



Year 14

Issue IV

October-November 2019

Volume 31

Financial Access Expands to 61 Percent Population

A recent study conducted by Nepal Rastra Bank (NRB) shows that financial access has expanded to around 61 percent of total population of Nepal.

According to a study on 'Status of Financial Access in Nepal' released by the NRB's Research Department on October

by NRB has doubled in the last four years; the number of branches has reached to 8,686 on mid-July 2019. This compared to 4,274 on the mid-July 2016. In line with the policy of having at least one branch of a Commercial Bank in all local levels, the presence of commercial bank

while it is highest in Karnali province (4,958). There is also significant expansion of the use of electronic technology in banking services in recent times. No. of ATM centers have been expanded to 3,316 in mid-July 2019 while it was 1,908 in mid-July 2016. No. of debit cards has risen to 67, 08,524 from 46,

Presence of Commercial Banks in Local Bodies

Province	No. of Local Bodies	Local Bodies presence with Commercial Banks		Local Bodies not presence with Commercial Banks
		Mid-July, 2018	Mid-July, 2019	
Province 1	137	112	136	1
Province 2	136	122	134	2
Province 3	119	107	117	2
Gandaki Province	85	74	84	1
Province 5	109	99	109	0
Karnali Province	79	54	77	2
Far-western Province	88	63	82	6
Total	753	631	739	14

2019, the number of deposit accounts has reached 18 million, which is 60.9 percent of the total population of Nepal. The study finds that as of mid-June 2019, the 'A', 'B' and 'C' class Banks and Financial Institutions (BFIs) had 27.867 million deposit accounts of both national and foreign citizens. By reducing multiple accounts net 18 million personal deposit accounts resulted, on that basis financial access has expanded to 60.9 percent.

The number of branches of BFIs licensed

has expanded to 739 local levels as compared to the presence in 296 local levels in mid-July 2017. The branches of commercial banks are yet to be expanded in 14 local levels, out of total 753.

The size of the average population per branch is gradually decreasing with the expansion of branches of BFIs. The average population per branch was 6,562 in mid-July 2016 while it is reduced to 3,363 in mid-July 2019. According to the study, average population per branch is lowest in Gandaki province (2,257)

57,125 in the same period.

As per the study, the number of mobile banking users were 1.75 million in 2016 however it has been increased by five times to 8.35 million till 2019. Also the numbers of internet banking users have been increased from 5,15,465 to 9,17,344 in the same period. The study concludes that the numerical growth of BFIs, the expansion of branches, the increase in the use of financial technology and the expansion of financial access have accelerated.



Changing Landscape of MFIs in Nepal



Dr. Praksah Kumar Shrestha^{1*}

Nepal has witnessed a tremendous expansion of microfinance financial institutions in recent years. In 1993, there were only two microfinance institutions (MFIs) in the name of Rural Development Banks, which were later established in all five development regions by 1997. These rural development banks were established by Government of Nepal and Nepal Rastra Bank (NRB) to expand the microfinance activities in rural areas of Nepal based on the modality of Grameen Bank in Bangladesh.

In line with the financial liberalization policy, NRB started allowing the private sector to open the microfinance institutions similar to rural development banks. Hence, the first MFI from the private sector was opened in 1998. NRB granted a license in 1999 to undertake banking activities. Since then, the private sector has gradually started taking initiative in establishing MFIs as profit institutions. As a result, including 5 state-owned rural development banks, the number of MFIs reached to a dozen by 2007.

No additional increment in number was recorded until 2008 but since

then the new MFIs were established in each year. In mid-July 2009, there were 15 MFIs in operation, which increased to 24 by mid-July 2012. Another two years registered a growth of 7 and 6 new MFIs respectively, reaching the total number of MFIs to 37 by mid-July 2014. Five rural development banks were merged into one along with partial sale of share of government and NRB in 2014/15. The year 2016/18 saw the further surge in number of MFIs with the establishment of 11 new MFIs with another 12 new MFIs being established in 2017/18, so that total number of MFIs reached 65 as of mid-July 2018. Because of conversion of 24 financial NGOs into MFIs during 2018/19, and establishment of one new MFI, total number of MFIs became 90 by mid-July 2019.

Some applications from the private sector to establish new MFIs are still in pipeline, though NRB has stopped receiving new applications since 2015. In this way, the private sector has shown great interest and enthusiasm on the establishment of MFIs. Not only the number of MFIs, but also their branch expansion has registered

a great stride. There were about 600 branches of MFIs as of mid-July 2013, this has now increased by six-folds within a period of six-year to 3629 in mid-July 2019.

As of mid-July 2019, there are six different types of MFIs operating in Nepal: wholesale (4); national level (41); regional level (8); provincial level (10); 4-10 districts (30) and 1-3 districts (1). NRB has already directed MFIs to be either national level or provincial level by mid-July 2020 with minimum paid-up capital of Rs. 100.0 million and Rs 20.0 million respectively.

As of mid-July 2019, the outreach of MFIs reached in all 77 districts of Nepal, with these being 4.3 million members and 2.7 million borrowers. Outstanding credit of MFIs remained at Rs. 235.1 billion at that time and they have mobilized savings of Rs. 85.5 billion, which covered 36.4 percent of total credit. Paid-up capital of all MFIs is more than Rs. 17.0 billion.

With the expansion of MFIs, overcrowding has been seen in those places, which are easily accessible and have business potentialities. As a result, multiple borrowing has been observed; this may

1 * Executive Director, Nepal Rastra Bank. Email: shresthap@nrb.org.np



pose a threat to microfinance industry in the near future, although NPL ratio is about 1.0 percent as of mid-July 2019. The financial performance of most of MFIs has been sound so far. Except 14 MFIs, all are making profits amounting to Rs. 6.5 billion in 2018/19 with a return on equity of more than 38 percent on average.

MFIs have three important sources of fund for providing microcredit to the poor: own capital, savings and borrowing. There is a mandatory provision of lending of 5 percent of total loans by commercial banks, development banks and finance companies to the deprived sector. Lending to MFIs from these financial institutions is considered as deprived sector lending. Hence, MFIs borrowed Rs. 126.5 billion as in mid-July 2019 from A, B and C financial institutions as part of deprived sector lending, which constitutes about 54

percent of lending of MFIs.

Since only two MFIs have been allowed to collect deposits from ordinary people through limited branches, MFIs have to rely on the fund available from the other banks as part of deprived sector lending. Hence, they are in dire need of funds to meet growing demand of credit in the field. Considering this situation, NRB has allowed the MFIs to borrow from abroad to meet the demand for credit. Lending to Nepalese MFIs is an attractive venture for foreign lenders given the profitability and repayment scenario.

Despite the expansion of MFIs and their branches, not all local bodies have access to MFIs. Most of the MFIs are concentrated in urban and semi-urban areas. As a result, 195 out of 753 local bodies still lack the presence of MFIs. Moreover, although declining, population below the absolute poverty line is still 18.7 percent. Since

microfinance is considered a tool for reducing poverty, role of microfinance is still high considering the size of poverty level and access to MFIs is still not enough in many places. Their role to increase financial access and inclusion cannot be denied, although the contribution to poverty reduction is a debatable issue.

Finally, sustainability of MFIs, however, requires the corrections of some anomalies seen in this sector such as multiple borrowings, which could lead to over-indebtedness thereby credit default. Further, excessive focus on profit may not only make mission drift of this sector, and also derail the path of sustainability because of weak monitoring of clients, lax internal control and fragile human resource management. Hence, consolidation of MFIs through merger process, is a need of the current time and has already started to some extent in recent months.

BFIs Must Increase Investment in IT : Governor Dr. Nepal

Governor Dr. Chiranjibi Nepal has highlighted the importance of increasing investment in information and technology to the Banks and Financial Institution (BFIs).

He was speaking on a program titled "Conference on Preventing Cyber Financial Fraud" on September 19, 2019 in Kathmandu. Governor Dr. Nepal informed that, "Issues related to cyber crime are increased in recent days in financial sector. Information technology must be

strengthened to control it. This requires increasing investment in information technology."

Governor Dr. Nepal also warned that the assets of BFIs could be at risk due to the lack of strong information technology mechanism. "Earnings over the years can be at risk with one click. Therefore, the system should be protected by increasing investment in information technology."

On this occasion, CEO of National Banking Institute (NBI), Sanjiv Subba mentioned

that BFIs of Nepal are in high risks from the perspective of cyber security and emphasized the need to strengthen the information technology systems to prevent their potential risks.

IT related experts from Nepal, India and representatives of domestic BFIs participated in the program. They discussed on information and communication system adopted in the financial sector, potential cyber risk and control mechanism.



NRB Releases Coins to Mark 550th Birth Anniversary of Guru Nanak



Nepal Rastra Bank (NRB) released three coins of different denominations during the 550th Birth Anniversary of Guru Nanak.

NRB issued the coins of 100, 1000 and 2500 Nepalese rupees denomination to commemorate the birth anniversary of Guru Nanak. Governor Dr. Chiranjibi Nepal and His Excellency Indian Ambassador for Nepal Mr. Manjeev Singh Puri jointly launched the coins on September 27, 2019. Among the released coins, Rs. 100-denomination coin is made of copper and Rs. 1000 and Rs. 2500 denomination coin is made of silvers. NRB has released these coins for sale at face value.

In addition, they jointly released a book titled "Sikh

Heritage of Nepal". The book was published jointly by BP Koirala India-Nepal Foundation and Embassy of India which aimed to connect the Sikh community with Nepal.

His Excellency Ambassador Mr. Puri mentioned the publication of the coin and the book as a commendable work. He also discussed about the contribution of Guru Nanak in the expansion of Sikhism. He said that Guru Nanak is a guru of the entire human race, stating that every human being has to share the knowledge and skills that he has acquired.

On this occasion, Governor Dr. Nepal mentioned about the contribution of Sikh community to the social

development of Nepal. He also stressed the need to deepen social, cultural and religious ties of the Sikh community and Nepal in future.

Deputy Governor Mr. Shiba Raj Shrestha, Executive Director of Currency Management Department, Mr. Laxmi Prapanna Niroula, Executive Director of Office of the Governor, Dr. Nephil Matangi Maskay and other NRB officials were present in the ceremony.

Similarly, Former Deputy Speaker of Parliament of India, Mr. Charan Jeet Singh, Chairman of Shiromani Gurudwara Committee, S. Govinda Singh Longowal and other leaders relating to Sikhism from Nepal and India had also attended the ceremony.

Publisher

Nepal Rastra Bank
Office of the Governor
Baluwatar, Kathmandu

Editor:

Sushil Gyawali

Editorial Team:

Vishnu Datta Pandey
Samita Shrestha
Lal Kumar Subedi