



## Financial Inclusion in Nepal: Current Situation, Past Attempts and Current Policies



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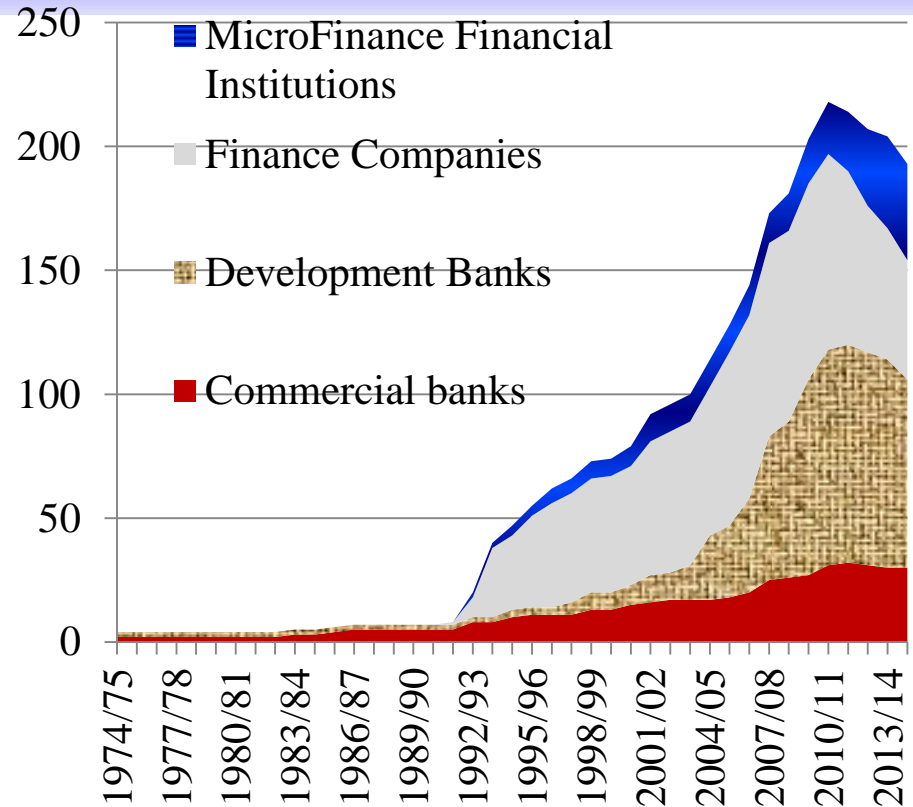
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## Current Situation

### Supply Side

- Population per branch of BFIs (A, B, C & D) = 6930
- 13460 Saving and Credit Cooperatives (15 licensed by NRB, others registered in Dept. of Cooperatives)
- 4031 Multipurpose Cooperatives (also performing savings and credit function)
- 27 NGOs (licensed for limited banking activities from NRB)
- 1 National Cooperative Bank (a wholesale bank for saving and credit cooperatives)



**As of mid- Jan 2016**

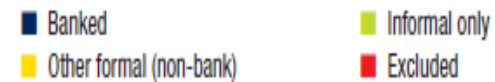
BFI	Comm. Banks	Develop. Banks	Finance Comp	Micro Finance Inst.	Total
No. of BFI	30	73	47	41	191
Branches	1806	856	202	1184	4048



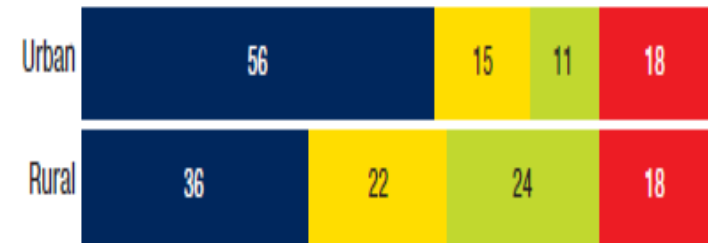
## Current Situation

### Demand Side (Based on FinScope Consumer Survey 2014)

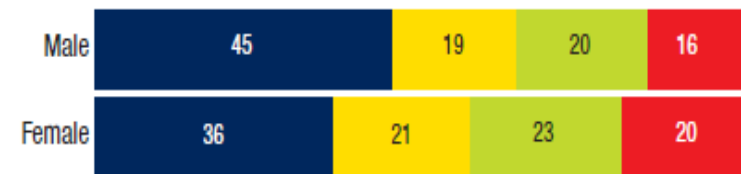
- Financially excluded adults, i.e. they do not use any financial products/services – neither formal nor informal – to manage their financial lives (18%)
- Adults who have/use informal mechanisms only but no formal products/services (21%)
- Adults who have/use formal non-bank products/services but no regulated bank products (21%) –they might also have/use informal mechanisms
- Adults who have/use regulated bank products/services (40%)



Access Strand by location (%)



Access Strand by gender (%)





## Past Attempts for Financial Inclusion

- ❖ Priority sector lending in 1974
- ❖ Small Farmer Development Programme in 1975.
- ❖ Establishment of Rural Self-Reliance fund (RSRF) in 1991
- ❖ Establishment of Rural Development Banks in five development regions in the 1990s
- ❖ Allowed the private sector to open micro finance development banks
- ❖ Various Project based microcredit programmes
- ❖ Deprived Sector lending introduced in 1991
- ❖ Cooperative Act, 1991 allows to establish saving and credit cooperatives by at least 25 members.
- ❖ Phased out of priority sector in 2007/08, but continuation of the deprived sector lending
- ❖ Financial intermediary NGOs (FINGOs) were issued licenses by NRB in 1998
- ❖ National Microfinance Policy 2008



## Current Policies and Programmes

- Liberal licensing policy to open Microfinance financial institutions in unbanked areas.
- Necessary to open branches in villages before opening in Kathmandu.
- Continuation of deprived sector lending (5 % of total loans for commercial banks, 4.5 % for development banks and 4 % for finance companies).
- Providing interest free loans to BFIs to extend bank branches in remote and rural areas.
- Allow to operate mobile (vehicle), mobile phone banking and agent (branchless) banking.
- Provision of productive sector lending which should be 20 % of total loans for commercial banks, of which 12 % should be on agriculture and hydropower.
- Directive issued for protection of financial customers.
- BFIs have to set up a separate desk under credit department for credit flows to micro, small and medium enterprises.
- Financial Literacy Programmes



## Running Donor supported programmes

- **Sakchyam Access to Finance** : to facilitate development of financial services for poor households and farmers in Nepal working with Nepal's public and private sectors.
- **UNNATI** – Access to Finance (A2F) project implemented by (NRB) and funded by the Government of Denmark, DFID and UNCDF in partnership with UNDP.
- **Raising Income of Small and Medium Farmer's Project (RISMFP)** under Asian Development Bank's Grant





## Issues and Challenges

- Modest level of financial inclusion – skewed distribution
- More micro-credit focus
- Still some areas have low access
- Supervising microfinance institutions – growing shadow banking by Cooperatives
- Sustainability
- Problem of financial literacy

### New Plans

- “One account in one household” campaign
- Establishing Second Tier Institution for supervising microfinance financial institutions and saving and credit cooperatives.
- Mapping of unbanked areas.