

MEMBER SERIES: NEPAL'S FINANCIAL INCLUSION JOURNEY TOWARDS ACCESS TO FINANCE, FINANCIAL LITERACY AND FINANCIAL CONSUMER PROTECTION



CONTENTS

INTRODUCTION	3
FOREWORD	4
ABOUT NEPAL	5
COMPOSITION OF NEPAL'S FINANCIAL SYSTEM	7
STATE OF FINANCIAL INCLUSION IN NEPAL	9
LEGAL FRAMEWORK AND KEY ENABLERS OF FINANCIAL INCLUSION	13
THE NRB AND IMPLEMENTATION OF MAYA DECLARATION	14
SOME BARRIERS TO FINANCIAL INCLUSION IN NEPAL	15
KEY LESSONS AND THE WAY FORWARD	16

ABSTRACT

Financial inclusion is high on the national agenda in Nepal because a large segment of the population has yet to be included in the 'financial mainstream.' The country aims to create a financial landscape in which all citizens are financially literate, protected, enabled, satisfied and moving towards prosperity by equitably and equally consuming financial services. Similarly, Nepal is focused on increasing access to financial education and services with an emphasis on digitalization.

The digital revolution in the financial system has resulted in improvements including increased reliability, quality, cost-effectiveness, speed and competition in financial services. Digitalization in financial services is therefore an important means for financial inclusion in Nepal. The Nepal Rastra Bank, the country's central bank, has played a crucial role in promoting financial literacy, ensuring financial consumer protections, enhancing digitalization and increasing access to finance thereby improving financial inclusion in Nepal. This member series document on financial inclusion in Nepal marks an important breakthrough that explores several important aspects including the current status, activities, challenges and future outlook.

ACKNOWLEDGMENTS

The Nepal Rastra Bank: Deputy Director Dr. Ramesh Prasad Chaulagain for his invaluable contribution for drafting, compiling and enriching this document.

From the AFI Management Unit: Ritesh Thakkar (Senior Manager, EECA & Asia Region) for initiating, facilitating and editing the document.

We would like to thank AFI member institutions, partners and donors for generously contributing to development of this publication.

INTRODUCTION

As a member-owned and member-driven global policy leadership alliance, our objective is to facilitate in-country implementation of policy changes to increase access and use of quality financial services for the underserved and the unbanked.

Through our collaborative, bottom-up approach that facilitates peer learning and knowledge exchange we have witnessed immense achievements in financial inclusion from our membership, leading to over 900 policy changes and financial inclusion of more than 650 million people over the last decade. Driven by practical policy solutions that draw lessons across the network, AFI members have been focusing on ways to support fellow financial policymakers and regulators in their respective countries in designing and implementing high-impact, tailor made solutions that meet their needs and challenges.

These country-led approaches have created ownership, a sense of empowerment and pride as ever more ambitious targets are set and achieved. It is imperative that such lessons are highlighted from each member's perspective on how AFI's peer learning approach and in-country implementation have been instrumental in facilitating transformation. Thus, we feature such practical lessons in this Members Series publication. With instructive lessons from the network that need to be highlighted and amplified, the member series serve to elevate financial inclusion achievements and bring to the fore, key policy lessons that will benefit other AFI members who are pursuing similar objectives.

This member series publication shares the practical lessons and financial inclusion journey of Nepal Rastra Bank (NRB). AFI member since 12 January 2010, NRB is offering a wealth of their knowledge on how they have addressed their unique financial inclusion challenges and opportunities.

I wish to take this opportunity to thank NRB, for sharing their experience and lessons from their financial inclusion journey. I am deeply impressed on how Nepal is taking important strides towards developing financial inclusion policies and structures which will enable transformation into innovative digital financial services ecosystem, promote financial literacy, consumer protection, and sustainable and inclusive growth in Nepal. It is my sincere hope that Nepal's journey will provide useful practical



lessons to the whole AFI network. Please join me in this Series to gain deeper perspectives on the journey of our member NRB as they undertake this transformation of the financial inclusion landscape in the country.

Dr. Alfred Hannig
Executive Director, Alliance for Financial Inclusion

FOREWORD

Financial inclusion plays a vital role in the economic development and poverty reduction by achieving financial stability and inclusive growth. This member series document provides a comprehensive account of Nepal's brief history, experiences and future pathways on financial inclusion.

Nepal Rastra Bank (NRB) envisions eradicating financial exclusion by expanding financial services and encouraging increased user adoption - which can reduce costs while improving the quality of services being offered.

Financial inclusion in Nepal is being supported by an expansion of banks and financial institutions which are licensed by the NRB.

Cooperatives and insurance companies have also contributed significantly by expanding access to finance and improving both financial literacy and inclusion.

In Nepal, the key priority sectors for financial inclusion are promoting financial awareness, literacy and capabilities, ensuring financial consumer protections, and enhancing digitization of financial services. Covid-19 has underscored both the need and value of digital finance. Moreover, an increase in credit to the productive sector and support for micro, small and medium scale enterprises and the agricultural sector are expected to further enhance financial inclusion.

Developing a country's financial inclusion profile as part of a contemporary financial agenda is crucial for policymakers, development partners, researchers, financial service providers, and academics and relevant to all readers. I am confident that this document has recorded the important aspects of financial inclusion in Nepal.



Finally, I am grateful to the related officials of the NRB Office of the Governor and its Financial Literacy Unit for contributing to this invaluable publication. Similarly, I would like to thank AFI for its initiation, providing valuable inputs and increasing the quality of this member series document.

Maha Prasad Adhikari
Governor, Nepal Rastra Bank

ABOUT NEPAL

NEPAL COUNTRY PROFILE

Nepal occupies 0.03 percent of the world's land mass, 0.3 percent of the Asian continent and 3 percent of South Asia. Surrounded by China and India, Nepal is a landlocked country with a total area of 1,47,516 square kilometers and a total population 30,378,054 as of mid-July 2021.

Three sides of the country border India while the northern boundary borders China. Nepal has been a Federal Democratic Republic since 2015 with inclusive growth being an important aspect of the country's financial and macroeconomic stability. The Nepali rupee is the nation's currency. Nepal is known for being the birthplace of Lord Gautam Buddha and having the world's highest mountain the world, Mount Everest (8,848.86 meters above sea level).

The absolute poverty rate was 16.67 percent at the end of 2019, whereas the multidimensional poverty level was 28 percent. The Gini coefficient, which indicates inequality in consumption expenditures, is 0.328. Per capita gross domestic product reached USD-1,191 in 2020. The human development index of Nepal reached 0.602 in 2020. Inclusiveness and federalism are basic principles of the Constitution of Nepal. The principles support financial inclusion, equitable access to financial services, and educating, empowering and protecting financial consumers.

BACKGROUND AND LANDSCAPE OF FINANCIAL INCLUSION IN NEPAL

The founding of Nepal Bank Limited in 1937, as the country's first formal financial institution and the establishment of the NRB in 1956, as the nation's central bank, were pioneering initiatives that increased access to finance and financial inclusion in Nepal. The NRB Act, 1955 focused on spreading bank branches across the country. Following the restoration of the democratic system in 1989, Nepal adopted a liberal economic and financial policy, which further opened new avenues for banks and financial institutions and other sectors. This liberalization invited private sector investments in economic and social sectors.



Mount Everest: National pride of Nepal.

The degree, depth and direction of financial inclusion, which has been gradually increasing, largely depend on the central bank, commercial banks, financial institutions, cooperatives and non-bank financial institutions and their financing activities. Financial inclusion, one of the ways of achieving the national economic goal of Prosperous Nepal, Happy Nepali, is also emerging as increasing priority on the global agenda. The agenda is global in scope because a significant segment of the world's population has yet to be included in the 'financial mainstream'.

Financial inclusion in Nepal aims to establish the right to finance for every citizen who is excluded from the financial mainstream by initiating financial literacy and empowering service users with the help of financial digitalization.

On this ground, the vision and objectives of financial inclusion are as follows:

VISION OF FINANCIAL INCLUSION IN NEPAL

Building an inclusive financial system by increasing access to finance in every segment of the population through enhanced financial education, and digitalization that ensures consumer protection.

OBJECTIVES OF FINANCIAL INCLUSION IN NEPAL

1. Increase access and confidence in financial services
2. Decrease barriers to financial inclusion
3. Ensure financial consumer protections
4. Educate people about financial services and the system
5. Enhance financial digitalization

HISTORICAL BACKGROUND OF FINANCIAL INCLUSION IN NEPAL

Financial inclusion has been a high policy priority in Nepal for many years. Historically, the Nepal Rastra Bank and several donor agencies collaborated to enhance access, literacy and protections. Some examples of donor collaborated financial inclusion projects include: Enhanced Access to Financial Services (EAFS) supported by the World Bank, UNDP and UNCDF; UNNATI-Access to Finance supported by UNCDF; Production Credit for Rural Women (PCRW); Micro Credit Program for Women (MCPW); Poverty Alleviation Project for Western Terai (PAPWT); Third Livestock Development Project (TLDP); Community Ground Water Irrigation Sector Project (CGISP); and Raising Income Project for Small and Medium Farmers (RIPSMF). Wholesale and retail micro financial models are also being practice along with Bangladesh's Grameen Model. Similarly, the cooperatives model, including savings and credits has also been widely practiced in Nepal since the 1950s.



Producing dragon fruit in western part of Nepal: a part of green financing. (photo source: Maurati Photography)

COMPOSITION OF NEPAL'S FINANCIAL SYSTEM

The financial system in Nepal is comprised of banks and financial institutions (BFIs), non-bank financial institutions (NBFIs), the capital market, insurance market and cooperatives. The system includes the regulator and financial service providers.

NEPAL RASTRA BANK

The Nepal Rastra Bank is the central bank, monetary authority, as well as the regulator and supervisory body of licensed banks and financial institutions and some of the non-bank financial institutions. Established on 26 April 1956 under the Nepal Rastra Bank Act, 1955 - in its early days, the primary objectives of the NRB were to control the dual currency system by issuing and legalizing domestic currency as legal tender, stabilize the volatility in the exchange rate and increase financial access around the country.

With the expansion of the financial sector, the Act was replaced by the Nepal Rastra Bank Act, 2002. The objectives of the Act include maintaining macroeconomic and financial stability, increasing people's access to financial services, increasing public

confidence in financial services, and developing a secure, healthy and efficient payment system. Therefore, the role of the NRB is significant in increasing access to finance, facilitating digitalization of financial services, protecting the financial consumers, promoting financial literacy and enhancing financial inclusion.

BANKS AND FINANCIAL INSTITUTIONS

The Banks and Financial Institutions Act, 2016 categorized the banking system into four classes - A, B, C and D, comprising commercial banks, development banks, finance companies and micro financial institutions respectively. The banks and financial institutions have about 85 percent stake in the financial system, whereas commercial banks have the biggest stake.

As of mid-January, 2022 there were 27 commercial banks, 17 development banks, 17 finance companies, 67 micro financial institutions and an infrastructure development bank. The composition of licensed banks and financial institutions are shown in figure 1 below.

NON-BANK FINANCIAL INSTITUTIONS

Different non-bank financial institutions operate in Nepal such as cooperatives, insurance companies, the Employees Provident Fund, Citizen Investment Trust and Postal Saving Bank. Some of them are briefly described in figure 2 below.

FIGURE 1: COMPOSITION OF LICENSED BANKS AND FINANCIAL INSTITUTIONS IN NEPAL

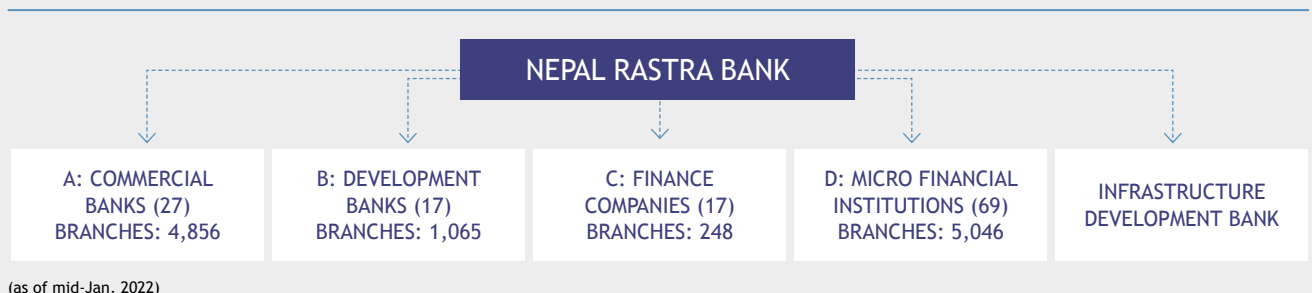
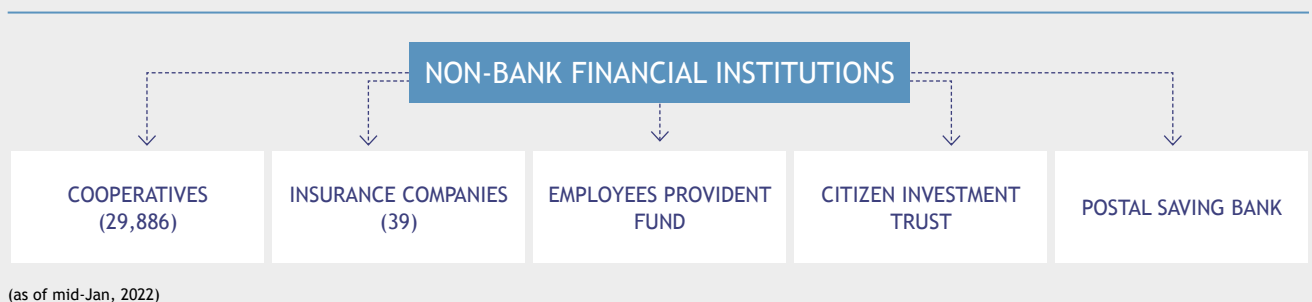


FIGURE 2: COMPOSITION OF NON-BANK FINANCIAL INSTITUTIONS IN NEPAL



COOPERATIVES

Cooperatives collect deposits from and provide credit to their members. These institutions are established according to the Cooperatives Act, 1991 which was replaced by the Cooperatives Act, 2017. Governments at the federal, provincial and local levels register, license, regulate and supervise the cooperatives. According to the law, cooperatives are classified into savings and credit, multipurpose, agricultural and others.

As of March 2021, the total number of cooperatives stood at 29,886, of which 14,000 were in the savings and credit group, while the number of cooperative members reached about 7.5 million with about 90,000 employees. The cooperatives segment is the second largest group of financial intermediaries in Nepal in terms of resource mobilization and the number of service users.

INSURANCE COMPANIES

The history of insurance in Nepal dates back to 1947, when the Insurance and Transportation Company was established as a satellite company of Nepal Bank Limited. The National Insurance Corporation was established in 1968 as a separate public insurance company in Nepal involved in life and non-life insurance. The Government of Nepal established an Insurance Regulatory Authority (Beema Samiti or Insurance Board) in 1986.

After the restoration of democracy in 1989, private investments in the insurance sector became easier and more reliable. As a result, there are presently 39 insurance companies involved in life, non-life, both life and non-life, and re-insurance activities.

CAPITAL MARKET OF NEPAL

The capital market mobilizes long-term financial resources in the productive sector. The market instruments used in the capital market include shares and debentures. In the government sector, government securities such as foreign employment savings bonds, citizen savings bonds, national savings bonds, development bonds, and Treasury bills are sold and in circulation. The starting point of the capital market in Nepal goes back to 1937, with the establishment of Nepal Bank Limited as the first commercial bank.

In 1976, the Securities Exchange Center was established to manage the issuance and transaction of securities. Initially, it had dual responsibilities of managing transactions and regulating the securities market. The Securities Exchange Act was later enacted in 1983 and decade later in 1993, the Securities and exchange Center was subsequently converted into the Nepal Stock Exchange (NEPSE). Securities Board of Nepal (SEBON) was established as a regulatory body, whereas the NEPSE plays the role of managing the security trading.



Financial awareness program on the occasion of the Global Money Week, 2021

STATE OF FINANCIAL INCLUSION IN NEPAL

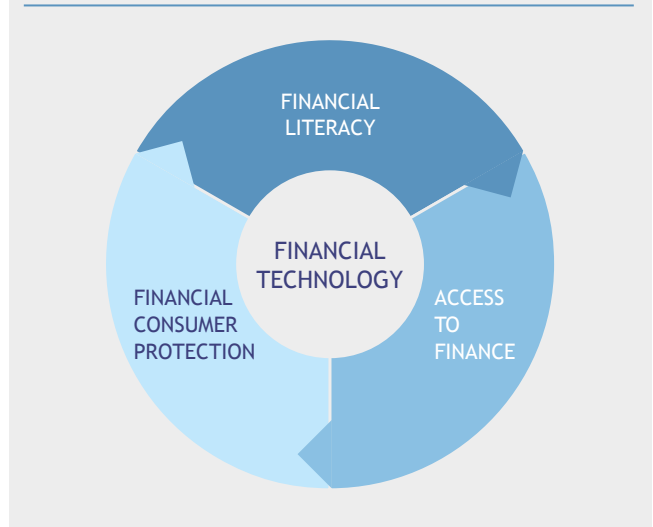
Financial inclusion in Nepal consists of three essential factors: financial literacy, access to finance and financial consumer protection. It is important to note that financial technologies and the digitalization of financial services are cross-cutting agendas for these three factors.

The composition is demonstrated in Figure 3 below, which shows a framework based on the NRB’s focus, priorities and activities in relation to financial inclusion over the last few decades.

ACCESS TO FINANCE

The NRB’s financial inclusion portal (<https://emap.nrb.org.np>) explores some of the supply side situations regarding access to finance in Nepal. The portal disseminates real-time data through various dashboards on access to and uses of financial services, such as credits and deposits, branchless banking and an access point map.

FIGURE 3: COMPOSITION OF FINANCIAL INCLUSION IN NEPAL



To increase access to finance, the NRB has issued directives on privileged credits, such as priority sector credits, productive sector credits, deprived sector credits and interest subsidized credits. Among a total of 753 local levels, commercial banks established branches in 750 by mid-November 2021.

BFI's have to spend five percent of their Corporate Social Responsibility Fund (CSR) in financial literacy training and programs focusing on women and socially excluded

FINANCIAL INCLUSION DASHBOARD

Nepal Rastra Bank

- Key financial inclusion indicators
- Access to financial service
- Usage of financial services
- Credit and deposit
- BLB agents
- Access points map

Feedback

ACCESS POINTS MAP
Reset

Channel: All
Class: All
Institution: All
State: All
District: All
Local Body: All
Granularity: Heat Map

■ 1 - 16
 ■ 17 - 33
 ■ 34 - 49
 ■ 50 - 72
 ■ 74 - 102
 ■ 105 - 1,823

Export Excel

Export PDF

groups in the population. One of the NRB's directives mentions that each BFI has to allocate at least one percent of its net profit in the CSR. The number of average service users of each BFI branch, and growth of some financial indicators are shown in Table 1 and Table 2.

FINANCIAL LITERACY

Financial literacy is an enabler of financial inclusion. The NRB formulated the Financial Literacy Framework-2020 with technical and financial support from AFI as a guiding principle of financial education activities. The framework aims to facilitate financial literacy activities through licensed banks and financial institutions - while the NRB and AFI collaborated in implementing the framework.

The NRB organizes specific financial literacy initiatives for students and facilitates additional financial awareness programs through non-governmental organizations, which promotes the importance of saving, an understanding of the banking system, preventing and reducing banking fraud, and an understanding of clean note policies and financial digitalization. The NRB, in addition to publishing a booklet on financial awareness called a tree of money (Paisako Bot) and a reference book on financial literacy, has produced audio-visual materials (jingles) on separate subject matters together with songs to promote an increased understanding. All of these materials have been uploaded to the NRB's website.

FINANCIAL CONSUMER PROTECTION

Financial Consumer Protection (FCP) aims to enable, promote and protect consumers when consuming formal financial services available in the market. The NRB, as a pioneering domestic institution focused on FCP, has issued directives to banks and financial institutions to provide consumer-friendly disclosures establishing help desks and updating any necessary information. The FCP and Grievance Management Manual were introduced in 2020 and included a provision for a 'Grievance Management Committee' under the leadership of the Deputy Governor. The principles in the manual include the protection of financial consumers' rights, equality, disclosure, transparency, accountability, handling grievances and conflict management. A separate portal is being managed on the NRB's website (the NRB Grievance Management System) to handle any inquiries, grievances and suggestions from the general public related to financial services.

DIGITALIZATION AND USE OF TECHNOLOGY IN FINANCIAL SERVICES

The 2019 Digital Nepal Framework noted that Nepal has enjoyed incredible success in digital adoption compared to its neighbors, with mobile penetration exceeding 100 percent and internet penetration reaching 63 percent.

The framework identified eight areas in digital finance:

1. A national payment gateway
2. Credit ratings
3. An information management system for Nepali migrants
4. Mobile wallet services
5. Digital payments
6. Developing a single window for business and industry
7. Developing and promoting e-commerce and an information technology
8. A digital payment campaign

Promoting a digital financial system requires both digital literacy and digital financial literacy. Digital infrastructure is equally important to move towards digital finance. Popular digital financial services in Nepal include payment and fund transfers, capital market transactions, utility payments (such as bill payments for drinking water, electricity, telephones and mobile phones), payment of goods and services at retail, wholesale and department stores (such as groceries, accessories, vegetables and fruits), payment for bus and airplane tickets, cable TV bills, school and college fees, etc.

To encourage the transition to a digital form of its currency, the NRB is planning to conduct a feasibility study of a Central Bank Digital Currency (CBDC) in Nepal. The growth of digital financial services is presented in Table 3.

DEMAND SIDE FINANCIAL INCLUSION

The Global Findex Database 2017 revealed that the global share of adults owning an account (with a financial institution or through a mobile money service) was 69 percent, while in Nepal, the figure stood at 45 percent. With respect to gender, the share for men was 50 percent, with women at 42 percent.

NRB's financial literacy materials available at <https://www.nrb.org.np/financial-literacy>

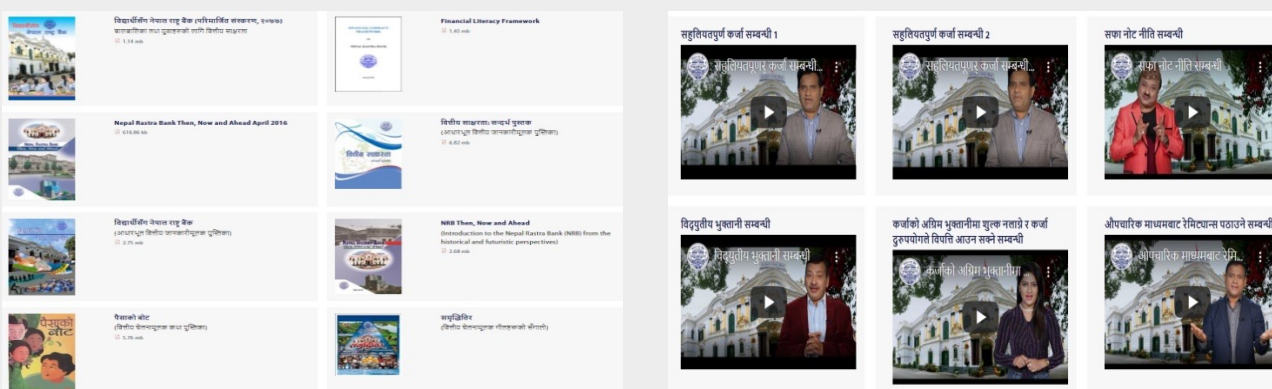


TABLE 1: NUMBER OF AVERAGE SERVICE USERS OF BFI BRANCHES

PARTICULAR	MID-JULY, 2021		MID-JULY, 2020		MID-JULY, 2019	
	BRANCHES	AVERAGE	BRANCHES	AVERAGE	BRANCHES	AVERAGE
NATIONAL AVERAGE	10,683	2,844	9,765	3,072	8,686	3,363

TABLE 2: GROWTH OF FINANCIAL INDICATORS

	MID-JULY, 2021	MID-JULY, 2020	MID-JULY, 2019
NO. OF TOTAL DEPOSIT ACCOUNTS	37,770,985	32,454,204	27,866,505
NO. OF TOTAL LOAN ACCOUNTS	1,702,195	1,544,059	1,439,646
AMOUNT OF DEPRIVED SECTOR LOANS (IN MILLION RUPEES)	293351	201610	177390
AMOUNT OF TOTAL DEPOSITS (IN MILLION RUPEES)	4,740	3,934	3,354
AMOUNT OF TOTAL LOANS (IN MILLION RUPEES)	4,175	3,273	2,914
GROSS DOMESTIC PRODUCT (NOMINAL) (IN MILLION RUPEES)	4,266,322	3,914,701	3,858,931

TABLE 3: DIGITAL FINANCIAL SERVICES (IN NUMBERS)

FINANCIAL SERVICES	MID-JULY, 2021	MID-JULY, 2020	MID-JULY, 2019
AUTOMATED TELLER MACHINE (ATM) TERMINALS	4,325	4,106	3,316
BRANCHLESS BANKING (BLB) CENTERS	1,706	1,574	1,530
PAYMENT SYSTEM OPERATORS (PSO)	10	9	4
PAYMENT SERVICE PROVIDERS (PSP)	9,279	NA	NA
DEBIT CARDS	8,839,855	7,329,202	6,708,521
CREDIT CARDS	192,370	160,297	123,146
INTERNET BANKING	1,160,321	1,031,227	917,344
MOBILE BANKING	14,194,839	11,306,797	8,347,187
INTER-BANK PAYMENT SYSTEM (IPS) MEMBERS	103	NA	NA
CONNECT IPS USERS	534,615	NA	NA
QUICK RESPONSE (QR) TRANSACTIONS	855,566	NA	NA

NEPAL RASTRA BANK STUDY ON ACCESS TO FINANCE

A Nepal Rastra Bank study published in 2021 found that 67.3 percent of Nepali youth (over 15 years of age) had access to bank accounts. The report mentioned the availability of financial instruments vis-à-vis financial institutions for increasing access to finance.



MECHANISMS FOR IMPLEMENTING FINANCIAL INCLUSION ACTIVITIES

1. A High-level Committee on Financial Inclusion Roadmap Implementation was formed under the coordination of the Senior Deputy Governor of the NRB to implement the Nepal Financial Inclusion Action Plan, 2017.
2. The Grievance Management Committee was formed under the coordination of the Deputy Governor.
3. A Study Taskforce on establishing a separate Financial Inclusion Structure in the NRB was formed under the coordination of the Deputy Governor of the NRB.
4. AFI's ICI Program Implementation Steering Committee (APISC) was formed under the coordination of the Executive Director of the NRB, Office of the Governor. The committee is responsible for implementing and amending the Financial Literacy Framework, 2020.
5. The Access to Finance Coordination Committee was formed under the coordination of the joint secretary of the Ministry of Finance with the NRB as a joint coordinator. The committee includes representatives of SEBON, the Insurance Board, Nepal Telecom, Nepal Bankers' Association and the Department of Cooperatives.



QR code inauguration by Governor Maha Prasad Adhikari.

LEGAL FRAMEWORK AND KEY ENABLERS OF FINANCIAL INCLUSION

The constitution of Nepal, a milestone in addition to being at the apex of legal frameworks for financial inclusion, guarantees that every citizen has an equal right to economic activities and aims to establish an inclusive state. The constitution has basic premises of inclusiveness and federalism. Inclusiveness has further triggered inclusive growth and financial stability in the country. The NRB systematizes financial inclusion actions through its strategic plan, monetary policies, unified directives and annual action plan.

On this basis, there are some enablers of financial inclusion as follows:

FIFTEENTH PLAN, 2020 (2019/20-2023/24)

The Fifteenth Plan, formulated by the government of Nepal, focused on financial literacy, the use of technology and encouraging coordination with all local levels of government in promoting financial inclusion.

FINANCIAL SECTOR DEVELOPMENT STRATEGY (FSDS), 2017

The government of Nepal formulated the FSDS which categorized the country's financial system into five groups: the banking sector; insurance sector; capital market; non-bank financial institutions; and cooperatives. The strategy identified financial inclusion in Nepal as a significant contributor to inclusive economic growth. As the implementation period of the FSDS is now complete, a new FSDS formulation is underway.

FOURTH STRATEGIC PLAN OF NEPAL RASTRA BANK, 2022

Financial inclusion goes hand in hand with financial literacy and financial consumer protection. The NRB sets strategic actions to achieve deepened financial inclusion, in multiple dimensions, removing all sorts of barriers present in the form of geography, gender, income, literacy, etc. Similarly,

one of the objectives of the plan focuses on financial literacy, inclusion and access to finance, which will contribute financial sector stability.

NEPAL FINANCIAL INCLUSION ROADMAP (2017-22)

The Nepal Financial Inclusion Roadmap (2017-22) is one of a series of documents produced as part of the Making Access Possible (MAP) Nepal initiative. The roadmap, which aims to increase access to affordable finance to everyone by 2030, is an overarching guideline meant to strengthen financial inclusion in Nepal. It was also helpful in developing the Nepal Financial Inclusion Action Plan which specifically targets financial inclusion. MAP Nepal was managed under the overall UNNATI-A2F (Access to Finance) program implemented by the NRB and funded by the Government of Denmark, DFID and the UNCDF in partnership with the United Nations Development Program (UNDP).

NEPAL FINANCIAL INCLUSION ACTION PLAN, 2017

The Nepal Rastra Bank introduced the Nepal Financial Inclusion Action Plan in collaboration with UNCDF, which was based on the Nepal Financial Inclusion Roadmap, 2016. The primary functions of the plan included implementing the roadmap, preparing a regular reporting format on financial inclusion, etc. The six priority sectors identified by the plan in promoting financial inclusion in Nepal are: unlocking the constrained credit and savings market, improving payment systems, bolstering risk mitigation capabilities, enhancing and leveraging locally-based financial service providers, enhancing financial inclusion support in national governance, and strengthening consumer empowerment, protection and education.

THE NRB AND IMPLEMENTATION OF MAYA DECLARATION



The NRB committed to the Maya Declaration on 23 August 2013, specifically to four relevant topics: promoting financial literacy, conducting rural credit surveys, formulating financial sector development strategies and launching mobile money services.

Under the first commitment, three sub-commitments were established - developing a national level financial literacy strategy, disseminating public awareness using audio-visual mass media, and conducting the NRB-program with students (which is included in the NRB's annual program). A national level financial literacy strategy was drafted and submitted to the Government of Nepal. Five types of separate audio-visual jingles were produced and disseminated, and also uploaded on the NRB's website.

The second commitment involves conducting a national-level survey that covers access to finance, a credit and interest rate structure, and financial literacy, and using the results to frame appropriate policies and strategies for rural finance. The survey has yet to be conducted.

The third commitment entails formulating a financial sector development strategy with the objective of expanding financial access and growth; strengthening regulatory and supervisory norms for microfinance institutions; promoting product innovations and effective delivery channels to expand the outreach of financial services to the poor while enhancing public awareness; and promoting customer protections, financial literacy and financial education. Implementation of the first Financial Sector Development Strategy, 2017 ended on 15 July 2021.

The fourth commitment involves improving the quality existing mobile money services and introducing new mobile money services for the poor with the financial and technical support of donor agencies. These programs are currently being implemented.

COLLABORATION AND THE ROLE OF AFI

The Alliance for Financial Inclusion was established in 2008 to promote innovative financial inclusion related policies and regulations that enhance financial access among underserved and unbanked populations. AFI plays a vital role in sharing and learning ideas about financial inclusion among its members around the world. The NRB became a member of AFI in December 2010 and has been actively participating in its programs. As an AFI member institution, the NRB announced its Maya Declaration Commitment to increase financial inclusion in August 2013. The commitment was made in accordance with the NRB's planned objectives, strategic plan, and policies among others.

The NRB initially joined the five working groups followed by its involvement as vice chairman of AFI's Investment Committee in 2021. The Governor of the NRB is also a board member of AFI, allowing the NRB to actively participate in various board agendas and provide functional insights for more robust corporate governance.

In 2019, the NRB received a policy grant to formulate a Financial Literacy Framework in addition to an in-country implementation grant in 2021 to better support implementation of the Financial Literacy Framework, 2020 in Nepal. Its scope is limited to domestic BFIs for now. The vision of FLF is for having "financially aware and capable citizens for prosperous Nepal".

SOME BARRIERS TO FINANCIAL INCLUSION IN NEPAL

Despite the considerable progress made, some barriers to financial inclusion remain in Nepal:

1. RELATED TO FINANCIAL INFRASTRUCTURE:

- > Geographical disparity and physical distance, inadequate service outlets in rural areas
- > Inadequate policies, laws and strategies in financial literacy, insurance, access to finance, financial consumer protection and financial inclusion.

2. RELATED TO ACCESS, USAGE AND QUALITY OF FINANCIAL SERVICES:

- > Low access to finance.
- > Insufficient and poor quality of financial services.

3. RELATED TO FINANCIAL CONSUMER PROTECTION:

- > Inadequate of financial consumer protection mechanism.

4. RELATED TO CREDIT GOVERNANCE:

- > Lengthy and time-consuming procedural complications with respect to credit expansion.
- > Traditional and collateral-based lending process.

5. OTHERS:

- > Low level of financial education and literacy.
- > Informal and non-formal financing, shadow banking practices.
- > Poor monitoring and evaluation of financial inclusion activities.
- > Low level of household incomes.



A farmer collecting sheep wool in mountainous region of Nepal

KEY LESSONS AND THE WAY FORWARD

The NRB learned the following lessons from financial inclusion courses concerning Nepal and plans to pursue the following ways forward:

KEY LESSONS

- > Financial literacy and financial consumer protection are key enablers of financial inclusion.
- > To transition to a cashless economy, digital literacy, infrastructure in digitalization and an innovation culture in digital finance must be prioritized.
- > Monitoring and evaluation of financial literacy initiatives are necessary and must be systematized.
- > A consolidated organizational, regulatory and financial environment is needed to promote financial access, education and protection.
- > A collaborative effort among stakeholders is necessary to increase the degree of financial inclusion.

- > Physical expansion of banks, financial institutions and services, while necessary, is not enough to promote financial inclusion.

WAYS FORWARD

- > Enhance the regulatory and supervisory environment in literacy, access and protection
- > Establish a separate financial inclusion structure in the NRB
- > Develop an appropriate regulatory and effective monitoring mechanism of cooperatives
- > Conduct national level surveys and studies on financial inclusion, access to finance, financial literacy and financial consumer protection
- > Prioritize digital finance and a central bank digital currency (CBDC) by innovating financial technologies
- > Expand coverage of privileged credits
- > Enhance financial literacy programs and provide more initiatives to banks and financial institutions in promoting financial literacy to service users
- > Facilitate banks and financial institutions in producing quality financial services



Focus group discussion program for amending Financial Literacy Framework, 2020

FUTURE OUTLOOK OF FINANCIAL INCLUSION

The following NRB priorities seek to increase the degree of financial inclusion in Nepal:

- 1 Formulating policies and strategies on financial literacy, financial inclusion, financial consumer protection, digitalization of financial services and minimizing proximity to finance.
- 2 Prioritizing digital financial literacy, digitalization in financial services and moving towards a cashless economy.
- 3 Improving coordination with the Government of Nepal and cooperation with domestic stakeholders, such as cooperatives and non-bank financial institutions as well as international stakeholders such as UNCDF, AFI, and the World Bank in promoting financial inclusion.
- 4 Mobilizing BFIs to strengthen financial literacy and consumer protections in integrated ways together with improving prudential regulations and strengthening supervision.
- 5 Developing and strengthening Nepal's financial infrastructure.
- 6 Prioritizing monitoring and evaluation of financial inclusion activities.
- 7 Developing a financial inclusion dashboard.

Alliance for Financial Inclusion

AFI, Sasana Kijang, 2, Jalan Dato' Onn, 50480 Kuala Lumpur, Malaysia
t +60 3 2776 9000 e info@afi-global.org www.afi-global.org

 Alliance for Financial Inclusion  AFI.History  @NewsAFI  @afinetwork