

# **FINANCIAL LITERACY FRAMEWORK**

**OF**

**NEPAL RASTRA BANK**



**March 2020**



# नेपाल राष्ट्र बैंक NEPAL RASTRA BANK

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## FOREWORD

Financial education is essential to having financial knowledge and contributing to greater financial transactions through the formal financial system; this contributes to an inclusive financial system as stated in the 2017 release of Nepal's Financial Sector Development Strategy (FSDS) Paper. However, the Bank has observed that activities of financial education programs are presently taking place in a fragmented and uncoordinated manner, with absence of regular monitoring and evaluation.

In this regard and to systemize and make them more effective, it was felt that a Financial Literacy Framework (FLF) for NRB licensed/authorized institutions is essential and will facilitate effective monitoring and evaluation. As such and given this felt need, NRB has prepared this framework.

In producing the FLF to this quality level, I would first like to appreciate Deputy Governor who has taken the responsibility of oversight of this activity. The development of the FLF was exercised by NRB's Financial Literacy Framework Implementation Working Committee under the coordination of the Executive Director of my office. I understand that many individuals were involved in producing this document, and would appreciate them all. I am also thankful to the Alliance for Financial Inclusion (AFI) for their contribution to the development of this framework. I thus take great pleasure in releasing this publication, which was developed in a participatory manner and am confident that it will act as an invaluable resource in the future.

  
(Dr. Chiranjibi Nepal)



## ACKNOWLEDGEMENT

As the Coordinator of NRB's Financial Literacy Framework Implementation Working Committee (FLFIWC) many people contributed to the final output and I have the opportunity to give them acknowledgement.

First, I would appreciate the guidance of Deputy Governor Mr. Chinta Mani Siwakoti for guiding the activities of FLFIWC and steering it to its successful outcome.

I would appreciate the support of Alliance for Financial Inclusion (AFI) and single out AFI's Asia Regional Manager Mr. Ritesh Thakkar and former Asia Regional Manager Ms. Bianca Isaincu for timely feedback and support during this long process.

I would acknowledge the members of NRB's FLFIWC: both Directors in this office and Member Secretary (Deputy Director in charge of NRB's International Relations Division) along with invitees. I would appreciate contribution of Directors duo Mr. Bhisma Prasad Upreti and Mr. Govinda Prasad Nagila. Member secretary to FLFIWC, at the initial phase, was undertaken by Mr. Shubhas Chandra Ghimire, transferred to another department upon his promotion as Director, he was replaced by Deputy Director Mr. Suresh Kumar Dahal and finally by Deputy Director Mr. Sushil Gyawali. The invitees were from different departments in Nepal Rastra Bank, and I would highlight the contribution of all staff in my office especially that of Assistant Director Mrs. Sudha Bista Thapa.

In developing initial draft of FLF, a five-member team from NRB had undergone an AFI Knowledge Exchange Visit to Bank of Tanzania. I would appreciate support for this visit to all officials in Bank of Tanzania, especially contact person Mrs. Nangi Massawe, Assistant Manager Financial Inclusion.

The preliminary draft of FLF was produced by FLFIWC. The contribution of consultants Dr. Nara Hari Dhakal and Dr. Dhruba Lal Pandey for the development of the FLF are highly appreciated. This was refined by having undergone pilot tests in 3 remote areas each from 3 districts of the country, which had recently established a commercial bank branch; they are namely Gorkha, Accham and Bardiya.

This draft was then soft disseminated for feedback from different associations along with relevant departments in NRB, including being commented by United Nations Capital Development Fund. I would also appreciate Dr. Bhubanesh Pant, Executive Director (rtd) for having reviewed and enhanced the draft. At the final stage, the Bank's Central Editorial Board recommended this framework for publication.

Lastly my apologies if I had missed anybody, I would thus like to thank them all.

Dr. Nephil Matangi Maskay  
Executive Director, Office of the Governor and  
Coordinator of NRB's FLFIWC



## **Abbreviations**

BFI	Banks and Financial Institutions
DFS	Digital Financial Services
FL	Financial Literacy
FLF	Financial Literacy Framework
FSDS	Financial Sector Development Strategy
FSP	Financial Service Provider
GoN	Government of Nepal
KYC	Know Your Customer
M&E	Monitoring and Evaluation
MSME	Micro Small and Medium Enterprises
NRB	Nepal Rastra Bank
OECD	Organization for Economic Co-operation and Development
P2G	People to Government
P2P	People to People
UNCDF	United Nations Capital Development Fund

## Contents

### Abbreviations

Definitions of key terms used in the Framework.....	1
I. Background.....	2
II. Components of Financial Literacy Framework of Nepal .....	5
A. Vision, Mission, Goals and Objectives of the Financial Literacy Framework .....	5
B. Scope.....	5
C. Conceptual Framework of the FLF .....	6
D. Delivery of FLF.....	6
1. Consumer Segmentation.....	6
2. Levels of Financial Literacy .....	7
3. Core Competencies Framework .....	8
4. Delivery Channels .....	11
5. Expected outcomes .....	11
6. Delivery Mechanism Map .....	12
7. Implementation Plan.....	12
8. Roles and Responsibilities.....	12
9. Risk and Mitigation Measures .....	13
III. Monitoring and Evaluation .....	14
1. Micro level.....	14
2. Macro Level.....	14
3. Evaluation Framework .....	15
IV. Conclusion .....	15
V. Bibliography .....	19

## **Definitions of key terms used in the Framework**

### **1. Financial Literacy (FL)**

Financial literacy refers to “Knowledge and understanding of financial concepts and risks, and the skills as well as motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in economic life” (OECD, 2015, p. 9). It is a combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.

### **2. Financial Capability**

Financial capability is defined as the ability of an individual to act with confidence in making the optimal choices in the management of his/her money matters.

### **3. Financial Knowledge**

Knowledge is the stock of information on any issue, topic or subject an individual obtains and retains. It is formed through three sources: education and training; experience; and information flows from various sources. Some of this information will be understood and retained by the individual, while the rest is lost. Whatever is retained replenishes their stock of knowledge.

### **4. Financial Skill**

Skill is a person’s ability to use their financial knowledge.

### **5. Financial Attitude**

Over the course of their lives, different circumstances lead people to develop certain perceptions and beliefs that affect their decisions when managing their personal finances. Attitude is willingness and readiness of a person to invest his time and other resources required to apply his knowledge and exercise his skills.

### **6. Financial Behavior**

Behavior is defined as the actual application of knowledge, skills and attitude in everyday life.

### **7. Rational Financial Decision Making**

Rational financial decision-making process includes evaluating options and then choosing the option that provides the best long-term results.

### **8. Retention**

Retention denotes the continued use, existence, or possession of something or someone.

## I. Background

The Federal Democratic Republic of Nepal, a land-locked least developed country located in South Asia between People's Republic of China to the north and Republic of India to the south, east and west, has targeted for domestic poverty reduction and has thus prioritized it in its existing development plans.

The Government of Nepal (GoN) has emphasized the necessity of an inclusive financial system, which is reflected in the 2017 release of Nepal's Financial Sector Development Strategy Paper and has an objective "to develop an inclusive financial system to make access to finance easy and comfortable for those with low income and from rural areas and to increase financial literacy in financial services and instruments and to protect the interests of financial consumers" (FSDS, 2017, pts. 2.2 f & g) in order to achieve its domestic poverty reduction goal.

In consonance with GoN's declaration for an inclusive financial system, Nepal Rastra Bank (NRB), the central bank of Nepal, has the objective in NRB Act, 2002 Section 4 (b) "To increase the access of the financial service and increase the public confidence towards the banking and financial system".

To support the attainment of this objective, NRB has highlighted this in its recent Strategic Plan (2017 – 2021) under strategy 2.1 of seventh pillar entitled "Enhancing financial literacy and financial education", in annual monetary policy statements as well as in the Financial Inclusion Roadmap (2017-2022), which provides an overarching guideline for the strengthening of financial inclusion in Nepal, including financial literacy as an intervention to achieve its implementation priority in the area of strengthening consumer empowerment, protection and education. Against the foregoing perspective, the goal of this publication is to develop and produce a formal structure of the Financial Literacy Framework (FLF) for NRB to help increase financial access as well as to facilitate in attaining financial system stability.

The financial landscape of Nepal has some peculiarities as seen in the table below. Financial inclusion from the access part is being levied across the country as a national agenda. This is particularly driven by the opening of the bank branches in all the local levels. Thus, the need of financial literacy to drive up the demand for financial access is increasing.

<b><u>Nepal Stylized Facts</u></b>
<ul style="list-style-type: none"><li>• Presence of banks in local level of Nepal: 743 out of 753 as of mid-December 2019. (Nepal Rastra Bank, 2019)</li><li>• Branch network of BFIs are at 9,297 as of mid-December 2019 (Nepal Rastra Bank, 2019).</li><li>• 45.4 % of adults in Nepal hold an account at a formal financial institution. (The World Bank, 2017)</li><li>• Adults having access to formal financial services: 61% (40% formally banked and 21% using other formal products)</li></ul>

- 19.9% of Nepalese adults are financially excluded: have no account because financial institutions are too far away. (The World Bank, 2017)
- Only 6.3% of people use banks and financial institutions for gathering funds to go abroad. (Nepal Rastra Bank, 2016) 52.8% of the households receiving remittance take credit of which 37.3% have taken it from BFIs (Nepal Rastra Bank, 2016).
- 60.9% of Nepalese hold at least one savings account in a commercial bank, a development bank or a finance company (A, B and C class of financial institutions in Nepal). (Nepal Rastra Bank, 2019).

Table 1: Nepal Stylized Facts on Financial Literacy and Inclusion

Financial literacy (FL) programs in Nepal are presently being conducted by various agencies including the central bank in a scattered and fragmented manner with differences in the methodologies and delivery mechanism. Nepal Rastra Bank aims to enhance and systematize the current fragmented FL activities to facilitate monitoring and evaluation as well as regular assessment through a policy initiation in the form of a FLF. It is expected to be useful to promote retention and contribute to behavioral changes in domestic financial consumers. Its effective execution is expected to warranty the future economic and social well being of Nepalese by reducing poverty, fostering income and facilitating development.

This framework will be instrumental to institutionalize FL efforts in Nepal. NRB aims to develop a structured and systematic FLF that will comprise of operating guidelines, training manuals and monitoring and evaluation methodologies based on a standard foundation comprising of NRB's vision, mission, goals and objectives for the FL.

In the process of developing the framework, review of literatures of various similar FLFs, financial inclusion frameworks and various other literatures have been undertaken. The review consists of assessment of existing practices of FL in various countries including India, Nigeria, Uganda, Tanzania and the OECD Core competencies framework for financial literacy and education.

Moreover, a structured FLF is necessitated by the SWOT analysis of Nepal's financial literacy landscape.

Strengths	Weaknesses
Strong Commitment for Financial Literacy, as spelled out in the 2017 Government of Nepal's FSDS and annual budgets and also is an objective in <i>NRB Act 2002</i> .	Lack of coordinated effort and target in FL programs resulting in fragmented structure of financial literacy programs and the initiating organizations; lack of proper impact analysis and monitoring and evaluation.
Presence of Banks and Financial Institutions (BFI) in most of the rural areas	More concentration of BFIs in urban areas.



Stable and well-capitalized BFIs (less NPL, high capital) which increases their resilience capacity	Low domestic saving (15%, average of 10 years: 10.46%) and low investment (Economic Survey 2017/18, 2018)
High literacy rate (65.9%) with large proportion of economically active population (57%) (Social Statistics, 2018)	Relatively low level of literacy among rural people compared to urban people, especially in higher level of education.
A large population under 25 years of age- early adopters.	
High penetration of mobile based financial technology/mobile network operators.	Poor technology and payment infrastructure in rural areas.
<b>Opportunities</b>	<b>Threats</b>
Improving trend of financial service access to rural citizens (Government's plan for presence of commercial banks in all 753 local units) and local interest.	Difficult terrain, scattered population across the nation (more than half population, 50.3% live in the Terai region, 43% in Hilly region and 6.7% in Mountain region). (Central Bureau of Statistics, GoN, 2019)
Large proportion of remittance dependent household whose spending and saving pattern play significant roles in the economy.	Shadow banking and informal financial sector with prevalence of cash dominated economy.
Significant segment of untapped and unbanked rural population.	
Changing socio-cultural and demographic factors (change in age profile and household head).	Diverse behavioral attitude, religion, culture of people.
Growing technological changes in Nepal, such that we are at the edge of the technology and financial innovation.	Growing risks due to the security breaches arising due to adaptation of new technologies.

From the above SWOT analysis, it can be inferred that the key opportunity lies in moving in tandem with the improving trend of financial access by the presence of BFIs in all local units of the government. The FLF needs to tap on the high literacy rate, large population under 25 years of age and a strong commitment for FL in government and the central bank level.

This formulation will be beneficial to enhance and systemize the FLF of NRB. It will comprise of mode of delivery, target groups, basis of target selection and program manuals based upon each target group. It will also comprise of impact assessment of the intervention, which will facilitate the national baseline survey for financial

literacy. An integral part will be the Monitoring and Evaluation Framework, which will give feedback for a result based implementation for FL. The framework is initially tested among primary respondents via pilot testing and refined accordingly.

## **II. Components of Financial Literacy Framework of Nepal**

### **A. Vision, Mission, Goals and Objectives of the Financial Literacy Framework**

#### **1. Vision**

Financially aware and capable citizens for prosperous Nepal

#### **2. Mission**

Undertake financial literacy programs to assist people make rational financial decisions and access appropriate financial products and services from banks and financial institutions.

#### **3. Goals**

To enhance knowledge of using banking channels for making financial transactions and converting these skills into behavioral changes

#### **4. Objectives**

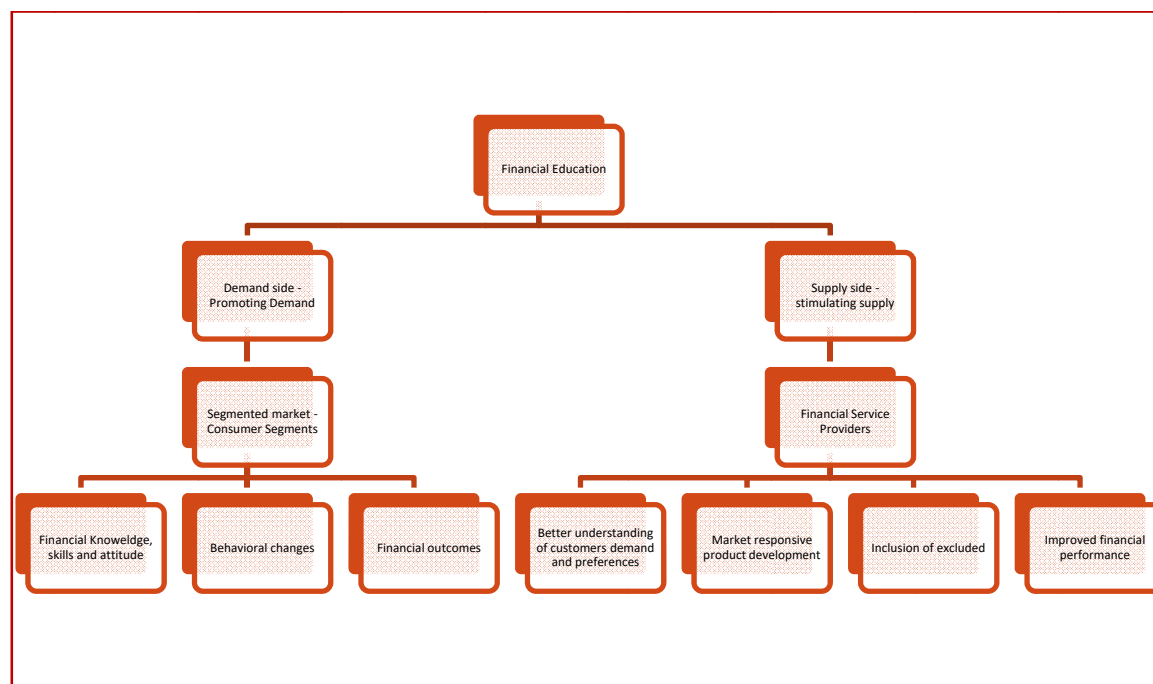
- To create awareness on access to financial services and availability of different banking products and services.
- To motivate people to get accustomed to formal banking practices and in improving their financial conditions.
- To help consumers understand the rights and responsibilities regarding the use of financial services and products.
- To help financially excluded individuals to comprehend and access financial products and services at affordable costs;
- To enhance awareness of the availability of digital financial services and its benefits.
- To impart use and advantages of management of personal finance through budgeting.
- To change attitude towards financial services for translating knowledge into behavior.

### **B. Scope**

The FLF will be for the use of NRB and financial institutions licensed/ authorized by NRB. It will assist in creating the demand for financial services in line with achieving the broader objective of financial inclusion from the demand side.

## C. Conceptual Framework of the FLF

The FLF for Nepal is based upon the core competencies developed by the OECD for FL. The framework has tried to convey knowledge into subsequent groups of people who will likely exhibit these skills and attitude and result in behavioral changes and financial outcomes. On the demand side this will contribute to better understanding of customer preferences leading to market responsive product development, inclusion of excluded, improved financial performance and increased profitability as illustrated below:



## D. Delivery of FLF

### 1. Consumer Segmentation

Consumers of the financial sector are eventual beneficiaries of interventions on financial education. They can be better served by properly stratifying to ensure homogeneity in view of prevailing the market segmentation. This section comprises of the consumer segments that the FLF will cater to as well as the delivery mechanisms for conveying financial literacy knowledge to the target segments.

The target groups for the FLF have been categorized into 3 broad segments on the basis of income generation. Fin Scope 2015 has categorized the Nepali consumer into 6 segments: Salaried Workers, MSMEs, Remittance receivers, Farmers, Irregular earners and Dependents. On the basis of the pilot testing conducted upon these sub-groups, it is found that MSMEs, Farmers and Irregular earners have similar FL contents; hence these are placed under the same group namely Farmers and MSMEs. The Remittance subgroup is integrated as a part of the cross-cutting target groups. Two more groups are identified: a) the cross cutting segment of "women" and b)

another segment of "students" (from the dependents group as mentioned in Fin Scope 2015).

Women as a separate group is integral to the framework as they represent 51.5% of the total population and as referred to the Fin Scope 2015, women occupy a high percentile in each of the sub segments {higher than 40% in all segments except in Salaried workers (38.5%)}.

Under the broad segment of dependents, students have been identified as a separate target group based upon their share in the financial market of Nepal. The highest numbers of financially excluded adults in Nepal are among those with secondary education (16%) (Financial Inclusion Roadmap, 2017). It should be borne in mind that NRB, conducts specialized financial literacy programs for school students, especially for the higher secondary level.

The three broad segments of the target group as well as the sub-segments and the cross-cutting target groups are shown below.

<b>Levels</b>	<b>Categories</b>		
<b>Broad segments</b>	<u>Regular income earners</u>	<u>Irregular income earners</u>	<u>Dependents</u>
<b>Sub-segments</b>	1. Salaried workers	2. Farmers, MSMEs (Micro, small and medium enterprises)	3. Students
<b>Cross-cutting</b>	4. Women 5. Remittance receivers		

In total 5 target groups have been identified in the FLF. They are depicted below along with their characteristics.

<b>Target Groups</b>	<b>Characteristics</b>
<b>1. Regular income earners (Salaried Workers)</b>	Those whose main source of income is salaries drawn from employment in private companies and in government or public enterprises.
<b>2. Irregular income earners (Farmers, MSMEs )</b>	Those who obtain their income from farming activities or from owning and running a micro, small or medium enterprise with a seasonal or irregular income flow to their household.
<b>3. Dependents (Students)</b>	Students who are in secondary to higher secondary level.
<b>4. Women</b>	Women who are head of households or are in charge of using the household budget as a decision making authority or dependents whose main source of money is family, often a household member.
<b>5. Remittance receivers</b>	Those who rely on remittances sent by relatives or friends.

## 2. Levels of Financial Literacy

FL knowledge is an ongoing phenomenon. People have a general knowhow on financial and money matters such that the level of knowledge differs on the basis of society, literacy level, and urban and rural sector.

On the basis of financial knowledge and its uses, the level of financial literacy has been divided into two categories: (i) basic and (ii) advanced. They are explained in the table below.

<b>Elements of FL</b>		
<b>Elements</b>	<b>Basic level</b> The minimum degree of literacy required for all individuals from any type of background to navigate daily life. (Lusardi, 2008)	<b>Advanced level</b> The knowledge beyond the basic and fundamental financial concepts. (Lusardi, 2008)
<b>Core Competencies</b>	<b>Financial Concept</b> <ul style="list-style-type: none"> <li>• Needs and wants</li> <li>• Financial goals</li> <li>• Grievance handling</li> </ul>	<ul style="list-style-type: none"> <li>• Financial Discipline</li> <li>• Digital Financial Services</li> <li>• Capital Market</li> </ul>
	<b>Planning and Managing</b> <ul style="list-style-type: none"> <li>• Household Budget</li> <li>• Savings</li> <li>• Loans</li> <li>• Financial Service Providers</li> <li>• Remittance</li> <li>• Microenterprises and Business Plan</li> <li>• Risk Management</li> </ul>	<ul style="list-style-type: none"> <li>• Diversified Savings and Loans</li> <li>• Rational Financial Decisions (Long and short term)</li> <li>• Variants of Digital Financial Services</li> </ul>

### 3. Core Competencies Framework

The framework is further based on FL contents, which have been categorized according to the OECD Core competencies framework such as financial concepts and planning and managing, as indicated by change in (i) financial knowledge, skills and attitudes, (ii) behavioral changes, and (iii) financial outcomes. Financial concepts are more theory based that disseminate informative contents. Planning and managing include more application- based contents that have a direct impact on skills, attitude, behavior and outcomes.

In the core competencies framework in Annex 1, knowledge, attitude and behavior are qualitative in nature while skills have measurable outcomes and are thus quantitative in nature. These are however grouped in Annex 1 according to the grouping indicated by the OECD core competencies framework (Knowledge, skills, attitudes and behavior). Hence, in order to measure the effect of FL programs, various indicators are suggested in the M&E that are included in the surveys and deliverables of the FL programs. These form the basis of producing specific results.

#### (i) Financial literacy from regulatory perspective

Basic information on the central bank including its functions along with major policies that are related with the people will help to widen financial knowledge and skills. It will enhance belief among the consumers of the entire financial system that will ultimately aid in generating a better attitude towards the financial literacy



knowledge passed on during the FL programs. Hence a dedicated session for the regulatory information is added in the core competencies. To generate the skills part of this segment, various examples of learning skills suitable for the pretext of the programs and target groups will be disseminated.

(ii) *Matrix of financial literacy programs with core competencies to target groups*  
FL programs in each of the target groups under this framework will be conducted as in the following tabular form. It comprises of 4 layers.

- **Focused discussion topics:** These refer to the competencies that are mandatorily discussed among the target groups and form the major portion of the FL programs.
- **Financial literacy from regulatory perspective:** These are also mandatory FL competencies that are same in all the target groups and are to be disseminated after the focused discussion topics.
- **Other discussion competencies:** These comprises of the topics that may be discussed but are not mandatory.
- **Topics to be disseminated by medium of flyers or only demonstrated:** These contain the topics that the participants will read and understand through visual display.

Level of Financial Literacy		1. Salaried Workers	2. Farmers, MSMEs	3. Remittance receivers	4. Women	5. Students
Focused discussion topics	Financial Concept	<ul style="list-style-type: none"> <li>Financial discipline</li> </ul>	<ul style="list-style-type: none"> <li>Needs and wants</li> <li>Financial goals</li> <li>Financial discipline</li> </ul>	<ul style="list-style-type: none"> <li>Needs and wants</li> <li>Financial discipline</li> </ul>	<ul style="list-style-type: none"> <li>Financial goals</li> <li>Financial discipline</li> </ul>	<ul style="list-style-type: none"> <li>Needs and wants</li> <li>Financial discipline</li> <li>Digital financial services</li> </ul>
	Planning and Managing	<ul style="list-style-type: none"> <li>Savings</li> <li>Loans</li> </ul>	<ul style="list-style-type: none"> <li>Variants of digital financial services</li> </ul>	<ul style="list-style-type: none"> <li>Loans</li> </ul>	<ul style="list-style-type: none"> <li>Remittance</li> </ul>	<ul style="list-style-type: none"> <li>Microenterprises and business plan</li> <li>Variants of digital financial services</li> </ul>
Financial literacy from regulatory perspective		<ul style="list-style-type: none"> <li>NRB and its key functions</li> <li>Consumer protection</li> <li>Interest rate</li> </ul>	<ul style="list-style-type: none"> <li>Cost of funds</li> <li>Clean note policy</li> <li>Key examples for income generating methods</li> </ul>	<ul style="list-style-type: none"> <li>Subsidized loan policies</li> <li>Anti-Money Laundering</li> <li>KYC</li> </ul>	<ul style="list-style-type: none"> <li>Others</li> </ul>	
Other discussion competencies		<ul style="list-style-type: none"> <li>Grievance handling</li> <li>Capital market</li> <li>Household budget</li> <li>Diversified savings and Loans</li> <li>Rational financial decisions (long and short term)</li> </ul>	<ul style="list-style-type: none"> <li>Grievance handling</li> <li>Digital financial services</li> <li>Household budget</li> <li>Savings</li> <li>Financial service providers</li> <li>Microenterprises and business plan</li> <li>Risk management</li> </ul>	<ul style="list-style-type: none"> <li>Financial goals</li> <li>Digital financial services</li> <li>Household budget</li> <li>Savings</li> <li>Financial service providers</li> <li>Variants of digital financial services</li> </ul>	<ul style="list-style-type: none"> <li>Needs and wants</li> <li>Grievance handling</li> <li>Household budget</li> <li>Savings</li> <li>Loans</li> <li>Financial service providers</li> <li>Remittance</li> <li>Risk management</li> <li>Digital financial services</li> <li>Diversified savings and loans</li> <li>Rational financial decisions (long and short term)</li> </ul>	<ul style="list-style-type: none"> <li>Grievance handling</li> <li>Savings</li> <li>Digital financial services</li> </ul>
Topics to be disseminated by medium of flyers or only demonstrated		<ul style="list-style-type: none"> <li>Financial service providers</li> </ul>	<ul style="list-style-type: none"> <li>Remittance</li> </ul>	<ul style="list-style-type: none"> <li>Grievance handling</li> <li>Loans</li> <li>Microenterprises and business plan</li> <li>Risk management</li> </ul>	<ul style="list-style-type: none"> <li>Capital market</li> <li>Digital financial services</li> <li>Variants of digital financial services</li> </ul>	<ul style="list-style-type: none"> <li>Loans</li> <li>Financial service providers</li> <li>Remittance</li> <li>Microenterprises and business plan</li> </ul>

#### 4. Delivery Channels

The framework contains a multi-targeted consumer segment; hence, there are diversified delivery channels and methodologies to be implied during the implementation. These are depicted below.

Delivery channels		Tools
<b>Traditional</b>	<ul style="list-style-type: none"><li>○ Face-to-face training, lectures</li><li>○ Public campaigns</li><li>○ TV shows and radio programs</li><li>○ Comic strips</li><li>○ Audio and Visuals</li></ul>	<ul style="list-style-type: none"><li>• Financial literacy guidebook (details of the core competencies)</li><li>• Train the Trainer Manual (with pedagogy for each target groups)</li><li>• Source materials in the form of books, audio and visuals, jingles, advertisements</li><li>• A book on NRB with students</li><li>• Booklet/pamphlet on each target group.<ul style="list-style-type: none"><li>○ Agriculture - Financial literacy materials (Introduction booklet, Train the trainers manual) developed by NRB in coordination with the UNNATI and UNCDF.</li></ul></li><li>• Financial Diary</li></ul>
<b>Non-Traditional</b>	<ul style="list-style-type: none"><li>○ Websites</li></ul>	<ul style="list-style-type: none"><li>• NRB website</li></ul>

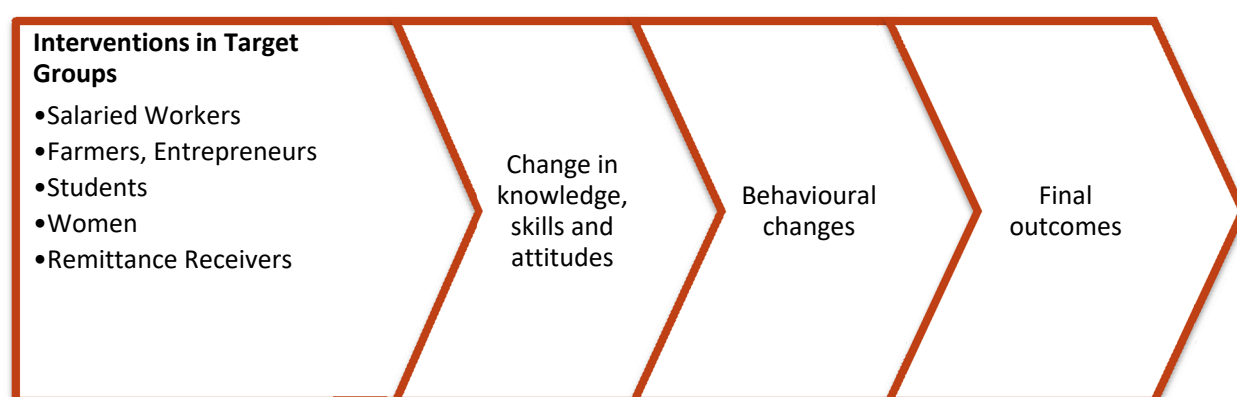
#### 5. Expected outcomes

Expected outcomes of the delivery mechanism ties up with the outcomes of the FLF itself:

- Knowledge of availability of different banking products and services.
- Enhanced skills and attitudes that will eventually be exercised into behaviors. Use of formal banking practices to improve financial conditions.
- Enhanced competition and innovation in the market, leading to more variety of products and services at more affordable cost.
- Awareness of the availability of digital financial services and their benefits.
- Management of personal finance through budgeting.
- Impart various financial literacy skills that will enable to take on rational behavior while making financial decisions

## 6. Delivery Mechanism Map

The FLF will be transmitted to the target groups via interventions and/or FL programs. These programs will incorporate changes in the existing knowledge, skills and attitudes of the recipients. These changes will itself help to achieve the final outcomes in a macro level by the aggregated literacy in the individual participants. The key factor for achieving the final outcomes will be by gaining behavioral changes in each individual unit or in the cluster group that receive the competencies outlined in the FLF. These are illustrated below.



## 7. Implementation Plan

The implementation of the FLF will be run on a four-year cycle harmonized with the NRB Strategic Plan 2017-2022. The FLF will be upgraded in accordance with the commitments of the next Strategic Plan for financial literacy.

Year 1 2020	Year 2 2021	Year 3 2022	Year 4 2023
Up-scaled to be implemented by BFIs regulated by NRB	Financial literacy programs run by NRB and BFIs	Financial literacy programs run by NRB and BFIs	Review of FLF based on FL programs' impact assessments

## 8. Roles and Responsibilities

Financial literacy as a part of financial inclusion involves multi-stakeholders. Hence, implementation of the FLF requires a similar approach. The major stakeholders of the FLF are confined within the scope of FLF (licensed/ authorized institutions under the NRB's domain).

Institution	Roles and Responsibilities
Nepal Rastra	<ul style="list-style-type: none"><li>• Regulation and supervision regarding FLF</li><li>• M&amp;E of FLF</li></ul>

<b>Bank</b>	<ul style="list-style-type: none"> <li>• Periodic review and update of FLF.</li> <li>• Annual reporting of the NRB sponsored FL programs in Nepal</li> </ul>
<b>NRB licensed/ authorized institutions</b>	<ul style="list-style-type: none"> <li>• Implementation of the FLF in the financial literacy programs.</li> <li>• Monitoring of the FLF programs as in micro level.</li> <li>• Micro level reporting of FLF programs arbitrarily.</li> </ul>
<b>Associations and Networks</b>	<ul style="list-style-type: none"> <li>• Facilitate sharing of information between members and other stakeholders.</li> <li>• Encourage compliance with best practices among their members related to Financial Inclusion</li> </ul>

## 9. Risk and Mitigation Measures

The FLF is subject to risks arising from internal and external sectors on the basis of their source. The risk incidence refers to the frequency of the occurrence of the risk while the risk impact refers to the level of influence the risk measure has upon FLF.

<b>Risks Type</b>	<b>Risk nature</b>	<b>Mitigation measures</b>	<b>Risk incidence</b>	<b>Risk impact</b>
<b>Internal risks</b>				
<b>Deviation from objective</b>	Undermining of FLF by NRB licensed/ authorized financial institutions as a means for promoting individual financial products rather than focus on the subject matter in the framework.	Monitoring of report.	High	High
<b>Unprepared Trainers</b>	Lack of proper training of the FLF.	Train the Trainers to be made mandatory before any FL programs.	High	High
<b>Selection of target groups</b>	The general criterions for selection of FL programs are made location wise. A proper homogeneous target group will be difficult to attain.	Selection of target groups on the basis of majority population traits .	High	High
<b>External risks</b>				
<b>Dynamic nature of financial markets</b>	Nepalese financial market is dynamic and strongly connected with global financial sector development. Coupled with fast financial innovations and increase sophistication, new sets of challenges are emerging.	Make FLF as a dynamic embryonic document with provisions for regular review and amendment with emergence of new innovations.	High	High
<b>Diverse customer groups and differentiated awareness and understanding on financial concepts</b>	The customers segments identified in this document have differentiated awareness level and understanding of the financial concepts. Their general education and understanding level varies, complicating the delivery of the FLF. This diverse nature of the demand side feature call for strong leadership and higher level of technical skills for implementing, measuring and evaluating FLF implementation.	Incorporate FLF-based trainings in the annual work plan of NRB. <ul style="list-style-type: none"> <li>• Conduct training for local partners before any programs</li> <li>• Proper dissemination to stakeholders</li> <li>• FLF materials to be placed in NRB website</li> </ul>	High	High
<b>Inclusion of the excluded</b>	Significant financial exclusion due to geographical and technical reasons such as geographical isolation, remoteness, low income,	Adoption of use mix of delivery methodology and channels in the financial literacy program.	Medium	Medium



<b>Risks Type</b>	<b>Risk nature</b>	<b>Mitigation measures</b>	<b>Risk incidence</b>	<b>Risk impact</b>
	unemployment, underemployment, lack of proper book keeping and accounting etc. are likely to undermine achievements of increased financial inclusion as a result of FLF implementation.	Minimize the financial exclusion due to geographical and technical reasons by promoting digital financial services.		

### **III. Monitoring and Evaluation**

The FLF will be assessed under the Evaluation Framework under the two tiers of Micro and Macro level based on a short term and long term basis respectively. It is based on the OECD M&E module evaluating the effectiveness of financial education programs. The M&E will be monitored at both micro level (by licensed/ authorized financial institutions of NRB) and a national scale (by NRB). The prior may conducted via surveys and reports during the FL program with 6 month, 1 or 2 year follow up surveys for short-term evaluation, while the later may conducted via national surveys for long-term evaluation. M&E will provide information for making the FLF dynamic and will be used for updating it in the long term.

Some deliverables for the M&E are as below:

#### **1. Micro level**

The Pre and post Program survey is a test for impact analysis administered to participants before and after a program to measure change in knowledge of general financial literacy concepts and concepts specific to a program as well as to assess the skills rendered by the program. The results of a post-program test can be compared both with pre-program and post-program group results. Few of these participants are also selected for a focus group survey: to discuss and share their experiences, attitude changes, and actions they are planning to take in the future. These focus groups should be held immediately after the conclusion of a program to gain the immediate direct effect of a program.

A survey conducted some time (within 6 months or 1 to 2 years) after the program can measure knowledge and skills retained by individuals and the impact of the program in behavior after their participation. The objective of the survey is to assess how participants' financial behavior has changed compared to earlier behaviors, which were identified through pre-program survey. There is however the risks arising from external factors that might contribute to and influence the knowledge of program participants in the intervening time period.

#### **2. Macro Level**

Financial inclusion at the national level is assessed through researches, surveys and study reports conducted for Financial Inclusion by NRB or any other agencies. Data for financial inclusion in the national front can also be generated from e-Mapping

portal under the purview of NRB, which gives a geographical and territorial situation of financial reach at near real time frequency.

### 3. Evaluation Framework

Evaluation of any FL program or the framework itself is essential to make them effective in terms of programs as well as costs. Thus, evaluation should be a part of the program in any form. OECD 5 Tier Evaluation Framework has been tailored to needs of policymakers for the purpose of assessing financial education initiatives (O'Connell, 2009). It comprises of three overarching themes of the evaluation that cut across the tiers: objectives, audience and available resources. Program objectives and audiences should be taken into consideration while evaluating the program inputs, delivery and outcomes. Existing resources and budgetary elements should also be considered while choosing the objectives, inputs and delivery methods.

The Evaluation Framework has been produced to meet up with the financial literacy framework of Nepal Rastra Bank.

<b>Evaluation Framework</b>	<b>What to measure</b>	<b>How to measure it</b>
<b>Micro Level</b>  <b>-Program Outcomes</b>	❖ Knowledge Outcome	❖ Pre- and post-program test ❖ Follow-up survey
	❖ Skills and Attitude Outcome	❖ Pre- and post-test ❖ Follow-up survey ❖ Focus groups – One-on-one interview
	❖ Behavior Outcome	❖ Follow-up survey ❖ Focus Groups – one-on-one interview ❖ Administrative records
<b>Macro Level</b>	❖ Macro Financial Literacy Index	❖ Surveys such as FIN Scope conducted in the span of 5 years ❖ Study Reports and researches conducted by NRB and other agencies ❖ E-mapping index, with an indicator on the financial access, and utilization.

## IV. Conclusion

Financial Literacy Framework of Nepal Rastra Bank was formulated with the objective of enhancing knowledge of using banking channels for making financial transactions and converting these skills into behavioral changes. These are indicated by the behavioral changes in the targeted group of people generally depicted by the financial access and usage. Additionally, the M&E framework will act to make the system robust and answerable, moreover measuring the outcomes of the FLF in a micro and macro perspective in short and long term respectively. The FLF is a vibrant document, prone to the dynamism in the financial system, to be covered in its review and update. Its success will moreover depend on the implementation, monitoring and evaluation conducted in FL interventions.

Annex 1: Core competencies framework

Elements	Knowledge	Skills	Attitudes	Behaviors
<b>Financial Concept: Basic level of Financial Literacy</b>				
<b>Needs and wants</b>	<ul style="list-style-type: none"> <li>What are needs</li> <li>What are wants</li> </ul>	<ul style="list-style-type: none"> <li>Differences between needs and wants.</li> </ul>	<ul style="list-style-type: none"> <li>Commitment to apply needs and wants into practice</li> </ul>	<ul style="list-style-type: none"> <li>Prioritize savings and expenditure as per needs and wants.</li> </ul>
<b>Financial goals</b>	<ul style="list-style-type: none"> <li>How to set goal</li> <li>Why it is important to set goals</li> </ul>	<ul style="list-style-type: none"> <li>Financial goal setting.</li> </ul>	<ul style="list-style-type: none"> <li>Willingness to set short-term and long-term financial goals</li> </ul>	<ul style="list-style-type: none"> <li>Setting long term and short term financial goals</li> <li>Ways to tackle challenges of financial goal achievements</li> </ul>
<b>Grievance handling</b>	<ul style="list-style-type: none"> <li>What are grievances</li> <li>How to file complaints</li> </ul>	<ul style="list-style-type: none"> <li>Process of grievance handling.</li> </ul>	<ul style="list-style-type: none"> <li>Confident on filing complaint</li> <li>Raising up of complaint to responsible officers</li> <li>Confidence to ask questions</li> </ul>	<ul style="list-style-type: none"> <li>Legal means of grievance and grievance management.</li> </ul>
<b>Financial Concept: Advanced level of Financial Literacy</b>				
<b>Financial Discipline</b>	<ul style="list-style-type: none"> <li>What is financial discipline and why it is important</li> </ul>	<ul style="list-style-type: none"> <li>Preparing financial budget and work on budget</li> <li>Understanding of bad debts</li> </ul>	<ul style="list-style-type: none"> <li>Discipline to stick to a spending plan and on-time loan repayment</li> <li>Commitment to work towards a financial goals, and follow a budget</li> </ul>	<ul style="list-style-type: none"> <li>Financial independence</li> <li>Economic spending, implementation of financial planning and goals, right use of financial services</li> </ul>
<b>Digital Financial Services</b>	<ul style="list-style-type: none"> <li>Different type of electronic medium of transactions including debit card, credit card, and mobile wallet.</li> </ul>	<ul style="list-style-type: none"> <li>Types of electronic medium of transactions.</li> <li>Ability to use e-wallets, mobile banking.</li> </ul>	<ul style="list-style-type: none"> <li>Operate electronic medium of transactions</li> </ul>	<ul style="list-style-type: none"> <li>Cash less transactions</li> <li>Use of electronic media for P2P, P2G and G2P transactions</li> </ul>
<b>Capital Market</b>	<ul style="list-style-type: none"> <li>Fundamentals of capital market operation</li> </ul>	<ul style="list-style-type: none"> <li>Risks and return of capital market and primary market</li> </ul>	<ul style="list-style-type: none"> <li>Belief on benefits of investment on shares</li> </ul>	<ul style="list-style-type: none"> <li>Investing in primary and secondary capital markets</li> </ul>
<b>Planning and Managing: Basic level of Financial Literacy</b>				
<b>Household Budget</b>	<ul style="list-style-type: none"> <li>Benefits and elements of budget</li> <li>Benefits of tracking cash flow</li> <li>Benefits of spending plan</li> </ul>	<ul style="list-style-type: none"> <li>How to fill financial diary</li> <li>Constructing a budget</li> <li>Tracking cash flow</li> <li>Designing a spending plan</li> </ul>	<ul style="list-style-type: none"> <li>Commitment to follow budget</li> <li>Discipline to stick on a spending plan</li> <li>Confident on money management</li> <li>Motivated to plan ahead</li> </ul>	<ul style="list-style-type: none"> <li>Making household budget to plan income, savings and expenditure.</li> <li>Filling financial diaries.</li> </ul>

<b>Savings</b>	<ul style="list-style-type: none"> <li>• <b>Purpose of savings and element of saving plans</b></li> <li>• <b>Different ways and place to save</b></li> <li>• <b>Basic consideration to open a savings plan</b></li> </ul>	<ul style="list-style-type: none"> <li>• Savings account.</li> <li>• Process of opening savings account.</li> </ul>	<ul style="list-style-type: none"> <li>• Belief on benefits of savings</li> <li>• Discipline to save regularly</li> </ul>	<ul style="list-style-type: none"> <li>• Basic saving habit and banking channelization of savings, types of saving products, interest calculation</li> </ul>
<b>Loans</b>	<ul style="list-style-type: none"> <li>• <b>Loan and its advantages and disadvantages</b></li> <li>• <b>Borrowing sources and options</b></li> <li>• <b>Elements of loans</b></li> <li>• <b>Consequences of being default</b></li> <li>• <b>Loan management strategies</b></li> </ul>	<ul style="list-style-type: none"> <li>• Types of loan accounts</li> <li>• Completing loan application</li> <li>• Simple interest calculations.</li> </ul>	<ul style="list-style-type: none"> <li>• Caution on borrowing decision</li> <li>• Strength to say “no” for unfavorable loan terms and conditions</li> <li>• Discipline to follow a loan management plan</li> </ul>	<ul style="list-style-type: none"> <li>• Channelization of loans in banking sector</li> <li>• Proper selection of loans, implications of loans</li> </ul>
<b>Financial Service Providers</b>	<ul style="list-style-type: none"> <li>• Understanding of different types of financial service providers.</li> </ul>	<ul style="list-style-type: none"> <li>• Differentiate different types of commercial oriented and community based financial service providers</li> </ul>	<ul style="list-style-type: none"> <li>• Confidence to choose suitable financial service providers</li> </ul>	<ul style="list-style-type: none"> <li>• Know the different types of FSPs in terms of products and services, legal liabilities prevalent in Nepal</li> </ul>
<b>Remittance</b>	<ul style="list-style-type: none"> <li>• <b>Process of sending /receiving money, both domestic and international</b></li> <li>• <b>Wealth building</b></li> </ul>	<ul style="list-style-type: none"> <li>• Filling remittance receiving and sending forms.</li> <li>• Differences between productive and unproductive expenditures</li> </ul>	<ul style="list-style-type: none"> <li>• Commitment to productive use of remittance</li> </ul>	<ul style="list-style-type: none"> <li>• Remittances from legal channels</li> </ul>
<b>Microenterprises and Business Plan</b>	<ul style="list-style-type: none"> <li>• <b>Principles and business planning</b></li> <li>• <b>Steps on business planning</b></li> <li>• <b>Use of business plan</b></li> </ul>	<ul style="list-style-type: none"> <li>• Legal requirements of a business, financial needs and banking channels to satisfy the needs, short term financial management.</li> </ul>	<ul style="list-style-type: none"> <li>• Confident to prepare and understand business plan</li> <li>• Confidence to stick on business planning objectives and information</li> </ul>	<ul style="list-style-type: none"> <li>• Business plan preparation for banking credit of micro enterprises</li> </ul>
<b>Risk Management</b>	<ul style="list-style-type: none"> <li>• <b>Difference between risks and uncertainty</b></li> <li>• <b>Understanding of coping mechanism</b></li> </ul>	<ul style="list-style-type: none"> <li>• Various types of risk</li> <li>• Preventive versus protective risk</li> <li>• Accept, avoid, transfer, mitigate and exploit risks</li> </ul>	<ul style="list-style-type: none"> <li>• Confidence on risk management</li> <li>• Ability to prepare risk management plan</li> </ul>	<ul style="list-style-type: none"> <li>• Formulation of coping strategies</li> <li>• Long-term savings, investment and insurance scheme.</li> </ul>

<b>Digital Financial Services</b>	<ul style="list-style-type: none"> <li>• <b>Mechanisms of digital financial services operation</b></li> </ul>	<ul style="list-style-type: none"> <li>• Use of digital financial products</li> <li>• Visualize the cashless environment</li> </ul>	<ul style="list-style-type: none"> <li>• Confidence on using digital financial services</li> <li>• Willingness to participate in P2P, P2G and G2P transactions</li> </ul>	<ul style="list-style-type: none"> <li>• Basic concept of digital financial service providers</li> <li>• Cash less transactions</li> <li>• Use of electronic media for P2P, P2G and G2P transactions</li> </ul>
<b>Planning and Managing: Advanced Level of Financial Literacy</b>				
<b>Diversified Savings and Loans</b>	<ul style="list-style-type: none"> <li>• <b>Meaning, rationale and process of savings and loans diversification</b></li> </ul>	<ul style="list-style-type: none"> <li>• Savings and credit plan with contingency planning for risk mitigation.</li> <li>• Compound interest.</li> <li>• Bundling of products.</li> </ul>	<ul style="list-style-type: none"> <li>• Confidence in the banking system for long term savings and investment.</li> <li>• Multiple banking system concept visualization by the customer</li> </ul>	<ul style="list-style-type: none"> <li>• Financial planning in the long run</li> <li>• Prioritize savings over discretionary spending</li> <li>• Diversification of credit facilities into different products according to nature of personal needs and organization needs</li> <li>• Lower loan defaults</li> </ul>
<b>Rational Financial Decisions (Long and short term)</b>	<ul style="list-style-type: none"> <li>• <b>Different types of financial decisions to be made,</b></li> <li>• <b>Understanding of factors to be considered for rationale financial decisions for short and long term</b></li> <li>• <b>Understanding of time value of money</b></li> </ul>	<ul style="list-style-type: none"> <li>• Time value of money</li> <li>• Long term budgeting with investment.</li> <li>• Making business plan to submit for banking purposes for micro enterprises and micro entrepreneurs</li> </ul>	<ul style="list-style-type: none"> <li>• Confident on different financial decisions to be made</li> <li>• Confidence to apply factors to be considered for rational financial decisions in short term and long term</li> <li>• Willingness to apply the concept of time value of money into practices</li> </ul>	<ul style="list-style-type: none"> <li>• Rational financial decision making</li> </ul>
<b>Variants of Digital Financial Services</b>	<ul style="list-style-type: none"> <li>• <b>Scope of use of digital financial services</b></li> </ul>	<ul style="list-style-type: none"> <li>• Skill to use digital financial services for diversified purpose</li> </ul>	<ul style="list-style-type: none"> <li>• Confidence to use DFS on diversified sources</li> </ul>	<ul style="list-style-type: none"> <li>• Digital platform for all financial services</li> </ul>
<b>Financial Literacy from Regulatory perspective</b>				
	<ul style="list-style-type: none"> <li>○ <b>NRB and its key functions</b></li> <li>○ <b>Consumer protection</b></li> <li>○ <b>Interest rate</b></li> <li>○ <b>Cost of funds</b></li> <li>○ <b>Clean Note Policy</b></li> <li>○ <b>Key examples for income generating methods</b></li> <li>○ <b>Subsidized Loan Policies</b></li> <li>○ <b>Anti-Money Laundering</b></li> <li>○ <b>KYC</b></li> <li>○ <b>Others</b></li> </ul>			



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