SOCIO-ECONOMIC DETERMINANTS OF CREDIT MARKET PARTICIPATION IN NEPAL

A Thesis

Submitted to the Central Department of Economics

Faculty of Humanities and Social Sciences

Tribhuvan University, Kirtipur, Kathmandu, Nepal

in the Partial Fulfillment of the Requirements

for Degree of Master of Arts

in

Economics

Submitted by

Dinesh Pathak

Exam Roll No.:280765

Central Department of Economics

Tribhuvan University, Kritpur

Kathmandu, Nepal

July 2016

RECOMMENDATION LETTER

This thesis entitled "**Socio-Economic Determinants of Credit Market Participation in Nepal**" has been prepared by Dinesh Pathak under my supervision. I hereby recommend this thesis for examination by the Thesis Committee as a partial fulfillment of the requirements for the Degree of MASTER OF ARTS in ECONOMICS.

.

Date: 2073/04/06 B.S.

2016/07/21A.D.

_____

Naveen Adhikari
Thesis Supervisor
Central Department of Economics
Tribhuvan University

APPROVAL SHEET

We certify that this thesis entitled **"Socio-Economic Determinants of Credit Market Participation in Nepal"** submitted by Mr. Dinesh Pathak to the Central Department of Economics, Faculty of Humanities and Social Sciences, Tribhuvan University, in partial fulfillment of the requirement for the Degree of MASTER OF ARTS in ECONOMICS has been found satisfactory in scope and quality. Therefore, we accept this thesis as a part of said degree

Thesis committee

_____

Prof. Dr. Ram Prasad Gyanwaly
Head of Department

_____

Asso. Prof. Tara Prasad Bhusal
External Examiner

_____

Naveen Adhikari
Thesis Supervisor

Date: 2073/04/16 B.S.
2016/07/31 A.D.

ACKNOWLEDGEMENT

It is my great opportunity to complete this thesis under the supervision of Mr. Naveen Adhikari, Central Department of Economics, Tribhuvan University. I expression my cordial gratitude and respect for the valuable suggestions and guidance which my supervisor provided to me to complete this thesis. I would like to thank Head of the Department Professor Ram Prasad Gyanwaly for his inspiration to write this thesis. I would like to thank all of my respected teachers and personnel of CEDECON who has inspired me to complete this thesis.

I would like to thank TU Central Library team and Social Science Baha Library team for their support during literature review of this study. I would like to acknowledge Central Bureau of Statistics for providing me with NLSS 2010/11 raw data which has been used to prepare this thesis.

Lastly, I express my gratitude to my family members for their encouragement to complete this thesis.

Dinesh Pathak

July 2016

ABSTRACT

This study examines if socio-economic characteristics of Nepalese households affect the decisions which the households make in credit market. The study uses three logistic model with credit market participation related dependent variables and socio-economic characteristics of households as independent variables. The analysis is carried out using Nepal Living Standard Survey 2010/11 data which is a national survey.

The results of this study depicts that the variables, namely, age of household head, size of household, per capita food consumption of household and urban/rural location of household significantly affect the participation of household in the credit market. The variables, namely, literacy status of household head, size of household, size of land of household, per capita food consumption of household, poverty status of household, urban/rural location of household and time required for access to the closest bank for the household significantly affect the choice of source of household loan between formal and informal source. The variables, namely, gender of household head, literacy status of household head, size of household, per capita food consumption of household, poverty status of household and time required to access to the closest bank for the household significantly affect the decisions of household as regards to whether to use loan for business/farm use or for personal use.

The findings of this study suggest that socio-economic characteristics of Nepalese households are important in determining decisions which the households make in credit market.

CONTENTS

	Page No:
LETTER OF RECOMMENDATION	**i**
APPROVAL SHEET	**ii**
ACKNOWLEDGEMENT	**iii**
ABSTRACT	**iv**
CONTENTS	**v**
LIST OF TABLES	**vii**
ABBREVIATIONS	**viii**
CHAPTER I: INTRODUCTION	**1-5**
1.1Background	1
1.2 Statement of the Problem	3
1.3 Objectives of the Study	4
1.4 Significance of the Study	4
1.5 Limitations of the Study	5
1.6 Chapter Plan	5
CHAPTER II: LITERATURE REVIEW	**6-12**
2.1 Theoretical Concept	6
2.2. Review of Empirical Study	7
2.2.1 International Context	8
2.2.2 National Context	9
2.3 Conclusion of literature review	12
CHAPTER III: RESEARCH METHODOLOGY	**13-17**
3.1 Research Design	13
3.2 Nature and Source of Data	13
3.3 Method of Data Analysis	14
3.4 Econometric Analysis	14
3.4.1 Logistic Regression Models	15

CHAPTER IV: OVERVIEW OF CREDIT MARKET OF NEPAL **18-22**

4.1 Credit Market of Nepal: Financial Institutions 18
4.1.1: Number of Financial Institutions 19
4.1.2 Asset/Liability Structure of Financial Institutions 20
4.2 Policies Governing Credit Market in Nepal 21

CHAPTER V: SOCIO-ECONOMIC DETERMINANTS OF CREDIT MARKET PARTICIPATION **23-46**

5.1 Credit Market Participation of Nepalese Households 23
5.1.1 Proportion of Households with Loan 23
5.1.2 Borrowing from Formal and Informal Channels 26
5.1.3: Use of Household Loan 28
5.1.4 Distribution of Average Number of Loans 30
5.1.5 Distribution of Average Amount of Loan (per loan) 32
5.2 Socio-Economic Determinants of Credit Market Participation 34
5.2.1 Determinants of Credit Market Participation 34
5.2.2 Determinants of Source of Household Loan 39
5.2.3 Determinants of Use of Household Loan 44

CHAPTER VI: FINDINGS, CONCLUSION AND RECOMMENDATIONS **47-48**

6.1 Summary of the Findings 47
6.2 Conclusion 47
6.3 Recommendations 48

REFERENCES

ANNEX

LIST OF TABLES

		Page No:
Table 3.1	Description of Dependent Variables	16
Table 3.2	Independent Variables Determining Credit Market Participation	17
Table 4.1	Percent Distribution of Credit Sources of Nepalese Households	18
Table 4.2	Number of Financial Institutions	19
Table 4.3	Number of Branches of Financial Institutions By Development Regions	20
Table 4.4	Asset/Liability Structure of Financial Institutions	21
Table 4.5	Financial Institutions and Governing Acts	22
Table 5.1	Percent Distribution of Households with Loan	28
Table 5.2	Percent Distribution of Source of Household Loan	27
Table 5.3	Percent Distribution of Use of Household Loan	29
Table 5.4	Distribution of Average Number of Loans	31
Table 5.5	Distribution of Average Amount of Loan	33
Table 5.6	Summary Statistics of Variables Analyzed	35
Table 5.7	Logistic Regression: Determinants of Credit Market Participation	38
Table 5.8	Summary Statistics of Variables Analyzed	40
Table 5.9	Logistic Regression: Determinants of Source of Household loan	43
Table 5.10	Logistic Regression: Determinants of Use of Household Loan	46

ABBREVIATIONS

BAFIA	:	Bank and Financial Institution Act
CEDECON	:	Central Department of Economics
HDI	:	Human Development Index
FDL	:	Fondo de Desarrollo (Rural Bank)
FI	:	Financial Institution
GDP	:	Gross Domestic Product
MoF	:	Ministry of Finance
NGO	:	Non Government Organization
NLSS	:	Nepal Living Standard Survey
NPR	:	Nepalese Rupees
NRB	:	Nepal Rastra Bank
SAARC	:	South Asian Association for Regional Cooperation
TU	:	Tribhuvan University
VDC	:	Village Development Committee