

National Conference on Financial Inclusion in Nepal

August 13, 2015

Key Note Remarks by Governor Dr. Chiranjibi Nepal, Nepal Rastra Bank

Honorable Vice Chairperson of the National Planning Commission, Dr Gobind Raj Pokharel

Respected Country Director of UNDP, Mr. Renaud Meyer

Respected First Secretary of Embassy of Denmark, Ms. Ingrid Dahl Medsen

Secretaries from Government Ministries

Deputy Governors,

Board members of Nepal Rastra Bank,

Distinguished delegates from the diplomatic mission in Nepal, banking community, friends from media, Ladies and Gentlemen,

1. It is a great pleasure for me to deliver the key note remarks at this opening ceremony in front of this august gathering of diplomats, professionals, intellectuals and dignitaries. First of all, let me take this opportunity to welcome you all in this important conference on financial inclusion for Nepal jointly organized by Nepal Rastra Bank (NRB), UNCDF, and UNDP.

Distinguished delegates, ladies and gentleman

2. The growth model based on the principle that the benefits from economic growth would eventually “trickle down” to lower echelon of society and that would naturally correct the inequality proved inadequate mostly in developing economies. It was thus realized that development process has to be pro-poor and inclusive and this acknowledged that there is a role for the state for reducing inequality.
3. In the last IMF Spring Meeting, the global community, therefore, acknowledged the need for enhancing financial access to the poor people which was reflected with the commitments from the World Bank Group and a broad coalition of partners – including multilateral agencies, banks, credit unions, card networks, microfinance institutions and telecommunications companies, for achieving universal financial access by the year 2020.
4. Financial inclusiveness is understood as providing and ensuring reliable and affordable financial services to all segment of society. Although access to finance is necessary for all members of society, it is particularly more important for disadvantaged and low income segments of society, as it provides opportunities for them to save and invest, and protect themselves from various risks such as natural disasters, illness, and loss of livelihoods. Access to finance will enable the poor and low income people to make economic self-realization and give chances to break the vicious cycle of poverty.

Distinguished delegates, ladies and gentlemen

5. Financial inclusion is not only a choice but also a necessity for economic growth of Nepal. About two-third of the population is dependent on agriculture. The unemployment or the underemployment societies in general, the need for job creation in the rural areas to protect from excessive urbanization, the nature of dispersed society in

the villages, inadequate infrastructures, and the existing level of poverty in the remote areas call for the need for inclusive growth policy in Nepal.

6. We understand that literate and economically active population would contribute to ensuring financial stability and economic development of the country. We also understand that access and use of appropriate financial services, such as credit, savings, insurance and payment, can improve household welfare and spur household enterprise activities, offering greater opportunity and choice to poor families. Likewise, opening bank branches in unbanked areas can potentially reduce poverty, increase the income level in the region and could have positive impacts on local households with availabilities of credit facilities. With the deepening financial intermediation, it could lower the transaction costs for the economy and facilitate decrease in the inequality levels by better distribution of capital and risk across the economy.
7. Recognizing the need for inclusive growth policy for Nepal, NRB in coordination with the government of Nepal, has taken numbers of policy measures to ensure reliable and affordable financial services to the poor people in the country. Liberal licensing policy for establishing micro finance institutions, gradual increment in deprived sector lending requirement for licensed Banks and Financial Institutions (BFIs), mandatory requirements for them to invest certain percentage of their credit in the productive sector, mandatory requirement for opening rural branches in order to open additional branches in urban areas, special refinance facility to cottage and small industries, interest free loan to extend bank branches in remote and rural areas, establishment of Rural Self Reliance Fund for subsidized credit to the poor and marginalized population, directives on consumer protection, directives on branchless banking and mobile banking services, and financial literacy are some of the policy measures directed towards ensuring financial inclusion and inclusive growth in the country.
8. For the expansion of economic activity, financial access plays a vital role. In this connection Government of Nepal has announced a policy to motivate for opening a bank account for each household. In line with the government policies, NRB is introducing “one account in one household” campaign soon. We are also in the process of preparing regulatory directives to allow non-bank private institutions, such as telecom operators, to take part in delivering the financial services. We are also working to expand the technology-based financial products, such as that of mobile and agent banking to address the challenges of financial inclusion. We have also developed Financial Sector Development Strategy for the next five year to address the priorities of the financial system in a comprehensive manner and that will be in operation from this fiscal year. Also, social security allowances from the government will be distributed through banking system from this fiscal year.

Ladies and gentlemen

9. I am delighted to note that NRB in coordination with other donor partners have conducted this demand side study of financial inclusion for Nepal. Let me extend congratulation to the project team along with Embassy of Denmark, DFID, UNDP, UNCDF and FinMark Trust for completing this important study and making this available today for public dissemination.
10. While the detail of the findings of this study will be presented and discussed at this august gathering today, I felt that this study has presented numerous findings for all, including the policy planners, regulators, and for the financial service providers.

11. The study measures that 40 percent of adult population is banked. Taking into account the cooperatives and other formal non bank financial institutions, about 61 percent of adult population is formally served.
12. Money lenders in Nepal still feature highest as a source of credit. 82 percent of the adults agree that money lenders are an important part of their community. 28 percent of adult population said that they are aware of insurance, while only 11 percent claim to have a form of insurance.
13. All these findings suggest that the journey of achieving the universal financial access by 2020 in Nepal is a challenging task. There is a great need of identifying products and services that are relevant to the people un-served. Robust policies need to be developed for controlling the shadow banking and bringing people to formal banking system. A strong coordination mechanism between banking, insurance and non-bank financial institutions and other private players in the financial market would be necessary to achieve the universal financial access goal. Private sector investment and innovation has to be encouraged through enabling policy and regulatory frameworks. I feel that partnership along with knowledge transfer from those countries that have moved ahead in achieving universal financial access would be very important. Our international communities will have a greater strategic role by supporting us in our journey of achieving universal financial access by 2020.
14. I hope that this conference, based on the findings of the study, will shed some light on the future road map of financial inclusion for Nepal. I look forward to your active participation and deliberation in the panel discussions headed by eminent speakers in this subject area.
15. Let me close my remarks by thanking the Honorable Minister of Finance and all other distinguished delegates for their valuable presence in this conference and making this event successful.

Thank you