

**CICTAB Program on
"Development of Rural Financing Institutions and Cooperatives"**

Bode, Bhaktapur | 26 September 2016

Address Delivered by Dr. Chiranjibi Nepal
Governor of Nepal Rastra Bank

Chairperson of the Opening Ceremony
CEOs and Chiefs of Financial Institutions
Distinguished Resource Persons
Participants

Ladies and Gentlemen,

It gives me immense pleasure to address this august gathering at this opening session of this Training Program on "Development of Rural Financing Institutions and Cooperatives" in Nepal.

At the outset, I would like to thank Centre for International Cooperation and Training in Agricultural Banking (CICTAB) as well as the organizing member-institutions from Nepal for inviting me as the Chief Guest to this program.

Ladies and Gentlemen,

Among the several mechanisms that could be utilized to accelerate rural development, one critical instrument is the development of rural finance. To ensure the success of rural development, special priority must be accorded to rural finance in order to integrate rural residents at grassroots level into rural financial markets. However, providing financial services in rural areas is a challenge as agriculture and other rural economic activities have unique characteristics of dependence on natural resources, long production cycles and vulnerability to multiple risks.

Although the microfinance revolution has been largely successful in expanding financial services to many poor people, there are instances when the very poor and other especially disadvantaged and marginal groups tend to be excluded. Fortunately, many innovations in products, technologies, and linkages between financial institutions are pushing out the financial frontier by lowering financial costs and risks. These changes are critical to expand outreach, ensure the profitability and sustainability of financial institutions, and improve the impact on clients. Even more effort is required, however, to further reduce interest rates so microloans become more affordable while at the same time providing adequate returns for financial institutions. Similarly, supplying credit only is not enough for financial institutions to penetrate in the remote areas but credit plus programs with social sentiments is desirable so as to penetrate meaningfully in the rural areas.

Likewise, cooperatives can be important providers of rural financial services but they have often faced greater crises of financial instability than the formal banking sector usually due to weak supervision. Cooperatives have also not been very successful as they have sometimes been used as political instruments or are forced to implement government policies. However, financial stabilization and institutional development programmes have led to a resurgence of viable credit unions in a number of countries and cooperative organizations have the potential to play a significant role in rural financial markets.

Ladies and Gentlemen,

Allow me at this juncture to provide a glimpse of Nepal's experiences with regard to rural financing. The country is basically a rural economy with more than 80 percent of its population residing in rural areas. According to the preliminary estimates of the Central Bureau of Statistics (CBS), the real GDP at basic price is expected to grow by 0.8 percent in 2015/16 compared to a growth of 2.3 percent in the previous year. Delay in monsoon, prolonged strikes and obstructions in southern border points adversely affected the economy resulting in a lower growth. In 2015/16, the agriculture sector is expected to grow by 1.3 percent whereas the non-agriculture sector is expected to expand by 0.6 percent.

As the agriculture sector presently contributes more than one-third to the country's gross domestic product (GDP) and employs more than two-third of total labor force, economic growth of the country is largely determined by the performance of the agriculture sector. Moreover, a better performing agriculture is instrumental in promoting rural jobs, improving trade imbalance, reducing poverty and fostering equitable distribution of income.

Ladies and Gentlemen,

Government of Nepal and Nepal Rastra Bank (NRB) have been involving themselves in the policy formulation and program initiation regarding the rural financing since almost four decades. In this aspect, microfinance development banks, financial intermediaries non-governmental organizations (FINGOs), and some of the saving and credit cooperatives are regulated by the NRB under the Banks and Financial Institutions Act (BAFIA), Financial Intermediary Act and Cooperatives Act. Moreover, District Administration Office of the government also regulates the NGOs under the Institutions Registration Act as well. Saving and credit cooperatives are also regulated by the Department of Cooperatives. Presently, excluding the BFIs (A, B and C class), 15 cooperatives, 26 FINGOs and 42 microfinance development banks are undertaking rural financing activities under the regulatory and supervisory jurisdiction of NRB.

NRB has also joined hands with the government to establish and manage a wholesale lending fund, that is the Rural Self-Reliance Fund, which lends concessional fund to the cooperatives of rural areas for further lending to the deprived and poor households. The establishment of five rural development banks in five development regions during 1990s decade to do micro financing activities replicating Grameen model is another instance on NRB's commitment on enhancing access to finance for rural poor. Currently, these banks have been merged.

NRB's monetary and financial policies are also oriented to support inclusive growth through its credit policy and financial access strategy. Allocation of bank credit has been encouraged to promote agriculture and energy which is critical for inclusive growth. There is a deprived sector lending requirement for banks and financial institutions, special refinance facility to cottage and small industries, and enterprises run by women and specified community, refinance facility with concessional interest rate to productive sector, and interest free loan to banks to open branches in rural areas. Likewise, with NRB initiation and in coordination with Insurance Board of Nepal, mandatory provision for agriculture insurance has also been made introduced.

Ladies and Gentlemen,

In its Monetary Policy of 2015/16, the NRB made a provision of special refinance facility at 1 percent interest with the aim of encouraging BFIs (A, B, and C class) to extend loans to agriculture and small business -based income generating activities in poverty stricken areas of the country. Likewise, the Monetary Policy of 2016/17 has stated that steps would be initiated by the NRB to devise relevant policies relating to financial access, among others after assessing the study report of e-mapping. Moreover, the final drafts of the National Financial Literacy Policy as well as a draft of the Financial Sector Development Strategy (2015-2020) are awaiting approval of the Government.

Ladies and Gentlemen,

CICTAB, set up in 1983, has been providing an effective forum for exchange of experience in agricultural banking and related fields between different developing countries of this region. In this respect, I am delighted to note that some of the innovative financial products and services developed and mainstreamed over the last three decades for the rural economies of this region, have been, to some extent, positively influenced by CICTAB.

Nepal Rastra Bank, as a member of CICTAB, would like to assure the Centre that it will continue to support the Centre's objective of providing a common platform to the agricultural and rural development institutions of its member countries by imparting comprehensive and top quality training, seminars and workshops.

Ladies and Gentlemen,

I am happy to note that topical issues such as "Agricultural Financing and Rural Development through Cooperatives," "Innovation and Best Practices in Cooperatives," and "Financial Inclusion Practices in Rural Development", among others, will be extensively discussed this week. I believe that this five-day program would be able to draw effective policy inferences that will be applicable to CICTAB member countries to move ahead on the rural financing front.

I look forward to a most active participation and exchange of ideas from the participants.

I also hope that all the participants, especially our foreign guests, will also have time to enjoy both the beauty and the flavor of Nepalese culture.

Thank you very much and my best wishes for the successful conclusion of this program!