small Industries and the Ministry of Agriculture and Livestock Development all have different data points of interest but their data collections methods, cycles and sample sizes differ too much from each other for this data to be interoperable.

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In addition to this, it has been over a decade since the last large-scale survey on living standards in Nepal was completed. One is now underway, with data expected towards the end of 2023. However, the absence of such data presently makes it impossible to concretely map current income levels and the poverty rate and how they have changed in recent years. Moreover, there are no datasets that currently measure the profile of personal debt in Nepal and how this may be changing over time. Various different censuses and surveys conducted by CBS have some questions that provide some data points. For example, the National Economic Census (2018) provides data on the percentage of businesses in different sectors that borrowed money from MFIs disaggregated to the provincial level. And the Agricultural Census (2022) asks about loans sought and received, but microfinance is just one option within one survey question. Yet, the data picture is fragmented, the data is not comparable and a very limited amount of it is gender disaggregated.

Monitoring and results data

There is no system that collects any kind of monitoring and results data for microfinance in Nepal. Profit data is collected for shareholders, but impact data to mark the results of the sector on people's lives is not. From 1998 to 2018 UNDP ran a large-scale livelihoods programme called the Micro-Enterprise Development Programme (MEDEP) that collected rich data about the banks, recipients and businesses they worked with. The MIS used for the project held information about small business profits, prices of commodities and the details of loan repayments. Since this programme was handed over to local government the same level of data is no longer collected or published.[23]

There have been no large-scale academic studies on the economic results of MFI lending in Nepal.

Other research

Quality primary research is seriously lacking. The impact of microfinance on women's empowerment is heavily researched, and nearly every other related topic is under researched (e.g. policy effectiveness, impact of competition).

Recommendations

- **CIB** should stop charging banks per search for an individual's credit history, as this is having a negative impact on the thoroughness of searches. Moving to an annual fee only, so that a bank can run detailed searches without additional cost, would likely have a positive effect on duplicate data.

- **Government** should continue to roll out the National ID system, which is in its infancy, with only around a third of the population having an ID. When it has been fully rolled out it could offer a solution to the issue of making sure people exist in the CIB MIS system only once.

- The **NRB** should use the MIS to its full potential by collecting more data within it. It

would be beneficial to consult individuals, MFIs and NGOs about adding additional fields that could improve policy and highlight potential issues of discrimination.

- **Government, universities, donors and NGOs** should fund studies on banks' current practices, looking at the negative impacts the industry can have on women, in order to influence government policy in a way that enables the sector to return to its social objective once more.

Conclusion

This study has produced a number of key findings. Primarily, that the social objective of microfinance is being lost as the sector in Nepal is dominated by private companies that are increasingly profit driven, that government is struggling to regulate the sector and reorient MFIs towards their social aims, and that there is a lack of data and information for stakeholders to make evidence-informed decisions with.

In this paper DI and WeData have made recommendations on what needs to be achieved to rectify the problems the industry faces. Of these the following are considered especially key:

- Government should investigate allegations of illegal interest rates and rigorously enforce the interest rate cap of 15% while investigating how it can be reduced.

- Government should be engaging directly with the groups protesting about MFI practices, rather than delegating it to a voluntary association with no real power to deliver changes in the sector.

- Government should promote NGO programmes that provide holistic support to borrowers.

- Government should accompany policies that aim to spread microfinance services to hard-to-reach areas with policies and investments that aim to strengthen local economies.

- Government should adjust its policy on wards so new branches are only allowed to open in wards where an optimum ratio of branch/population has not already been reached.

- Government, universities, donors and NGOs should fund research into the current protest movement, documenting and evidencing the stories of women.

- CIB should only charge a flat rate annual fee to banks to search for an individual's credit history.

- NRB should include more gender-disaggregated data fields in the MIS run by the CIB and publish data disaggregated to a municipal level.

Annex

List of organisations for the key informant interviews

	Organisation
1	Development Project Service Center, DEPROSC
2	Center for Self-help Development, CSD
3	Central Bureau of Statistics, CBS
4	Micro-Enterprise Development Programme, MEDEP (UNDP)
5	National Planning Commission, NPC
6	Nepal Rastra Bank, NRB
7	VSO Nepal
8	Federation of Women Entrepreneurs' Association of Nepal, FWEAN
9	Ministry of Industry, Commerce and Supplies, Government of Nepal
10	eSewa, Sakchyam Access to Finance Program, and Jalpa Samudayik Laghubitta
11	Credit Information Bureau, CIB
12	Mahila Sahayatra Microfinance

Notes

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[6] Aryal, A. Role of Microfinance Towards Empowerment of Rural Women in Nepal, 2018. https://elibrary.tucl.edu.np/bitstream/123456789/1064/3/CHAPTERI.pdf

[7] Karn, S. Challenges and Opportunities of Microfinance in Nepal, 2018. www.nepjol.info/index.php/IJSSM/article/view/20612

[8] The reduction in the number of MFIs is largely because of mergers and acquisitions. By January 2021, 28 MFIs had come together to form 13 operational MFIs, and another 35 MFIs were merging or being acquired, which, if all were successful, would result in 17 continuing to operate. In the rare cases when an MFI ceases to operate without it merging with other MFIs or because it is bought, depositors who have joined the Deprived Sector Credit Guarantee (DSCG) will be compensated. But membership is not compulsory and those who did not sign up to the service will lose any savings that they had. See:

www.dcgf.gov.np/en/services/deprived-sector-guarantee, www.investopaper.com/news/merger-acquisition-of-microfinance-companies-in-nepal, www.ifc.org/wps/wcm/connect/b1e014a0-52c6-4b70-bcbb-56ee390bf8b0/Desposit%2BAssessment-Nepal.pdf?MOD=AJPERES&CVID=jkCUj35&attachment=true&id=1323862726263.

[9] In terms of growth relative to their previous sizes, Khatpad and WEAN outstripped the other MFIs, increasing by 600% and 320% respectively. However, Khatpad only operates in Sudurpaschim Province and went from 1 branch in 2020 to 7 branches in 2022, and WEAN only operates in 4 districts and went from 5 branches in 2020 to 21 in 2022. See: www.nslbsl.com.np/message_from_ceo.php

[10] The data for both series for April–July 2019 are anomalies. They are significantly lower than the data for the previous and following quarters. The figure provided in the main text is based on a calculation that does not include the anomaly quarter. The correlation coefficient when the anomaly quarter is included is 0.97.

[11] The total value of loans lent by wholesale MFIs in April 2022 (Rs 56,964,707,000) was 45% greater than the same figure in April 2020 (Rs 39,284,220,000). In the two quarters between April–October 2020 the value fell, but lending recovered between October 2020 and April 2021 (27.2% growth was posted for the period). Of the four wholesale MFIs operating in Nepal, Sanakisan is by far the largest lender with 50.7% of the market share (as of April 2022).

[12] This figure is calculated using data for the entire January–April 2020 and April–July 2020 quarters.

[13] The data for the number of indebted people for April–July 2019 is an anomaly. It is significantly lower than the data for the previous and following quarters. The figure provided in the main text is based on a calculation that does not include the anomaly quarter. The correlation coefficient when the anomaly quarter is included is very different at 0.34 for all MFIs and 0.40 for the top five most consistently profitable MFIs.

[14] Defined as the five MFIs that appeared most frequently in the top five most profitable MFIs per quarter between January–April 2018 and January–April 2022. They are: DEPROSC, Nirdhan, Jeevan, Chimmek and Swawalamban.

[15] Uprety, T.P. Policy and Regulatory Issues in Microfinance. Micro-finance Summit Nepal, 2008. www.findevgateway.org/sites/default/files/publications/files/mfg-en-paper-policy-and-regulatory-issues-in-microfinance-feb-2008.pdf

[16] Other significant policies include making microfinance services reliable and accessible through MFIs, conducting income-generating self-employment programmes, building the capacity of MFIs for their sustainable operation, informing necessary provisions in the law for microfinance, and developing institutional mechanisms for increasing access to microfinance services.

[17] Nepal Rastra Bank. Monetary Policy for 2022/23, 2022 (unofficial translation). www.nrb.org.np/contents/uploads/2022/08/Monetary-policy-in-English-2022_23-Full-text.pdf

[18] The data on population below the poverty line is taken from the Nepal Multidimensional Poverty Index report, 2021. https://tinyurl.com/3vkmtb89

[19] Kantipur, 13 October 2022. Microfinance is more ferocious than loan sharks. Unofficial translation. Only available in print.

[20] Makalukhabar, 11 October 2022. In Pics: Demonstration at Maitighar against excesses of Microfinance Institutions. https://english.makalukhabar.com/2022/10/76840/.

[21] myRepbulica, 13 November 2022. After commercial banks, NRB now launches probe into microfinance companies suspected of doing financial misconduct. https://myrepublica.nagariknetwork.com/news/after-commercial-banks-nrb-now-launches-probe-into-microfinance-companies-suspected-of-doing-financial-misconducts/

[22] Currently the system only collects information about people who have been blacklisted (i.e. individuals who have taken loans and failed to pay them back).

[23] NGOs that support microfinance borrowers with a more holistic package of support will have monitoring, evaluation and learning data for internal purposes, but this data is not publicly available for analysis.