SAARC

Proceedings

SAARCFINANCE Webinar on

"Financial Inclusion"

2 December 2020 | Kathmandu, Nepal

Nepal Rastra Bank

Foreword

It was great pleasure for Nepal Rastra Bank (NRB) to have organized the SAARCFINANCE Webinar on "Financial Inclusion" virtually on December 2, 2020.

Financial inclusion among member nations of SAARCFINANCE is very crucial to address for developmental issues like alleviating poverty and sustainable developments of the region among others, not only for financial stability. As financial inclusion is a multi-dimensional subject that includes the prominent facets like financial usage, financial access, and financial barriers; the qualitative inclusion of the people across the country regardless of the gender, region and income classes has been the burning issue in recent time. The recent COVID-19 pandemic further bolstered the importance of the issue and forced the member nations to adopt the digital paths while achieving the financial inclusiveness across the globe. I believe the compilation of the remarks, dialogues, comments, paper presentations and the discussion of the webinar will aid in the benefitting to the member nations in achieving financial inclusion in their respective countries. Also, I am confident that this will be a valuable contribution and will enhance the policy discussion.

On behalf of NRB, I would like to thank all the distinguished delegates, Session Chairs, Paper Presenters and participants for their valuable contributions in making the SAARCFINANCE Webinar successful. I would also like to thank the NRB Program Management Committee and Webinar Secretariat; and the employees of NRB in organizing and managing this virtual program in a successful and productive manner as well as the Bank's Central Editorial Committee for reviewing this proceeding and taking foward the process of producing this e-proceeding.

(Dr. Nephil Matangi Maskay)
Coordinator of NRB Program Management Committee and Webinar Secretariat
&
Executive Director, Nepal Rastra Bank

Contents

I. Synopsis (Rapporteur Report) of the SAARCFINANCE Webinar on "Financial Inclusion"

The SAARCFINANCE Webinar on "Financial Inclusion" was virtually organized by Nepal Rastra Bank (NRB), the Central Bank of Nepal, on December 02, 2020. The Webinar was spread over three sessions- session one: Inaugural session that include welcome remarks, remarks and key note speech; session two: Business Session that includes paper presentation with commentators making their comments in the presentations, country paper presentations and panel discussion; session three: Closing session comprised the closing remarks of the Deputy Governor of NRB and the vote of thanks of SAARCFINANCE Coordinator.

Session 1: Inauguration

Mr. Maha Prasad Adhikari, Governor, Nepal Rastra Bank

Mr. Maha Prasad Adhikari, Governor of Nepal Rastra Bank, delivered his Welcome Remarks at the inauguration session **(Annex 1)**. In his speech Governor Mr. Adhikari welcomed all the dignitaries and the participants to the webinar.

HE. Mr. Esala Ruwan Weraakoon, Secretary General of SAARC

This was followed by delivery of remark at the webinar by His Excellency Mr. Esala Ruwan Weraakoon, Secretary General of SAARC. His Excellency stressed that the financial inclusion is not and should not be a standalone objective as mere financial inclusion is not enough for promoting the welfare of peoples. In order to achieve this objective, it is essential to work collectively on multiple fronts, including trade, investment and services for attaining sustainable growth and inclusive development. Moreover, collective efforts for promoting deeper regional integration have become essential in the context of the devastating socio-economic impacts of the COVID-19 pandemic **(Annex 2)**.

His Excellency Mr. Fazle Kabir, Governor of Bangladesh Bank (BB), delivered the

Mr. Fazle Kabir, Governor of Bangladesh Bank

Key Note Speech at the session **(Annex 3)**. In his keynote speech, Mr. Kabir briefly presented the recent global and SAARC region scenario on Financial Inclusion. He also shed light on the overview of the efforts made by Bangladesh Government and Bangladesh Bank for enhancing financial inclusion in Bangladesh.

Session 2: Business Session:

Session 2.1: Paper Presentation

Ms. Nangsi Dema, Head of Financial Inclusion Secretariat Royal Monetary Authority of Bhutan

Second session was chaired by Ms. Nangsi Dema, Head of Financial Inclusion Secretariat, Royal Monetary Authority of Bhutan (RMAB) who started this session by requesting Mr. Robin Newnham, Head of Policy Analysis, Alliance for Financial Inclusion to deliver his presentation, which was entitled "Financial Inclusion in the Time of COVID-19" **(Annex 4).** After the presentation by Mr. Newnham, Chair invited comments from the respective commentators viz; Da Afghanistan Bank, State Bank of Pakistan and Central Bank of Sri Lanka.

Mr. Robin Newnham, Head of Policy Analysis Alliance for Financial Inclusion

- Commenting on the presentation, Mr. Gazi Md. Mahfuzul Islam, Deputy General Manager, Financial Inclusion Department of Da Afghanistan Bank (DAB) briefed that DAB has undertaken regulatory and non-regulatory measures to curve out the increasing deteriorating impact of COVID-19 pandemic in the country. He highlighted sector wise overview of the impact in the Afghani economy and emphasized about the increased use of digital means (fin-tech) during the pandemic in the financial system. He mentioned in his comments that DAB as such, has removed the interbank digital transfer fees to boost the fin-tech in the country.

- This was followed by comments on the presentation by Dr. M. Farooq Arby, Director of Research Department, State Bank of Pakistan (SBP), who expressed his expectation that equitable, sustainable recovery, and green recovery will emerge out from post COVID-19 pandemic in the region. Dr. Arby informed that SBP has aggressively implemented policy measures to reduce the economic catastrophe caused by the pandemic. As such, he informed that policy and other grants, as sizeable as approximately 4 percent of GDP, has been provided in different forms from the government of Pakistan and SBP, to the affected economic sector. He expressed his belief that Fin-Tech will be closing the gender gap but also expressed his concern that no women should be left behind in the digital financial inclusion for the same during this pandemic. He stated that Fin-Tech and fiscal policies should go hand in hand, to ensure affordable easy qualitative financial access in the all parts of the country.

- Lastly, commenting on the presentation, Dr. Chandranath Amarasekara, Director, Economic Research Department of Central Bank of Sri Lanka (CBSL) stated that the duration of COVID-19 pandemic has been uncertain and as Sri Lanka has been facing the second wave of the pandemic, the availability of the vaccines has been most important to reverse the setback caused by the health crisis. Dr Amarasekara also stressed consequence of pandemic on financial inclusion of the unbanked group in the country. Dr Amarasekara informed that the CBSL has come up with the National Financial Strategy as well as budgetary measures for FY 2021 to minimize the impact of the pandemic.

Session 2.2: Country Presentations

This session was chaired by Mr. Ahmed Imad, Deputy Governor of Maldives Monetary Authority (MMA). The session chair requested each country presenters to present their country presentations in an alphabetical order.

Mr. Ahmed Imad, Deputy Governor, Maldives Monetary Authority

Country Papers

Afghanistan

Ms. Sudaba Zahidi, Director, Consumer Production Analyst, DAB, delivered the Country presentation. The presentation outline included (a) the introductory status of financial inclusion in Afghanistan viz; Consumer protection, financial literacy and Financial access (b) the current status of financial inclusion, regulatory framework, guidelines and strategies in the country (c) Monitoring & Evaluation (d) challenges and recommendations. Ms. Zahidi informed that nearly 85 percent of adults in Afghanistan are unbanked, which is low in the region due to the limited number of access points, high cost of financial services and inadequate financial services that do not meet the need of low income people. Similarly, she stressed that more than half of the country's population (54.5%) live below national poverty line. Furthermore, she expressed that access to finance as one of the biggest obstacles that MSMEs face. She also highlighted on some of the initiatives undertaken by DAB including the launch of the first National Financial Inclusion Strategy (NFIS) in 2019. The presentation highlighted on the key efforts that is underlying in the consumer protection framework in the country such as financial dispute resolution commission, ongoing development on an Financial Consumer Protection Supervision manual that should be implemented in the coming years. Ms. Zahidi expressed that Information Technology and telecom infrastructure, security and political instability, low technical capacity, corporate business models, etc. are some of the major challenges for the financial inclusion in the country. She also presented some policy recommendations, which are implementation of financial stability survey, NFIS; separate National Payments System Law, credit guarantee schemes among others.

Bangladesh

Mrs. Prajna Paramita Saha and Mr. Gazi Md. Mahfuzul Islam, Joint Director of BB, presented the country paper entitled "Financial Inclusion in Bangladesh: Initiatives and Impacts" **(**attached as **Annex 5)** where the paper describes the state of financial inclusion in Bangladesh.

Bhutan

Mr. Tshering D. Dorji, Financial Inclusion Literacy Program Coordinator of RMAB presented the country paper entitled "Bhutan's Financial Inclusion Journey: Reflection on the role of visionary leadership, dynamic collaboration and upholding the values of Gross National Happiness" (attached as **Annex 6)**.

India

Mrs. Sushmita Phukan, General Manager, Financial Inclusion and Development Department of Reserve Bank of India (RBI), presented the country paper entitled "Financial Inclusion in India" (attached as **Annex 7)**.

Maldives

Mrs. Asiahth Asna Hamdi, Senior Manager, Financial & Consumer Services Division of Maldives Monetary Authority (MMA), presented the country paper entitled "Financial Inclusion in Maldives"(**Annex 8)**.

Nepal

Mr. Nischal Adhikari, Director, Payment Systems Department of NRB, presented the country paper entitled "Financial Inclusion in Nepal" (attached as **Annex 9)**.

Pakistan

Mr. Noor Ahmed, Director, Agriculture Credit and Microfinance from SBP presented the country paper briefing on the status of financial inclusion in Pakistan. (attached as **Annex 10)**.

Central Bank of Sri Lanka

The presenters from CBSL, delivered the country paper entitled "Financial Inclusion in Sri Lanka". The presentation provided an overall highlighted on the status of the financial inclusion in Sri Lanka, responses to COVID-19 pandemic, gaps and issues in financial inclusion, National Financial Inclusion Strategy (NFIS) for Sri Lanka, regulatory framework and policy recommendations and way forward. The presentation highlighted on the policy responses to COVID-19 pandemic such as the *Saubagya Covid-19 Renaissance Facility* to provide the working capital loans for COVID-19 affecting MSMEs including individuals and self employed people. The presenters highlighted on the gaps and issues in financial inclusion such as on digital finance and payments, MSME finance, consumer protection and financial literacy. And also on the aspects of the NFIS for Sri Lanka viz. Strategy framework, NFIS regulatory framework, National Financial Inclusion Council, Management Committee, Working groups and NFIS secretariat. The presentation highlighted on the current initiatives on promoting financial inclusion such as formulation of credit regulatory authority act, establishment of new departments in CBSL viz: “Financial Consumer Relations Department” The Digital Finance Roadmap for 2020-2022, among others. Similarly, for promoting “Less Cash Society”, the year 2020 was announced as the “Year of Digital Transactions” with a view to improving awareness on digital transactions using newspaper advertisements, interviews, press conferences, TV and Radio Programs. The presentation provided some policy recommendations for the promotion of consumer protection, financial literacy and capacity building, etc.

Session 2.3: Panel Discussion

"Are objectives of Financial Inclusion and Financial stability- Complementary or Substitutes?"

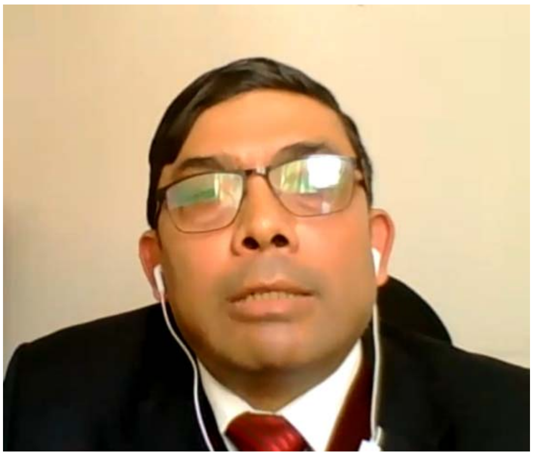
Mr. Anil K Sharma, Executive Director, RBI

Mr. Anil K Sharma, Executive Director, RBI, chaired the third session which is a Panel Discussion. After giving short insights on the financial inclusion, Mr. Sharma highlighted on the two major aspects viz; traditional aspect and modern aspect. Mr. Sharma stressed that the traditional approach incurred the time and cost of the element (member) in the financial ecosystem whereas the new approach included the Fin-Tech with 24/7 access and low financial transaction cost. He stressed on the importance of Financial Inclusion as he briefed that financial inclusion has been playing crucial and is one of the key driver for the poverty elimination, job creation, etc. in the economy; and its importance has been recognized in the UN 2030 Sustainable Development Goals.

Moderating the session, Mr. Sharma briefed on the two dimensions of financial stability; (a) avoiding financial crisis; and (b) managing financial crisis. Furthermore, Mr. Sharma opined that financial crisis and real economy crisis have a two-way relation citing examples of 2008 world economic crisis that led to real economy crisis and also to the ongoing COVID-19 real health sector crisis, leading to the financial crisis. He stressed on the government's vital role in managing the crisis. Moreover, he also expressed on the trade off nature between financial crisis and financial inclusion such as rapid credit lending leading to deterioration of the quality of the loans and contributing to the rise in subprime mortgages.

Mr. Luis E. Breuer,
Senior Resident Representative, IMF

Chair Mr. Sharma initiated the floor discussion and invited panelist Mr. Luis E. Breuer, Senior Resident Representative of International Monetary Fund for India, Nepal and Bhutan to deliver views on the above matter. Mr. Breuer expressed major highlights on the increasing cases of COVID-19 and stated that there has been uncertainty about the magnitude of the damage of the COVID-19 crisis in the world economy. He emphasized that the people in the marginalized and informal sector have been one of the most financially high hit, due to the pandemic. Also a rapid rise of Fin-Tech has been observed during the crisis. Mr. Breuer emphasized that the financial inclusion and financial stability can have supportive role for each other, with retail savings, portfolio diversifications can boost for the financial stability but may also give rise to the new risks concerns as banks from their operational nature, have developed specialization to lending to the corporate sector and hence may lack the same specialization and expertise on the credit analysis, monitoring and evaluation of lending to microcredit segment sectors. Major risks arise when central bank lacks regulatory and supervisory practices for these sectors on their part. Mr. Breuer also emphasized on the role of central bank as the think tank of the government and as an institution formulating unconventional approaches. There can be trade off between financial inclusion and financial stability but risks should be managed in an efficient manner.



Dr. Prakash Kumar Shrestha, Economic Advisor, Ministry of Finance, Government of Nepal

Chair thanked Mr. Breuer for delivering his view. He then invited the second panelist Dr. Prakash Kumar Shrestha, Economic Advisor, Ministry of Finance, Government of Nepal and Executive Director of Nepal Rastra Bank, to deliver his views. Dr. Shrestha opined that there is trade off as outlined by the session chair on the complementary and substituting role between financial inclusion and financial stability. Dr. Shrestha stressed that financial inclusion can be achieved through effective monetary policy transmission. On the trade off side loosening credit standard, chances of over indebtedness and new risk area with the introduction of the new technology are some of the risk areas of the relationship between financial stability and financial inclusion. Dr. Shrestha expressed that there could be trade-off between them but the risk can be mitigated with better management of financial literacy, financial education and also appropriate policy measures responses thereof. Furthermore, he stressed on the pertinent role of other financial regulators such as that of insurance and capital market along with that of the banking sector, for the vital role for the financial inclusion in the country. Dr. Shrestha, upon the query by session chair, shared his experience as vice-chairman of Provincial Planning Commission of Lumbini Province regarding the status of the financial inclusion of the province and the policies formulated to assist the financial inclusion in the province.

Chair thanked Dr. Shrestha for delivering his view. He then invited the third panelist Ms. Maria Perdomo, Regional Manager of UNCDF, to deliver her views. Ms. Perdoma stressed on the synergic relationship between Financial Inclusion and Financial Stability. She also highlighted on the risk such as of rapid credit expansion without strong supervision would contributes to lowering the assets quality. Ms. Perdomo shared her decade long work experience in Africa to help poor and marginalized people to come into the radar of the financial ecosystem. She also shared her experiences working with eight countries in Africa on financial literacy from 2010 to 2016. She stressed that the central banks should have very strong regulatory framework for financial consumer protection, risk based supervisory tools, strong consumer protection law, digital finance and digital payments for leveraging financial inclusion. She also opined that there could be some tradeoff between financial inclusion and financial stability. Sharing on the same, she highlighted on the strategic efforts carried for the financial inclusion such as projects/programs to the young people, development of the human centered products, and partnership with school and universities as a part of integrated financial education among others.

Ms. Maria Perdomo, Regional Manager of UNCDF

Session 3: Closing Session

Mr. Chinta Mani Siwakoti, Deputy Governor, Nepal Rastra Bank

Mr. Chinta Mani Siwakoti, Deputy Governor of Nepal Rastra Bank, delivered his closing remarks for the webinar **(Annex 11)**

Mr. Narayan Prasad Pokhrel, SAARCFINANCE Coordinator and Director (Acting), Office of the Governor, NRBank

Mr. Narayan Prasad Pokhrel, SAARCFINANCE Coordinator and Director (Acting), Office of the Governor of Nepal Rastra Bank delivered the Vote of Thanks at the Webinar. **(Annex 12)**

The role of an Emcee was played by SAARCFINANCE Alternate Coordinator and Deputy Director Mr. Damber Subedi, Office of the Governor of Nepal Rastra Bank. The brochure (**Annex 13**) and webinar photos (**Annex 14**) are also provided.

Mr. Damber Subedi, SAARCFINANCE Alternate Coordinator and Deputy Director, Office of the Governor, NRB

Annexes

Annex 1:	Welcome Remarks by Mr. Maha Prasad Adhikari, Governor of Nepal Rastra Bank
Annex 2:	Remarks by H.E. Mr. Esala Ruwan Weraakoon, Secretary General of SAARC
Annex 3:	Key Note Speech by H.E. Mr. Fazle Kabir, Governor of Bangladesh Bank
Annex 4:	Paper Presentation by Mr. Robin Newnham, Head of Policy Analysis, Alliance for Financial Inclusion
Annex 5:	Country Paper Presentation by Bangladesh Bank
Annex 6:	Country Paper Presentation by Royal Monetary Authority of Bhutan
Annex 7:	Country Paper Presentation by Reserve Bank of India
Annex 8:	Country Paper Presentation by Maldives Monetary Authority
Annex 9:	Country Paper Presentation by Nepal Rastra Bank
Annex 10:	Country Paper Presentation by State Bank of Pakistan
Annex 11:	Closing Remarks by Mr. Chinta Mani Siwakoti, Deputy Governor of Nepal Rastra Bank
Annex 12:	Vote of Thanks by Mr. Narayan Prasad Pokhrel, SAARCFINANCE Coordinator and Director (Acting), Nepal Rastra Bank
Annex 13:	SAARCFINANCE Webinar E-Brochure
Annex 14:	Glimpses of the Webinar

Annex-I

Welcome Remarks

Delivered By Governor Mr. Maha Prasad Adhikari
At SAARCFINANCE Webinar entitled "Financial Inclusion"
Date: December 2, 2020 (Wednesday); 09.30 – 09.35
Organized by: Nepal Rastra Bank

Governor of Bangladesh Bank Excellency Mr. Fazle Kabir,

Secretary General of SAARC H.E. Mr. Esala Ruwan Weerakoon

Session chairs, Session panelists, paper presenter and Webinar participants from SAARCFINANCE Central Bank Members,

Ladies and Gentlemen,

Very Good Morning

It is my immense pleasure to welcome all of you to the Inaugural Ceremony of the SAARCFINANCE Webinar entitled "Financial Inclusion".

As background this important seminar topic of Financial Inclusion elaborates is trending globally with it acknowledgement by International Organizations and networks such as Alliance for Financial Inclusion, but is felt more relevant to South Asia, since the region is home to about one quarter of the World population and over one third of global poor *(measured based on international income poverty line of 1.90 USD (2011 PPP) per day and the Multidimensional Poverty Index (MPI) developed by Oxford Poverty & Human Development Initiative (OPHI)).* This has been recognized by the eight member states of the South Asian Association for Regional Cooperation (SAARC) comprising Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal and Sri Lanka. The focus on poverty alleviation is seen in this having been touched on by numerous SAARC Declarations but explicitly highlighted in the most recent Kathmandu SAARC Declaration. Financial inclusion supports activities for poverty alleviation by focusing on greater access to and usage of formal financial products and services for low-income individuals and business firms and this ultimately contributes to the economic growth of the country. SAARCFINANCE, a SAARC network of member states Governors and Finance Secretaries, in support of this had undergone different activities *(such as collaborative study, establishment of Financial Inclusion Portal in SAARCFINANCE SYNC, etc.)* and most recently had decided on this seminar at the 39^{th} SAARCFINANCE Group Meeting (SFGM) held in Washington D.C. on October 17, 2019. Nepal Rastra Bank is honored that SFGM has further been given the responsibility for organizing this important program. However since that decision by SFGM to organize the seminar in 2019, the world has been drastically changed and is presently in the midst of the global pandemic resulting from COVID 19. This has been disruptive with us having to reduce physical interactions and adhere to social distancing i.e. adjusting to a new normal. This situation has led to the program being conducted in virtual mode, i.e. webinar. While this situation has made the exercise of this program more challenging, I feel that it highlighted this topic and shows it to be more essential and relevant for Central Banks, in its implementation to ensure inclusive financial development.

In this regard, firstly, I would like to extend my hearty welcome to the Keynote speaker Governor of Bangladesh Bank Excellency Mr. Fazle Kabir, and express our pleasure for his consenting to deliver the keynote address. I feel that Governor, Mr. Kabir needs no further introduction, as he is leading his Central Bank by introducing and implementing FinTech innovations for Bangladesh's financial inclusion. I would also like to share that he is former Chairman of Alliance for Financial Inclusion Board of Directors, a global network of policy makers and regulators working towards inclusive finance for all. I thus look forward to his Keynote address to throw light on this topic.

I would quickly follow this with my expression of pleasure that Secretary General of SAARC H.E. Mr. Esala Ruwan Weerakoon, has accepted Nepal Rastra Bank's invitation to deliver remarks at this Webinar despite his busy schedule. As we are presently facing a global impact with COVID-19, I feel the action for mitigating its economic impact, has to be addressed **jointly**. In this regard, I am confident that H.E. Mr. Esala Ruwan Weerakoon will provide us the vision for moving ahead.

Moving to the Webinar business session, I would like to welcome the Chairs to the following subsequent sessions. I would share that Chairs have been chosen purposively and represent the flow of leadership in SAARCFINANCE viz. the immediate past Chair of SAARCFINANCE in 2019: Royal Monetary Authority of Bhutan; the next Chair of SAARCFINANCE in 2021: Maldives Monetary Authority; and the current Chair of SAARCFINANCE in 2020: Reserve Bank of India

I would welcome the chair of the first session Ms. Nangsi Dema, Head Financial Inclusion Secretariat, Royal Monetary Authority of Bhutan which is entitled "Financial Inclusion in the new normal." For delivering this presentation I would also welcome Mr. Robin Newnham, Head of Policy Analysis from Alliance for Financial Inclusion. I note that this presentation will be followed by feedback from three commentators from Da Afghanistan Bank, State

Bank of Pakistan and Central Bank of Sri Lanka respectively. I welcome all commentators and look forward to obtaining insight into how fellow Central Banks have perceived this specific topic in the current situation.

I would welcome the chair of the second session Mr. Ahmed Imad, Deputy Governor of Maldives Monetary Authority. The session includes country presentations from each of the eight member Central Banks of SAARCFINANCE. I would also extend my warm welcome to all SAARCFINANCE central bank participants and would express pleasure at their respective Central Banks' for releasing them and providing the Webinar the opportunity to avail of their respective country experiences. We look forward to their presentation and are confident that by sharing their respective country experiences, we shall all benefit.

I would also welcome the chair of the third session Shri Anil K. Sharma, Executive Director in-Charge of Financial Inclusion and Development Department from Reserve Bank of India. This session is a panel discussion on the topic "Are objectives of Financial Inclusion and Financial stability - Complementary or Substitutes" and includes three panelist representing different perspectives. The first panelist is Mr. Luis E. Breuer the Senior Resident Representative of International Monetary Fund covering Bhutan, India and Nepal and represents perspective of financial sector stability; the second panelist is Dr. Prakash Kumar Shrestha from Nepal Rastra Bank who is Executive Director and on deputation to the Ministry of Finance as Economic Advisor, earlier to his new assignment he headed the Micro-Finance Supervision Department and thus a Central Bank perspective; and the third panelist, Ms. Maria Perdomo who is the Regional Manager for UNCDF and provides the financial inclusion perspective. I am confident that the discussion by such prominent panelist with diverse perspectives, will result in rich and invaluable discussion, which will contribute for nicely crafted policy formulation and better implementation of Financial Inclusion Policies by Central Banks.

Lastly, I would express my confidence that the current situation will soon return to some semblance of normality and Nepal Rastra Bank thus looks forward to the opportunity to welcoming you in the near future physically to experience the diverse scenic beauty and warm hospitality in Nepal.

Once again, I would like to welcome you all.

Thank you.

Annex-2

SAARCFINANCE WEBINAR ON "FINANCIAL INCLUSION"
02 DECEMBER 2020

STATEMENT BY H. E. MR. ESALA RUWAN WEERAKOON, SECRETARY GENERAL OF SAARC

Hon'ble Maha Prasad Adhikari, Governor, Nepal Rastra Bank,
Hon'ble Fazle Kabir, Governor, Bangladesh Bank,
Distinguished Participants,

I thank Nepal Rastra Bank for organizing this SAARCFINANCE Webinar despite the disruptions caused by the COVID-19 pandemic.

I also wish to thank Hon. Governor Adhikari for inviting me to address this important Webinar on a very topical theme, *Financial Inclusion*.

With the slowing down of the global economy in the aftermath of the pandemic, like all other parts of the globe, the SAARC region has been affected in multiple ways. The region is likely to face its worst economic performance in the last 40 years with contractions and massive unemployment. In this backdrop, the convening of this Webinar assumes considerable significance.

Indeed, the question of financial inclusion has been more relevant today than ever before for building back better by ensuring sustainable development. It is more so in view of the uncertainties triggered by the COVID-19 pandemic and the adverse impacts it has had on the economic and financial performance of the region.

Established in 1998, SAARCFINANCE - the Network of Central Bank Governors and Finance Secretaries of the SAARC Region - has been undertaking important initiatives on monetary and macro-economic issues with a view to strengthening the financial system and cooperation in the region. This Webinar is another good example of meaningful activities undertaken by SAARCFINANCE in pursuance of its mandate.

Excellencies,
Distinguished Participants,

As you are aware, the primary objective of SAARC as enshrined in its Charter is to promote the welfare of the peoples and to improve their quality of life through accelerated economic growth in the region. In pursuance of this larger objective, the SAARC Leaders have reiterated their commitment to achieving the goal of the South Asian Economic Union in a phased and planned manner through the creation of a Free Trade Area, a Customs Union, a Common Market and a Common Economic and Monetary Union.

Financial Inclusion has been a subject of discourse in SAARC forums from as early as 2007. The Second Meeting of SAARC Finance Ministers held in India had decided to work towards the goal of total financial inclusion for all sections of the people of the region. This was in pursuance of the SAARCFINANCE objective to promote research and other initiatives on economic and financial issues, including, of course, the question of financial inclusion.

We believe that the goal of the South Asian Economic Union and objectives of the SAARCFINANCE are best achieved by promoting financial inclusion across the region, which, in turn, spurs stable economic growth and social development, including employment generation and poverty alleviation. In fact, more than half a dozen of the Sustainable Development Goals are related to achieving financial inclusion, which is perceived as a key facilitator in their attainment.

Excellencies,
Distinguished Participants,

Significant imbalances in financial inclusion exist within economies worldwide. Differences exist between regions between urban and rural areas and between men and women. According to an ADB Study, only 58% of women have an account compared to 65% of men. According to the Global Findex Report, 70 percent of adults in the region have an account with a financial institution or mobile money provider, which was 47 percent in 2014. However, regional variation is significant.

It is, therefore, apparent that though some countries in the region have made considerable progress, the level of financial inclusion in South Asia is significantly low as compared to other regions of the world. Despite significant expansion of microfinance and SME activities in the region, a large number of people are still poor and have no access to financial services. Pragmatic policies targeting those people, who are still excluded from the financial system are the need of the hour.
Financial institutions, including cooperatives, can play a proactive role in promoting Financial Inclusion across the region. They may be urged to review their existing practices to align themselves with the objective of financial inclusion. In essence, they may promote financial inclusion as a viable business model and opportunity. At the same time, they may make sustained endeavours for monitoring, evaluating and sharing experiences and feedback with a view to improving their services.

With the growing advancement of ICT and its outreach, the SAARC region has the potential to further strengthen financial inclusiveness through its efficient employment. ICT may also be useful in terms of sharing knowledge and experience on adopting new methodology and innovative systems to promote Financial Inclusion. Innovative financing methods, including the possibility of making the best use of the SAARC Development Fund, may be explored for sub-regional and regional projects to promote financial inclusion.

Excellencies,
Distinguished Participants,

Financial inclusion is not and should not be a standalone objective as mere financial inclusion is not enough for promoting the welfare of our peoples. In order to achieve this objective, it is essential to work collectively on multiple fronts, including trade, investment and services for attaining sustainable growth and inclusive development. Moreover, collective efforts for promoting deeper regional integration have become all the more necessary in the context of the devastating socio-economic impacts of the COVID-19 pandemic.

This Webinar is an opportune occasion to deliberate upon short-term and long-term measures for promoting financial inclusion with a view to building back better in South Asia.

In conclusion, I once again thank Nepal Rastra Bank for organizing this timely Webinar under SAARCFINANCE.

I wish the Webinar every success.

I thank you.

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Annex-3

SAARCFINANCE WEBINAR ON FINANCIAL INCLUSION

02 December 2020

Organized by: Nepal Rastra Bank

Keynote presented by -

Fazle Kabir
Governor
Bangladesh Bank

A very good morning and warm wishes to all of you

It is indeed a great pleasure and honor for me to present the keynote in this *SAARCFINANCE Webinar on Financial Inclusion* organized by Nepal Rastra Bank.

I do appreciate this great initiative of Nepal Rastra Bank during these critical times when the COVID-19 pandemic has pushed the global economy into a recession. We must stand together to fight the global pandemic and attempt to minimize the damage in the financial life of mass people where financial inclusion is considered to be a key.

Ladies and Gentlemen

The importance of financial inclusion, based on the principles of equity and inclusive growth, has been engaging the attention of policy makers globally. Financial inclusion is the most widely used phrase in recent times - from developed to developing countries' policy makers. The World Bank Group considers financial inclusion a key enabler to reduce extreme poverty and boost shared prosperity and has determined an ambitious global goal to reach *Universal Financial Access (UFA) by 2020*. The Alliance for Financial Inclusion (AFI) since its commencement in 2008 has emerged as one of the key policy institutes that specialize in advancing financial inclusion policy in emerging economies. Over 100 member countries of AFI are increasingly making financial inclusion a policy priority and placing specific financial inclusion targets under the *Maya Declaration Commitment* made in 2011. Achieving universal financial inclusion is indeed a global objective and has multiple dimensions. While each jurisdiction will perhaps evolve in its own delivery model, we need to learn from each other and implement what is suitable in each constituency.

As we know that, World Bank's Consultative Group to Assist the Poor stated '*Financial Inclusion means that households and businesses have access and can effectively use financial services. Such services must be provided responsibly and* *sustainably, in a well regulated environment'*. The effective use of a wide range of affordable and accessible financial services such as: savings, credit, money transfers, insurance or settlement of payments provided through formal/regulated entities for all citizens is considered as Financial Inclusion globally, and an inclusive financial system is thus one that provides these services to all the citizens—not just to those who are relatively affluent.

Greater access to finance enables the underserved community to participate in income generating activities and enables them to invest in necessities such as healthcare, food, education, business expansion and also manage financial risk. This is why Financial Inclusion is crucial in poverty eradication and sustainable development. Financial Inclusion has emerged as a key enabler of Sustainable Development Goals (SDGs) adopted by the UN in 2015 which aims at development leaving no one behind.

Distinguished Participants

Promoting financial inclusion is one of the cherished goals in the development agenda of SAARC countries. Central Banks and Governments of SAARC region have adopted multifaceted financial inclusion strategies to facilitate unbanked/underserved population in their respective jurisdiction.

The major approaches taken by the Central Banks and the Governments of the SAARC countries can be categorized as **conventional** as well as **innovative**:

- ✓ **The conventional approach** includes nationalization of banks to ensure financial services for all citizens as well as expansion of bank branches in the rural area alongside urban.
- ✓ **Innovative ways include** scaling up low cost or no cost accounts (No-frill accounts depositing BDT 10 (12 cents equivalent) for low income people in Bangladesh); initiation of digital identity (such as *Adhar Card* by India); adoption of digital platform in payment system and banking (such as: Mobile Financial Services (MFS), booth banking/ATM expansion); introduction of

eKYC to onboard the marginal people instantly; creation of enabling environment for financial service providers and consumers (for example, the Microfinance Act of Sri Lanka and Regulations for Mobile Banking interoperability by Pakistan); adoption of agent banking to serve the underserved at their doorsteps; approval of sub-branch establishment in remote areas; increasing finance facilities to agricultural and CMSME sector; initiative for women entrepreneurs; fostering microfinance activities; expanding financial literacy and education etc.

Distinguished Participants

Global Findex data of 2017 reveals that 1.7 billion adults remain unbanked worldwide. While about 1.1 billion or two-thirds of all unbanked adults have a mobile phone. The share of adults owning an account is 69 percent that rose from 62 percent in 2014.

Women, on the other side, continue to lag behind men in terms of account opening. 65 percent of women globally have an account compared to 72 percent of men. According to the *Women's World Banking*, one billion women still remain outside of the formal financial system. This is a major area to endorse financial inclusion to narrow down the gender gap.

Among the SAARC countries,

India has a greater level of financial inclusion compared to the peers. India has achieved significant success in account penetration, with 80% adults (age 15+) having bank accounts which is much higher than the South Asian average of 69.6%. To bridge the gender gap, India has shown significant progress that reveals 77% female adult (15+) have accounts compared to 83% of the male adult.

Sri Lanka is positioned second among SAARC countries in terms of account opening as per Findex data of 2017. 74% adults (15+) of the country have accounts.

It has also shown tremendous progress in reducing gender gap with 73% female accounts compared to 74% male account.

Pakistan has taken some key policy initiatives for enhancing financial inclusion. Although Pakistan has gained some progress, still it has ample scope to stimulate financial inclusion drives.

Nepal has made commendable achievement in account penetration which shows 45.4% adults (age 15+) have accounts in formal financial institutions. The impressive part is that 50% of female have accounts as against 42% of male adults.

Bangladesh has made substantial progress in accelerating financial inclusion in the recent past. According to Findex data of 2017, 50% of the adults (age 15+) have accounts compared to 31% in 2014. Still only 36% of the adult (15+) female have accounts compared to 65% male counterparts. This situation would be more impressive for Bangladesh if Mobile Financial Services (MFS) account holders are taken into account.

Afghanistan, Bhutan and **Maldives** have also adopted a number of policy initiatives to enhance the process of financial inclusion in their respective countries. Despite all these efforts, a significant number of people are still away from formal banking facilities in all the SAARC countries.

Dear Participants

Now, I would like to highlight some insightful policy initiatives of **Bangladesh Bank** that facilitates financial inclusion in the country:

The nationalization of banks in 1972 can be regarded as the early stage of financial inclusion initiative to reach out to the remote unbanked populace. Yet more striking policy measures for the underprivileged to provide affordable financial services have been taken especially over the last decade.

Mobile Financial Services (MFS) Nearly all the adults in Bangladesh are mobile phone users (as per BTRC, the number of mobile phone subscribers reaches at 166 million by August 2020). In order to ensure the access to financial services towards unbanked people through taking advantage of countrywide mobile network coverage, Bangladesh Bank has introduced Mobile Financial Services (MFS) in 2011. Bangladesh Bank followed the bank-led MFS model for massive financial inclusion in the country. Initially MFS was used as a mode of payment only, but later MFS expanded activities for savings, credit, payment, remittance, tax, insurance, deposit scheme payment, collection of transfer benefits etc. which turned it like bank account at user's hand. Bangladesh Bank has simplified the KYC and introduced electronic documentation for opening the MFS account which smoothen financial inclusion.

Up to September 2020, 94.74 million mobile phone accounts have been opened of which 45.43 million accounts are in favor of female customers. The most impressive part is that amidst the COVID-19 pandemic, the number of MFS accounts has risen by 12.21 million between March 2020 and September 2020, showing the vibrant need of financial services through digital channel.

Agent Banking Bangladesh Bank permitted agent banking in 2013 with a view to providing banking services to the under-privileged, under-served population who generally live in remote location that is beyond the reach of the traditional banking networks. To facilitate rural people, banks are required to maintain a minimum ratio of 3:1 for establishing rural vs. urban agent banking outlets. This alternative delivery channel has shown progressive achievement during the pandemic of COVID-19, validating that financial services are very much needed for the remote people.

Till September 2020, 8.22 million accounts have been opened through 14,016 number of outlets under 24 banks. Of which 3.75 million accounts belong to female customers and 7.11 million accounts belong to rural populace. It may thus be inferred that these women and rural people would have remained unbanked if agent banking did not reach there.

No-Frill Accounts (NFAs) Bangladesh Bank has introduced a special no or low cost bank account commonly termed as No-Frill Account (NFA) in favor of marginal and low income people. This kind of account will require minimum deposit of BDT 10 (12 cents equivalent) with no further charges/fees and simplified KYC/documentation. Apart from receiving safety net allowances, these accounts are being increasingly used for savings and loans.

As of September 2020, 22.06 million No-Frill Accounts have been opened under the financial inclusion program. Of which 9.70 million accounts have been opened in favor of marginal farmers.

School Banking for Adolescence Bangladesh Bank has introduced school banking in 2009 for students under age of 18. Students can open a bank account with the help of parents with an initial deposit of BDT 100 with no further charge/fee to maintain the account.

Up to September 2020, 2.45 million school banking accounts have been opened in which BDT 18.21 billion worth of deposits has been accumulated. This is really an impressive scenario since the tiny amount of deposit collected from each school children is actually contributing towards economic activities as well as facilitating their savings habit and banking practices.

Provisioning of Low Cost Fund/Refinance Facility Envisioning the direct financial inclusion impact of refinance facility to the beneficiaries, Bangladesh Bank has created a number of striking refinance schemes with its own fund as well as funding facility in partnership with JICA, ADB, WB, UNCDF etc. organization to facilitate lending towards target groups. Provision of low cost fund and refinance window are playing pivotal role in promoting financial inclusion.

Bangladesh Bank has introduced a number of revolving refinance scheme in favor of no-frill account holders, landless/marginal farmers/tenants, agricultural sector and CMSMEs where they are getting loan at a concessional rate of interest and flexible repayment condition. Agricultural credit at a subsidized 4% interest rate is being extended by banks to farmers for growing import substitute agro products.

Financing Priority Towards CMSMEs Globally, Cottage, Micro, Small and Medium Enterprises (CMSMEs) have been acknowledged as an engine of growth for emerging economies since CMSMEs are the highest contributor in employment creation and income generation. CMSME in Bangladesh contributing 25% of our GDP and 35.5% of the total employment. CMSMEs received high priority since 2010 with the initiation of target-based SME lending program in 2010. The beauty of this initiative is that the target is not imposed by the central bank; rather banks and non-bank financial institutions (NBFIs) independently decide their targets. Some mentionable recent moves that are facilitating CMSMES are:

- Introduction of Credit Guarantee Scheme;
- Cluster development policy, prioritizing the cottage, micro and small women entrepreneurs, special emphasis for manufacturing and service sectors;
- Move towards *Secured Transactions and Movable Collateral Registry Reforms* that can ease the access to loan for CMSMEs who have lack of immovable property as mortgage.

Gender Friendly Financial Inclusion Policy Measures As per the Global Findex data of 2017 by the World Bank, the prevailing gender gap in accessing financial services in Bangladesh is 29%. In order to reduce the gap and to increase the pie for the female, Bangladesh Bank has taken several policy initiatives. Some major initiatives are:

- ✓ Minimum 15% of all refinance windows has been allocated for women entrepreneurs where women entrepreneurs will get SME finance at lower cost (bank rate + 4%);
- ✓ Collateral free loan for women entrepreneurs against personal guarantee up to BDT 2.5 million;
- ✓ Instruction to extend fresh credit facilities in favor of at least 3 Women Entrepreneurs per branch annually;
- ✓ Instruction to set up separate *"Women Entrepreneur Dedicated Desk"* in each branch of the Bank/Non Bank Financial Institution.

COVID-19 Regulatory Responses to Continue Flow of Financial Inclusion

To continue the flow of finance and to counter the economic slowdown created due to pandemic, Bangladesh Government has announced 19 stimulus packages worth 1.21 Trillion BDT (14 billion USD) which is approximately 4.3% of our GDP. Bangladesh Bank is facilitating more than 70% of those bail out measures through banks and non-bank financial institutions under its supervision. The highlighted reform measures are:

- ✓ Disbursement of Government allowance to 5 million poor families through Mobile Financial Services (MFS) and BDT 10 account without any fee/charges;
- ✓ Disburse at least 15 percent of the announced stimulus package among MSMEs in rural areas. Women entrepreneurs will get at least 5 percent of the package;
- ✓ Formation of BDT 30 billion worth refinance scheme for credit facilities to small traders/ marginal professionals through bank-MFI linkage to ensure economic activity and inclusive growth.

Excellencies, distinguished participants

Generally people conduct their financial activities and use various financial services throughout their lives to survive and to grow. But to use these services to their full potential i.e. to protect their families and improve their lives - they need well-suited products delivered responsibly. And it is the responsibility of a Central Bank to facilitate the financial services in a well-suited manner. We are working rigorously to balance financial stability and integrity with financial inclusion. In spite of the economic fallout due to the pandemic, we hope that relevant policies together with technology driven innovations, financial services, products and their delivery channels will become easily accessible to the people. I wish to conclude my keynote quoting from Nelson Mandela '*The greatest glory in living lies not in never falling, but in rising every time, we fall'*. A vision with clear and meaningful objectives and collaboration of all the involved parties will help us achieve a comprehensive, integrated and inclusive economic growth in the region.

Thank you all for your patience. I wish you a fruitful discussion ahead.

Goodbye.

Annex-4

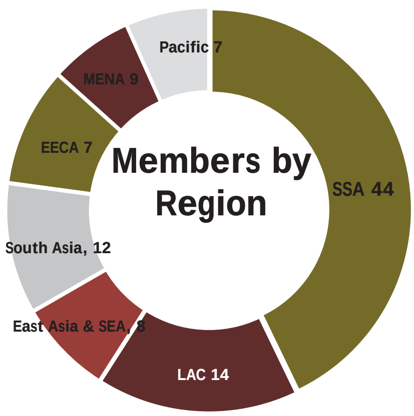
SAARCFINANCE WEBINAR

FINANCIAL INCLUSION IN THE TIME OF COVID-19

Robin Newnham
Head, Policy Analysis
2 December 2020

The Alliance for Financial Inclusion (AFI)

- **c.100 member institutions: majority central banks, financial regulators, ministries of finance**
- **89 countries (representing more than 80% of the world's unbanked)**
- **600+** inclusive finance **policy changes implemented by members**



Global Headquarters in Kuala Lumpur, Malaysia
Regional Offices in Africa, Latin America, and Europe

AGENDA

This presentation will cover:

- ❖How have Central Banks responded to COVID-19?
- ❖ Socioeconomic impact of the crisis and policy responses
- ❖ COVID-19 as a catalyst for digital transformation
- ❖The Green Recovery: Building Back Better

AGENDA

This presentation will cover:

- ❖ What kind of crisis is COVID-19?
- ❖ How have Central Banks responded to COVID-19?
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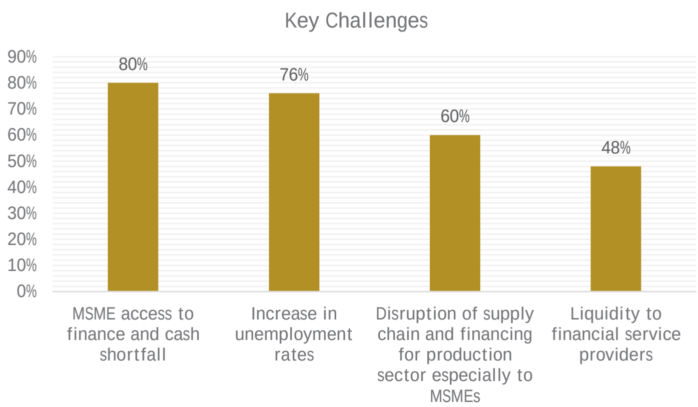
- ❖ COVID-19 as a catalyst for digital transformation
- ❖The Green Recovery: Building Back Better

AFI MNA Survey: Immediate FI challenges facing your country - 3 most affected segments/sectors



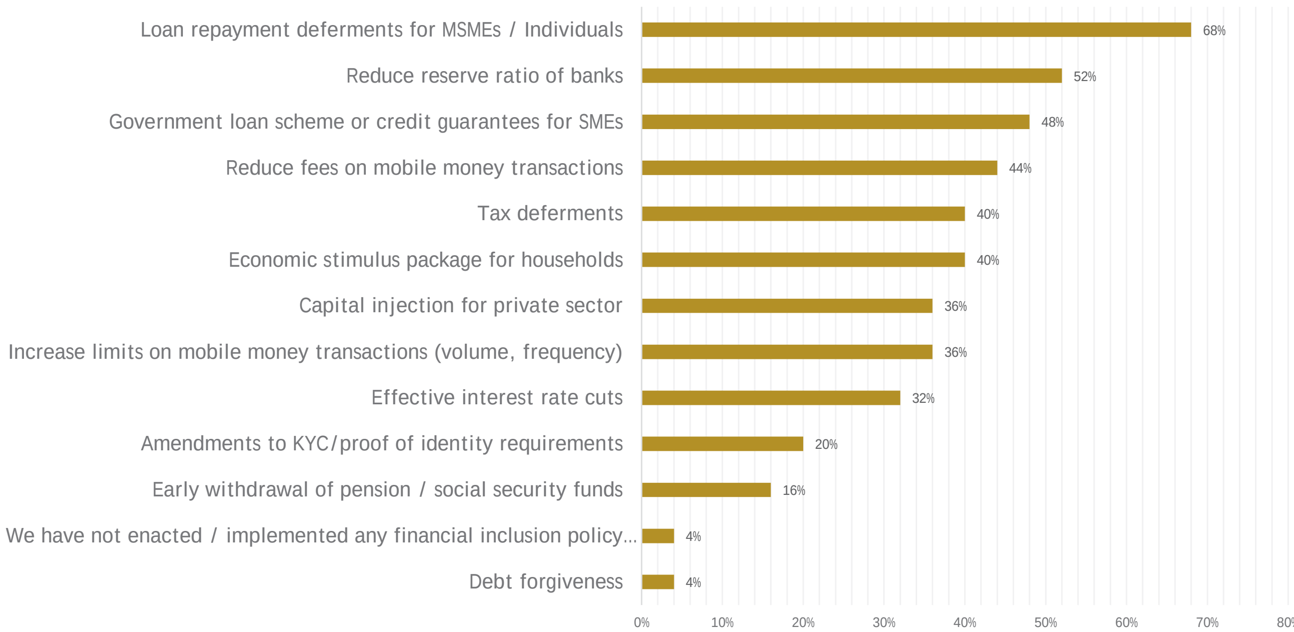
Q1. What are the immediate financial inclusion challenges facing your country since the outbreak of the COVID-19 pandemic? Please select all that apply.

Most Affected Groups

- MSMEs 92%
- Urban Populations 56%
- Rural Populations 48%
- Migrant Workers 28%
- Women 20%

Q2. Based on your assessment, which of the following segments or sectors of the society and economy are most affected by the financial inclusion challenges identified above? Select the top three (3) most affected.

AFI Member Institutions' Policy Responses



Q4a. What are the financial inclusion policy and regulatory initiatives that your institution has put in place in response to the impact caused by the COVID-19 pandemic on financial inclusion? Please select all that apply.

Time period of policy responses

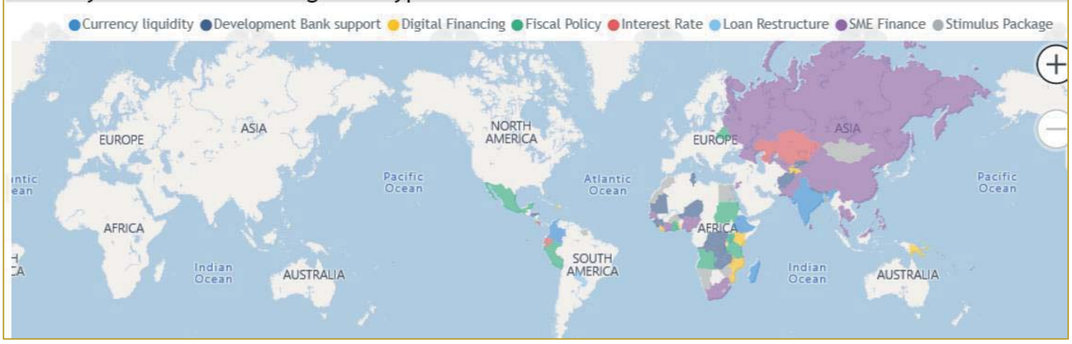
How long are these financial inclusion policy and regulatory measures intended to last?

Interventions	Common indicated response terms
Loan repayment deferments for MSMEs / Individuals	Next 2 – 6 months
Reduce reserve ratio of banks	Undetermined yet
Government loan scheme or credit guarantees for SMEs	Undetermined yet
Reduce fees on mobile money transactions	Next 1 – 3 months
Economic stimulus package for households	Next 2 – 3 months
Tax deferments	*varied*
Increase limits on mobile money transactions (volume, frequency)	*varied*
Capital injection for private sector	Next 2 – 3 months
Effective interest rate cuts	Undetermined yet
Amendments to KYC/proof of identity requirements	*varied*
Early withdrawal of pension / social security funds	Next 1 – 3 months

- **Measures have different terms / length**
- **Almost all in short to medium or undetermined**
- **Match needs with term**

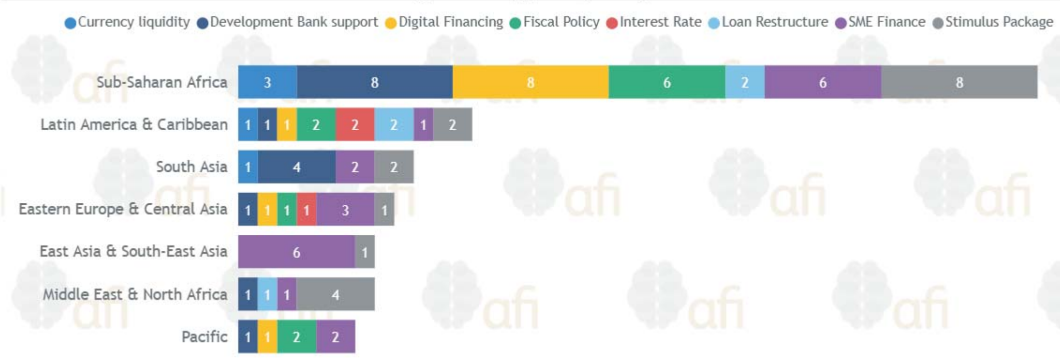
Policy Responses to COVID-19: AFI MEMBER DASHBOARD

Country and COVID-19 Mitigation Type



https://www.afi-global.org/afi-covid-19-policy-response

Count of Members COVID-19 Mitigation Type by Region

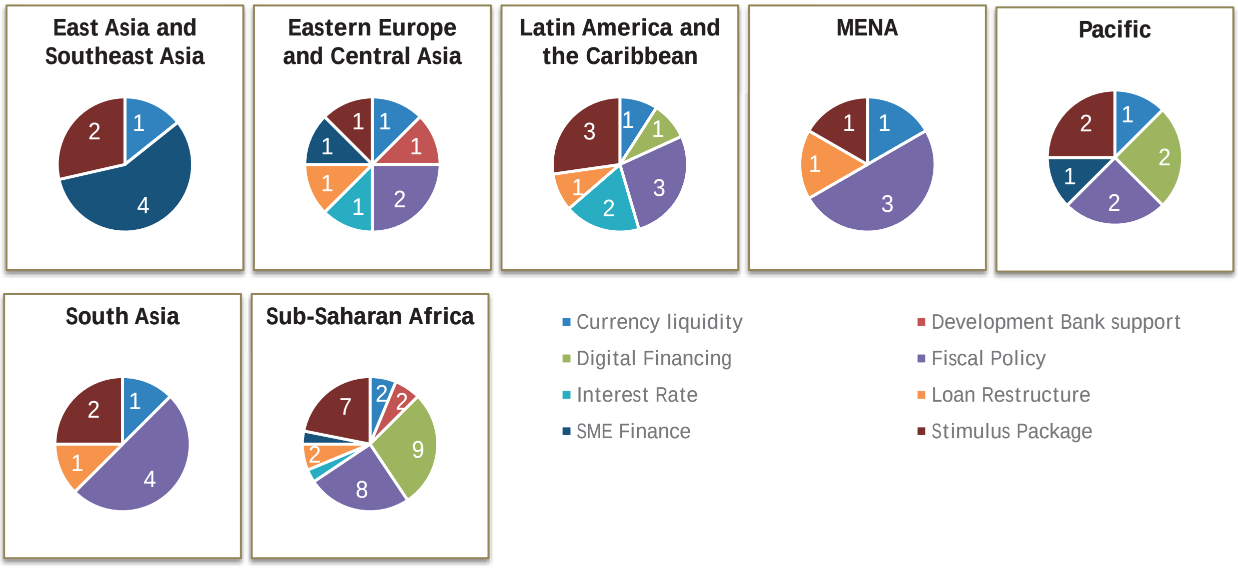


Catalogues 80+ COVID-19 policy responses implemented by AFI members:

*Fiscal Policy (22)
*Stimulus Package (18)
*Digital Financial Services (12
*Currency liquidity (8)
*SME Finance (7)

AFI Member Policy Response – Focus Area Summary

Number of countries with COVID-19 policy responses in each region



Regional Policy Responses – MENA and Sub Saharan Africa

- In West Africa, the **Central Bank of West African States (BCEAO)** has taken measures to support its member states, notably by **encouraging digital payments**[1].
- In **Tunisia**, 7 microfinance companies are taking measures under the guidance of the regulator through **loan rescheduling** to clients affected by the crisis and the **disbursement of additional funds** to client projects in vital sectors[2].
- Other countries are taking drastic measures to contain the epidemic, such as curfews in **Côte d'Ivoire** and **Burkina Faso**. However, such measures may not be sustainable, as 85 % of people across Africa work in the informal sector.

1. https://www.bceao.int/fr/communique-presse/communique-relatif-aux-mesures-de-promotion-des-paiements-electroniques-dans-le
2. https://www.findevgateway.org/ar/news/fyrws-kwrwna-mwssat-altmwyl-alsghyr-altwnsyt-tthd-lmsadt-hrfayha

Regional Policy Responses – Latin America and Caribbean

- In LAC, access to financial services provided by the **microfinance sector** such as credit, savings, insurance and remittances is critical for poor people to cope with the fallout[1].
- While in countries like **Colombia**, **Peru** and **Mexico**, cash is still widely used among the most vulnerable communities, the outbreak is also being seen as an opportunity to move towards **building increasingly digital payment ecosystems[2].**

1. https://www.cepal.org/es/comunicados/covid-19-tendra-graves-efectos-la-economia-mundial-impactara-paises-america-latina
2. https://www.findevgateway.org/es/blog/2020/03/covid-19-como-las-microfinanzas-soportaran-la-tormenta-que-se-avecina

Regional Policy Responses – South Asia

- The **Reserve Bank of India** has increased the number of days of continuous overdraft to 21 working days from the previous 14 working days. This is to provide flexibility to the State Governments to tide over their cashflow mismatches.
- In **Bangladesh**, the government announced an USD 8 billion stimulus package. The National Board of Revenue has suspended duties and taxes on imports of medical supplies, including protective equipment and test kits. The government has approached international financial institutions seeking budget support, and similar requests have been addressed to bilateral development partners.
- The **State Bank of Pakistan** has responded to the crisis by cutting the policy rate three times by a cumulative 425 basis points to 9.0 percent.

1. https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=49701
2. https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19
3. http://www.sbp.org.pk/press/2020/Pr-16-Apr-20.pdf

Implementation Challenges: Summary

- Data on effectiveness of policy response
- Transmission to the informal sector
- Unwinding of measures takes, e.g. building back capital buffers
- Distinguishing solvency and liquidity in support to businesses
- Fiscal space to support vulnerable populations and SMEs
- Lack of digital infrastructure (digital IDs, Interoperable payments)
- Cybersecurity and digital financial literacy
- Inflation post COVID-19 as a result of monetary policy interventions
- All solutions are temporary until the public health crisis is resolved

AGENDA

This presentation will cover:

❖ What kind of crisis is COVID-19?

❖ How have Central Banks responded to COVID-19?

❖ **Socioeconomic impact of the crisis and policy responses**

❖ COVID-19 as a catalyst for digital transformation

❖ The Green Recovery: Building Back Better

Disadvantaged groups remain disproportionately excluded…

1 billion women lack access to a bank or mobile money account

There are now 79.5 million forcibly displaced persons (FDPs) globally, and rising

47% of young adults in developing countries are excluded from formal financial services

Only 23% of older persons in Sub Saharan Africa receive a pension

800 million persons with disabilities live in developing countries

COVID-19: deepening the exclusion of disadvantaged groups

Greater exposure to health impacts of the virus

Greater exposure to socioeconomic impacts due to over representation in informal economies

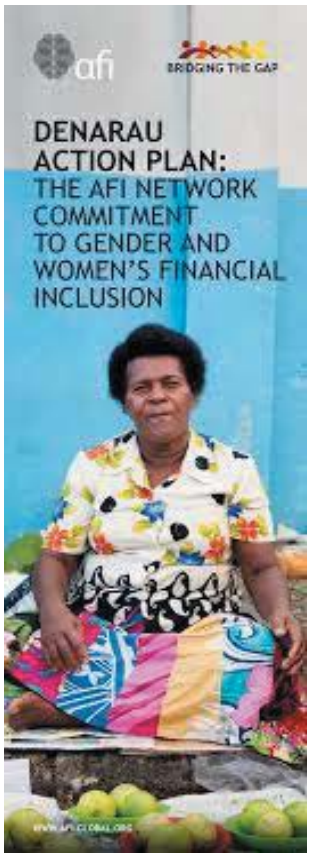
Challenges to navigate the transition to digital financial services

Less able to access govt assistance & social welfare programs

At risk from shifting sociocultural norms & values

Policy Options: Gender Inclusive Finance

Through the Denarau Action Plan (2016) AFI members committed to closing the financial inclusion gender gap. Guidance from AFI WGs has advanced knowledge on practical solutions.



Policy Options: Youth Inclusion

Pakistan: Launched National Financial Literacy Program for Youth (NFLP-Y)

Bank of Zambia

Zambia: conducting diagnostic of regulations and financial products for children & youth

AFI Youth Inclusion Policy Framework & guideline on integrating Youth into NFIS are in development

G20 High Level Policy Guidelines on Digital Inclusion of Youth (2020)

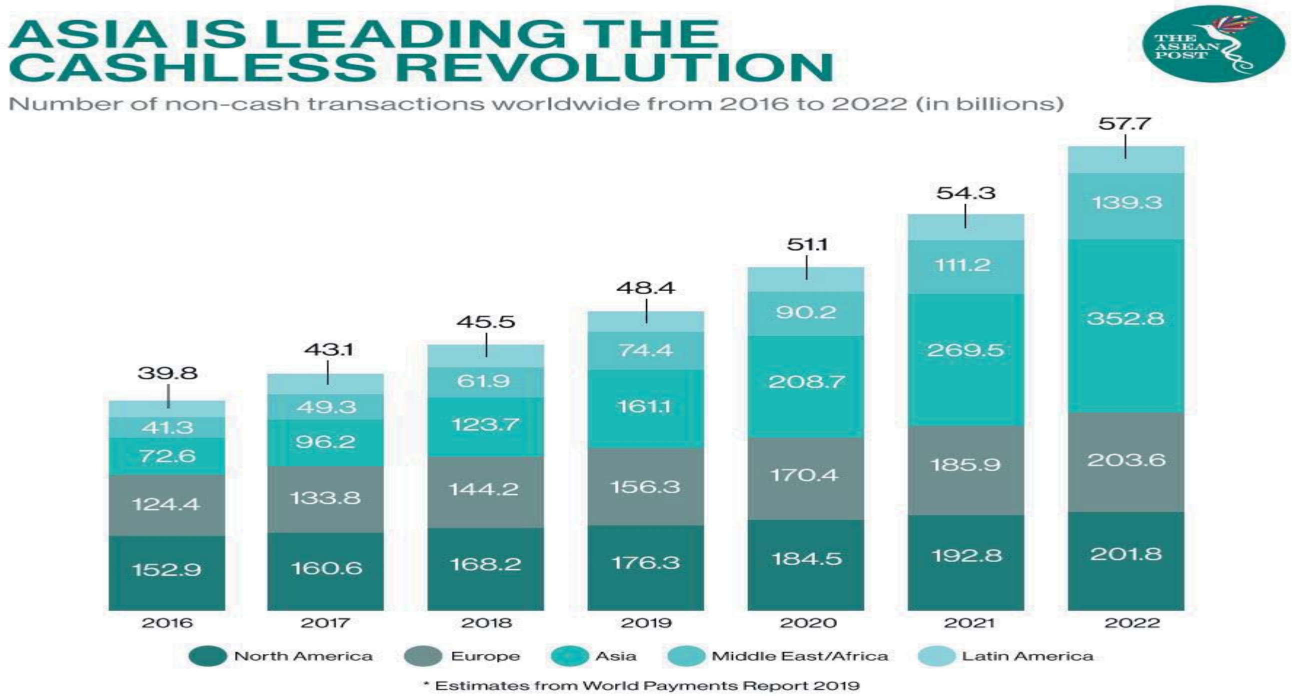
AGENDA

This presentation will cover:

- What kind of crisis is COVID-19?
- How have Central Banks responded to COVID-19?
- Socioeconomic impact of the crisis and policy responses
- COVID-19 as a catalyst for digital transformation
- The Green Recovery: Building Back Better

Modality: Interactive sharing session. Jump in with comments/questions at any time.

Will COVID-19 Catalyze digital payments?



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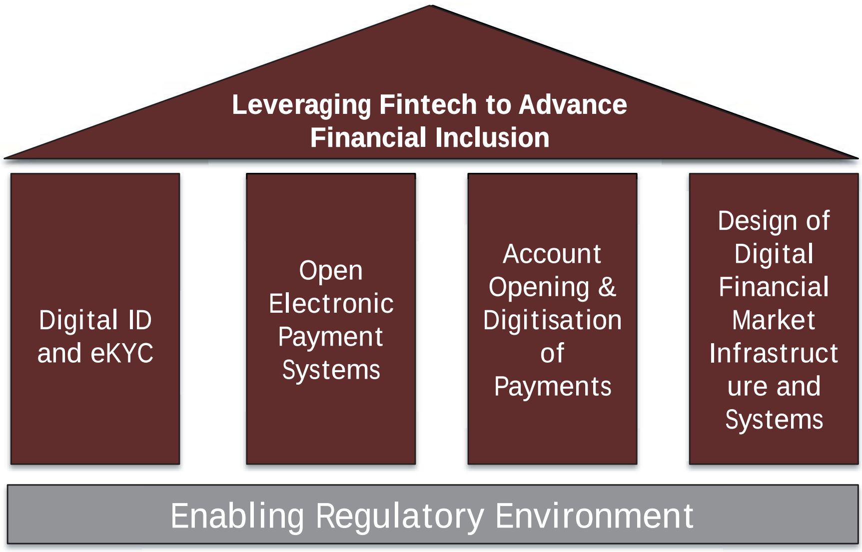
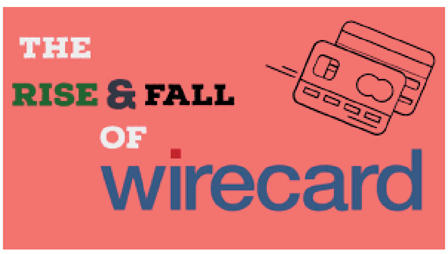
Vital to establish key infrastructure and enabling regulation to Leveraging FinTech for Inclusion Goals



Scale of BigTechs financial services operations requires a regulatory response

Financial Stability Board (FSB), October 2020:

Regulators should apply the principle of 'same risk – same regulation' with respect to BigTech firms' activities, whilst tailoring regulatory frameworks to reflect the relative size and scope of those firms' activities



Regulatory & Supervisory Innovation Amidst COVID-19

Regulatory sandboxes, Supervisory Technology solutions (SupTech) and Central Bank Digital Currencies have all seen significant acceleration as a result of the COVID-19 pandemic

AGENDA

This presentation will cover:

- ❖ What kind of crisis is COVID-19?
- ❖ How have Central Banks responded to COVID-19?
- ❖ Socioeconomic impact of the crisis and policy responses
- ❖ COVID-19 as a catalyst for digital transformation
- ❖ **The Green Recovery: Building Back Better**

COVID-19 as a catalyst for climate action?

"We must do everything in our power to promote a '**green recovery**', our bridge to a more resilient future."

Kristalina Georgieva
Managing Director
International Monetary Fund (IMF)

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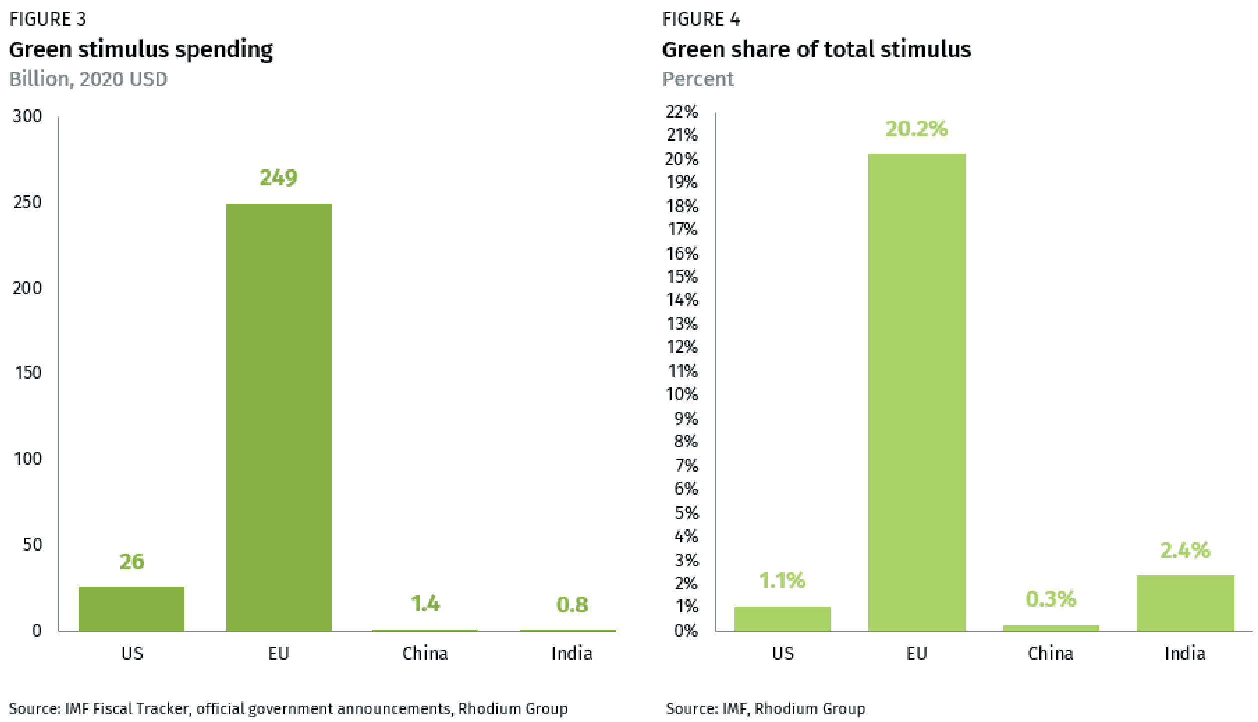
How green is the policy response to COVID-19?



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The role of regulators in greening the financial sector

'Coronavirus is bad, but the green swan is worse'

"Climate catastrophes are even more serious than most systemic financial crises… they could pose an existential threat to humanity, as increasingly emphasized by climate scientists".

– Bank for International Settlements, January 2020

Some conclusions

- COVID-19 was a predictable, but not necessarily prepared for, shock.
- Central Banks/regulators have been at the forefront of crisis response.
- Early response has been effective to stabilize the financial sector and financial markets, challenges remain in terms of sustainability and timely unwinding of policy ,responses, as well as reach to vulnerable populations.
- Economic and financial responses are temporary solutions until the public health challenge is resolved.
- COVID-19 is a catalyst for digital transformation, creating new opportunities and risk for regulators.
- Central Banks and financial regulators have a key role to play in greening the financial sector as part of an overall green recovery.

THANK YOU

Annex-5

Country Paper

Financial Inclusion in Bangladesh: Initiatives and Impacts

Prepared by

Gazi Md. Mahfuzul Islam
Deputy General

Manager &

Prajna Paramita Saha
Joint Director

Bangladesh Bank

SAARCFINANCE Webinar on Financial Inclusion 02 December 2020

Financial Inclusion in Bangladesh: Initiatives and Impacts

Gazi Md. Mahfuzul Islam and Prajna Paramita Saha[1]

Abstract

This paper describes the state of financial inclusion in Bangladesh. The authors tried to capture different initiatives and ways used to bring the mass people under the umbrella of formal financial services in the country. First, they explored the different channels through which financial inclusion has been driven in Bangladesh. Agent Banking, Digital Financial Services and the automation of Payment Systems have greatly accelerated the reach and use of formal financial services. The paper also highlighted the initiatives undertaken for the marginal and special segments, such as No-Frill Accounts, school banking, banking for the working children. These initiatives have brought a significant number of unbanked people in the mainstream banking. Different windows for deepening the access to finance in the rural areas have also been introduced in the form of agricultural and CMSME (Cottage, Micro, Small and Medium Enterprise) financing. Bangladesh has also taken several initiatives to empower the consumers and protect their interests through financial literacy and consumer protection policies. The paper identified the recovering from COVID-19 pandemic and ensuring financial literacy for all as the main challenges for financial inclusion at the moment. The paper foresees that the implementation of the National Financial Inclusion Strategy of Bangladesh (NFIS-B) with the collaboration and active participation of all the stakeholders will drive future developments in financial inclusion.

[1] The authors Mr. Gazi Md. Mahfuzul Islam, Deputy General Manager and Ms. Prajna Paramita Saha, Joint Director are working in the Financial Inclusion Department of Bangladesh Bank. They would like to thank Mr.

Table of Contents

1. Introduction

Financial inclusion is being considered as one of the most significant policy areas to achieve inclusive and sustainable economic development. As described by World Bank Group, *"Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way."*[2] The level of financial inclusion in Bangladesh has been increasing day by day. 50% of the Bangladeshi adults have access to at least one formal financial service (World Bank, 2017) which has increased significantly by 19% since 2014. As part of the Government"s 7th Five Year Plan, it has set the target to "leave no one behind" through financial inclusion and digitization. To achieve this broader objective, Bangladesh Bank (BB) has been undertaking innovative and effective initiatives to bring the financially excluded people under the umbrella of formal financial services. As part of these initiatives, BB has been promoting multi-faceted and affordable alternative delivery channels, customized services for marginal and specialized segments, financial literacy and consumer empowerment programs and policy interventions to make formal financial services available at the doorsteps of mass people.

BB has been committed to promote financial inclusion activities to facilitate the best use of economic resources as per the responsibilities conferred upon vide various Statues, Acts including "The Bangladesh Bank Order, 1972", under which BB has been established. As apart of this commitment, BB has been working relentlessly to improve the access to credit and other financial services especially for the unbanked and poor populace who are left out of the financial services.

After the independence in 1971, Bangladesh started reaching out financial services to more remote places through diversifying banking services in the form of the nationalization of the banks in 1972. Establishment of Bangladesh Krishi Bank (a specialized bank for financing the agricultural sector) in 1973 was another important milestone in the history of financial inclusion in Bangladesh. It facilitated access to agricultural finance to a large portion of the rural population. In the meantime, the emergence of microfinance institutions also took place and the MFIs started to expand their operation as aide and microcredit delivery channel at the rural area. In 1982, BB started licensing of private commercial banks in Bangladesh which increased financial

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[2] https://www.worldbank.org/en/topic/financialinclusion/overview

service access points and helped more people to be on-boarded in the financial system. With the popularization of mobile and internet, Digital Financial Services (DFS) has boosted the financial inclusion in Bangladesh further.

BB is also committed for a greater financial inclusion of under-served productive sectors and brought new dimensions in financial markets for rapid poverty eradication, inclusive economic development and social progress. In order to meet the targets within the stipulated time and to keep track of the progress, BB has started outlying its commitments to the nation through publishing „Strategic Plan" since 2010. In the latest Strategic Plan for 2020-2024, it has set multiple action plans along with measureable indicators for deepening financial inclusion in Bangladesh. On implementation of those action plans, it is expected that the financial services will be reached out to all, the gender gap will be reduced, and finally the usage of financial services will be increased to the expected level.

In addition to the institutional goals, BB has been playing a pivotal role in preparing the country"s first financial inclusion strategy, the National Financial Inclusion Strategy of Bangladesh (NFIS-B). The draft of NFIS-B has been finalized and awaiting for approval from the Cabinet. In the finalized draft, the commitment for financial inclusion of all citizens by 2024 has been reaffirmed.

2. Financial Inclusion through Conventional Channel

Expansion of Branch Network of the Banks

The conventional and comprehensive way of extending banking services is the full-fledged branch banking. Generally, branch network is expanded to the areas where there is business prospect for the banks and also the need for the banking services to the people. Earlier, banks were permitted to maintain a ratio of 4:1 for setting new branches in the urban and rural areas respectively till 2011. With a view to reaching more rural areas with banking services, the urban-rural branch ratio has been re-fixed at 1:1. The number of bank branches as on 30 June 2020 stood at 10,588.

Sub-branches and Bank Booths

In 2012, the banks were allowed to establish Small and Medium Enterprise (SME) branches, Agri-branches, collection booths and business development centers. These new channels are bringing more unbanked and underprivileged people under the formal banking network. Such branches are providing limited scale banking services and operating within a limited expenditure under the supervision of a nearby full-fledged branch of the bank.

3. Financial Inclusion through Alternative Channels

Mobile Financial Services

BB has introduced Mobile Financial Services (MFS) in 2011. Initially MFS was used as a mode of payment instrument, such as, utility bill payments, merchant payments, mobile top up, online and e-commerce payments etc. Later, MFS is also being used as a medium of deposit mobilization. MFS has experienced a rapid growth since the mobile phone network is omnipresent allover in Bangladesh. BB has also introduced a tiered KYC and electronic documentation for opening an MFS account which further accelerated financial inclusion.

At the early stage, only the Cash-in/Cash-out (CICO) transactions were popular through MFS, but now all modes of transactions including Person to Person (P2P), Person to Business (P2B), Business to Person (B2P), Person to Government (P2G) and Government to Person (G2P) are also popularly used.

MFS has grown exponentially since the inception. From Table 1, it can be seen that the number of registered & active MFS clients and total number & amount of transactions is increasing over the years, which indicates that the MFS is getting more popular over the time.

Table 1: MFS Transactions Trend (Figures in Million)

Description	June 2017	June 2018	June 2019	June 2020
No. of registered clients	53.73	61.86	72.50	88.80
No. of active accounts (transaction made in last 3 Months)	27.40	27.21	32.46	38.57
No. of total transaction	181.93	192.59	199.53	256.10
Total transaction in million Tk	300,085.3	332,131.2	317,083.8	448,306.6

Source: Payment Systems Department, BB

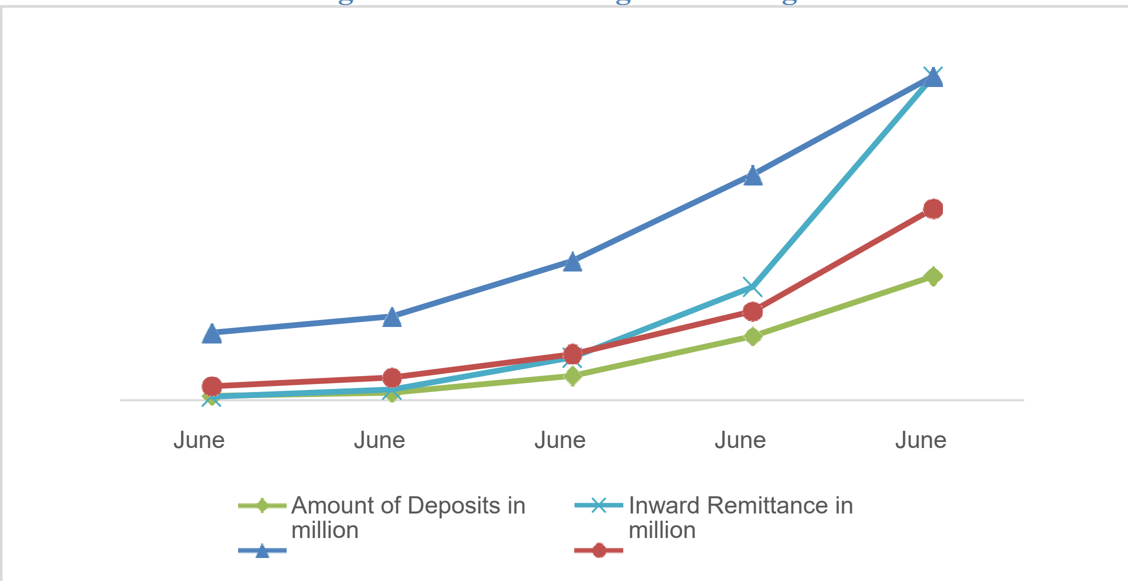
Agent Banking

BB allowed scheduled banks to extend banking services through agents in 2013. Agents of a bank can offer limited-scale banking and financial services under a valid agency agreement. Through this system banks can extend their services to the remote areas without setting up a branch or employing their own officials to the remote location. This is a cost efficient system for the banks as well as suitable for a local entrepreneur to act for a bank in their locality. As a result, Agent Banking is gaining much popularity in the remote areas.

Financial inclusion has gained a pace through Agent Banking in the rural areas creating endless possibilities for both banks and their customers. It is helping banks in mobilizing deposits, disbursing credit and most importantly distributing inbound foreign remittances. Even in the time of spreading COVID-19, when every other business and banking activities saw a downturn, Agent Banking has still made a significant progress. It has also been making significant contribution as a foreign remittance channel in the rural areas.

As of June 2020, 23 banks have been engaged in Agent Banking with a total of 8,764 agents and 12,449 outlets. Total number of accounts up to June 2020 is 7,358,190 and total balance of these accounts is Tk 102.20 billion. Figure 1 indicates that the Agent Banking activities in Bangladesh has a significant growth in the last couple of years.

Figure 1: Growth of Agent Banking Activities



Source: Financial Inclusion Department, BB

Licensing of PSPs and PSOs

As a part of financial inclusion and deepening financial services, BB has been providing licenses for Payment Services Providers (PSP) and Payment System Operators (PSO) under the "Bangladesh Payment and Settlement Systems Regulation-2014 (BPSSR-2014)". PSPs are facilitating payment(s) or payment processes directly to the customers and settling their transactions through a scheduled bank or financial institution, such as e-Wallet, Mobile Wallet etc. PSOs are engaging as fintech companies who operate as settlement systems for payment activities between/among participants, such as payment gateway, payment aggregator etc. As of June 2020, a total of 7 PSPs and PSOs are in operation and their activities are helping financial inclusion in Bangladesh.

4. Initiatives for Marginal and Specialized Segments

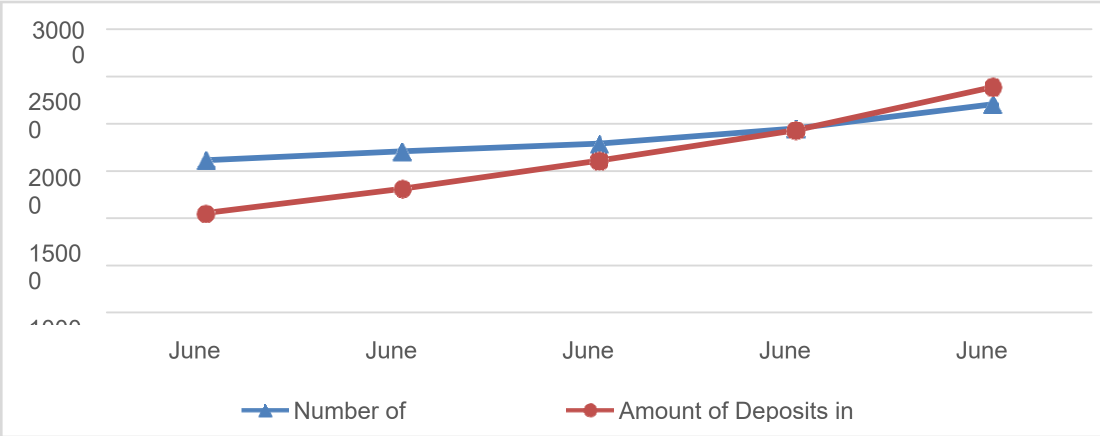
No-Frill Accounts

The focus of financial inclusion in Bangladesh rests mainly on low-income groups. Since the financial service is regarded as an important prerequisite for poverty alleviation and improving living standard, BB issued a set of directives to the commercial and specialized banks to onboard the poor, marginalized and special segment of population to the formal banking system and to retain them in the system through opening a special type of bank accounts with zero or nominal charges and free of unnecessary fees or frills. Those accounts are commonly known as No-Frill Accounts (NFA). NFAs require simplified Know-Your- Customer requirement and documentation. NFAs are available for farmers, recipients of the social security programs, freedom fighters, small life insurance policyholders, garment workers, cleaning workers of the city corporations, footwear and leather goods makers, small-scale factory workers, physically-challenged persons, street urchins, dwellers of the former enclaves, flood affected marginal people, small businessmen, etc. In addition, Banks were instructed to offer higher interest rate against the deposits of those accounts. NFAs have been playing a pivotal role in respect to financial inclusion over the years. As of June 2020, a total number of 2,20,70,630 NFAs have been opened under the financial inclusion program which have a total deposit of Tk 23,867.4 million. Figure 2 shows that both the number of accounts and the amount of deposits are growing at a steady rate.

In 2014, a revolving refinance fund of Tk 200 crore (Tk 2 billion) has been created from BB's own source to provide access to credit for the Tk 10 account holders. The fund has been created to facilitate the rural economic activities by expanding the income-generating

activities of the low-income marginal/small traders affected by natural disasters as well as small/marginal farmers. The scheme has been used to refinance loans provided by banks directly and also through Micro-Financial Institutions (MFI) linkage. Under this scheme, the banks under contract can lend up to Tk 50,000 for one-year period without any collateral.

Figure 2: Growth of No-Frill Accounts

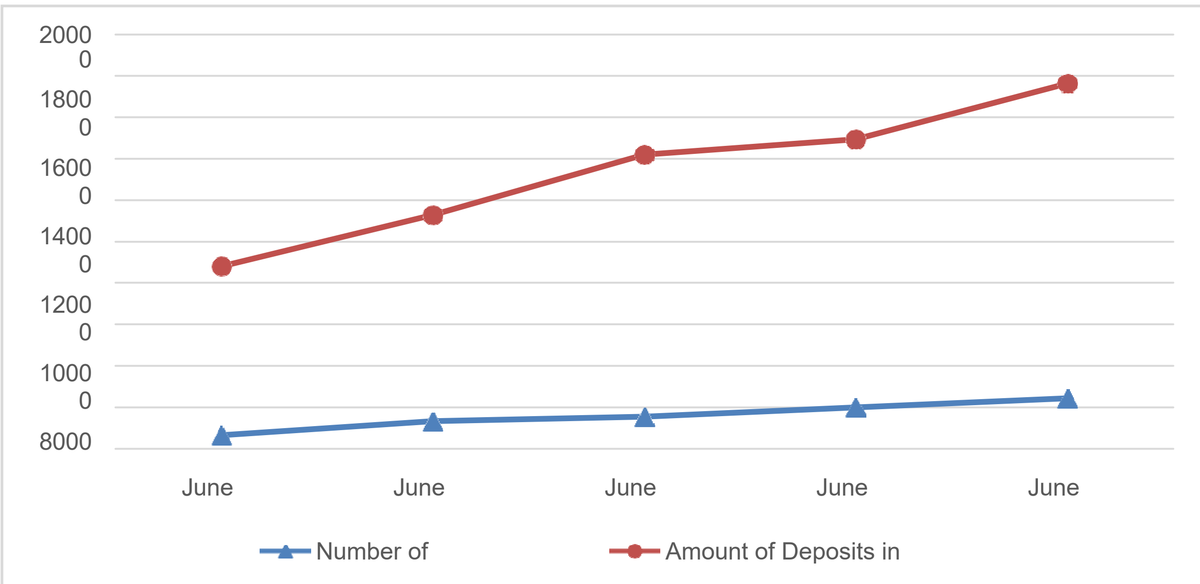


Source: Financial Inclusion Department, BB

School Banking

One of the most significant milestones in the financial inclusion initiatives is the introduction of School Banking. To develop savings habit at a very early age, the program introduces banking services and modern banking technology to students less than 18 years. Banks have been instructed to introduce school banking in November 2010. A comprehensive policy guideline was published in October 2013. In light of these policies, banks can open student accounts with a minimum deposit of Tk 100 and no service charges. Moreover, these accounts offer attractive interest rates, debit card facility and school-centric financial education programs. Total deposit in students accounts under school banking initiatives has reached to 24,31,602 in June 2020 with a total deposit of Tk 17,628.2 million.

Figure 3: Growth of School Banking Activities



Source: Financial Inclusion Department, BB

Banking for the Working Children

The initiatives have been undertaken to provide financial services to street urchin and working children to secure their hard-earned money and help them to grow a saving attitude. Children who do not have parents can open accounts in the banks with the help of the registered Non-Government Organizations (NGOs). The NGOs involved in this process are fully responsible for the account operation and for the welfare of the account holders. No fees are charged on these accounts.

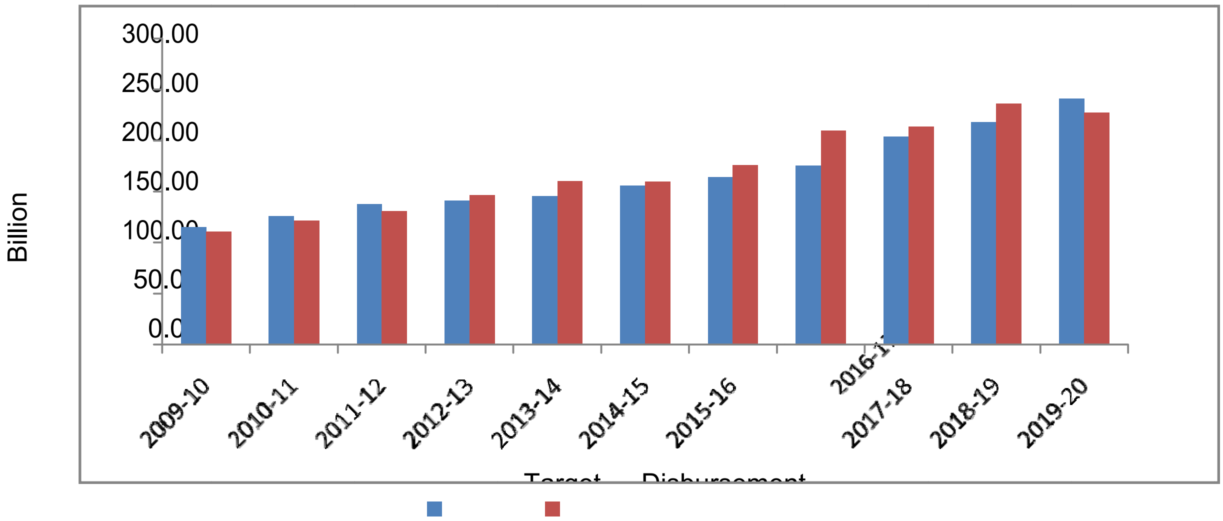
5. Deepening of Access to Finance

Agricultural Credit Program

BB has been pursuing annual agricultural credit policy to increase financial inclusion and access to finance in the rural areas. The policy also aims at reaching every corner to rejuvenate rural economy each year. In addition to financial inclusion, agricultural credit policy helps employment generation, increases agricultural production and ensures food safety for the country.

Short-term agricultural credits are generally disbursed to the farmers for the production of crops and those are repayable within a calendar year. So, agricultural credit supply needs to be continued through policy initiatives to retain them in the financial systems. In the FY 2019-2020, a total of Tk 227.49[3] billion has been disbursed to 3.067 million borrowers of them 1.514 million were women. Figure 4 shows that, the disbursement of agricultural credit is increasing gradually and achieving the disbursement target set in the "Agricultural & Rural Credit Policy" in almost every year in the last decade.

Figure 4: Target and Disbursement of Agricultural Credit



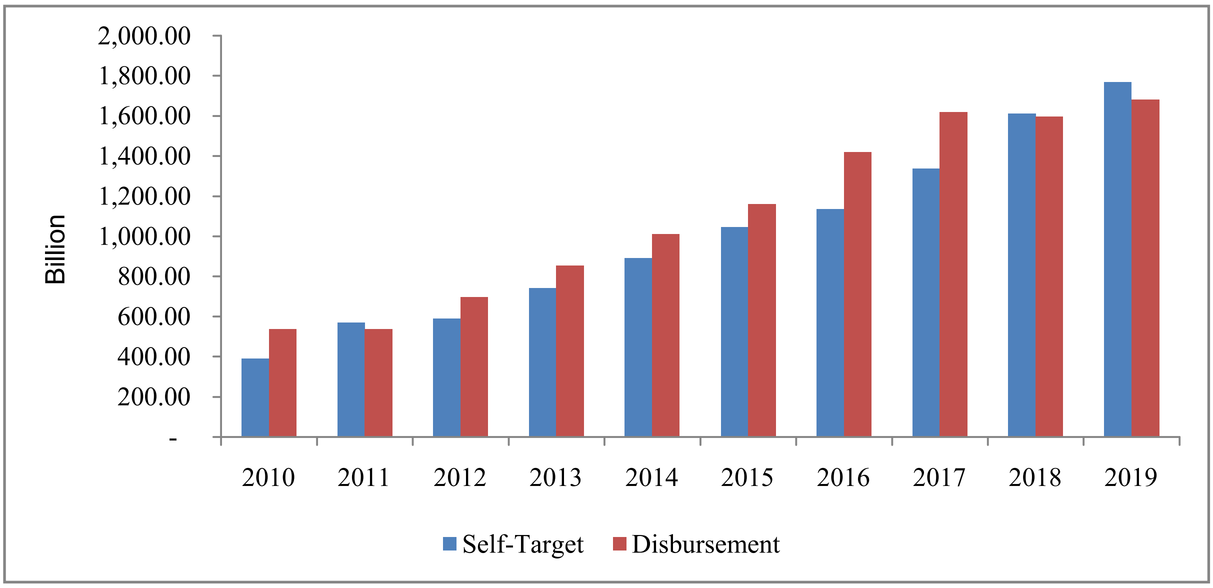
[3] Agricultural & Rural Credit Policy and Program for the FY 2020-2021

Source: Agricultural Credit Department, BB

CMSME Financing

Cottage, Micro, Small and Medium enterprises (CMSME) are known as the driving force of economic development worldwide. CMSME sector has played a vital role in the economic development of the developing countries of the world through opening doors of possibility. Bangladesh is a country of unlimited potentials with a huge working population. Through the small enterprises with small amount of capital, people are involved in creative works which is keeping the wheel of economy active. Several CMSME credit policies have been undertaken including setting up indicative targets for CMSME loan disbursement, following the "Area Approach Method", applying cluster development policy and giving priority to the women entrepreneurs. Figure 5 shows that, since the inception in 2010, almost in every year, the self- target provided by the banks has been achieved and it is growing progressively.

Figure 5: Self-Target and Disbursement of CMSME Credit



Source: SME & Special Programmes Department, BB

6. Financial Literacy and Consumer Empowerment

Financial literacy of the citizen is a prerequisite to make a sustainable financial inclusion. With a view to making financial inclusion initiatives more successful, an interactive web portal for financial literacy is one of the most important initiatives. The website contains basic financial literacy documents, cartoons, story books, games, audio-visuals, calculator etc. on different financial issues and financial services. Several television commercials, radio broadcasting commercials, advertisements in the newspaper, flyers, pamphlets, leaflets, video documentary have been made and released for building public awareness on financial literacy.

BB has identified 'Strengthen financial education & financial literacy initiatives' as an important core objective in the Strategic Plan for 2020-2024. With a view to increase public awareness, formulate financial literacy and financial education policy, BB has designed a special program named „School Banking Conference" in 2014. School Banking Conferences are arranged at the district-level of Bangladesh. Students from different educational institutions, parents, teachers, government officials, journalists of that locality participate, learn and share financial knowledge through various activities. Considering financial literacy as a foundational learning for the future citizen, BB has been working to include a special chapter on financial literacy in the national curriculum for the secondary level education.

In addition to the above-mentioned programs and initiatives, BB arranges different financial awareness campaign such as open credit disbursement program, awareness raising campaign under different schemes and projects, special fairs such as Banking Fair, SME Fair, Women Entrepreneur Fair etc.

Bangladesh Bank always remains vigilant to protect the interests of the depositors/customers of banks and financial institutions of the country. Bangladesh Bank has established a full- fledged department known as "Financial Integrity & Customer Services Department (FICSD)" with the following objectives:

- To protect the interests of the customers related to Banks & Financial Institutions (FI) within the legal and regulatory frame-works.
- To redress the grievances of the customers and to attend the complaints received against Banks/FIs or its any official.
- To improve banker-customer relationship.
- To ensure the standard of customer-services of the Banks/FIs.

The "Guidelines for Customer Services and Complaint Management" has been issued in 2014 for providing a proper and uniform to all banks and financial institutions in relation to ethical standards, code of conduct for employees, customer charter, rights and obligations of customers and banks etc.

7. Other Regulatory framework, guidelines and strategies

Automation of Payment Systems

BB has been continuously introducing and upgrading the payment systems in Bangladesh which facilitates further financial inclusion. Worldwide, ATMs are making significant contribution towards creating branchless banking. Considering the comfort and convenience of the customers, BB encourages banks to introduce ATMs for their customers. This avenue allowed banks to provide allied services such as Debit Card, Credit Card, POS/online transactions etc. The first ATM in Bangladesh was introduced in 1993. As on 30 June 2020, the number of ATMs in Bangladesh is 11,047.

The popularization of POS and e-Commerce services helped customers to make domestic and overseas payments with ease and convenience. Specially, with the evolvement of technology, these services helped to financially include the tech-savvy young generation. BB also introduced Bangladesh Automated Cheque Processing Systems (BACPS) in 2010, Bangladesh Electronic Funds Transfer Network (BEFTN) in 2011, National Payment Switch Bangladesh (NPSB) in 2012 and Real Time Gross Settlement System (RTGS) in 2015. These technical moves increased the speed of money and thus reduced time required for making interbank transactions significantly.

8. Introduction of e-KYC and Simplified Account Opening Form

BB is committed to ensure affordable and faster financial services for the citizen to promote financial inclusion and to achieve several national objectives including sustainable development goals (SDGs). As the modern financial ecosystem require customer identification and due diligence with minimum possible time, BB took the initiative to introduce electronic know-your-customer (e-KYC) and issued a guideline in January 2020. This is applicable for the financial institutions including banks, non-bank financial institutions, insurance companies, capital market intermediaries, MFS & DFS providers and the other companies licensed by the BB. Every financial institution is expected to implement this Guideline by December 2020. This e-KYC guideline contains a set of instructions for the financial institutions to enable them to conduct customer due diligence in a digital means based on the national ID (NID) card and the bio-metrics data stored against each NID card. The key objective of promoting e-KYC is to enable quick on-boarding of customer by verifying their identity through digital means which can leverage saving of time and provide ease both for the client and service providers.

In order to promote financial inclusion, BB reviewed the account opening form used by the Banks and introduced a simplified form in February 2020. The simplified form is designed to offload the burden of the marginalized clients from submission of many documents based on their risk exposure.

Narrowing the Gender Gap

As per the Global Findex, 2017 published by the World Bank, the prevailing gender gap in accessing financial services in Bangladesh is 29%. In order to reduce the gap and to increase the pie for the female counterpart, BB has taken different initiatives which helps increasing financial inclusion through widen the access to finance. To facilitate loan windows for women entrepreneurs, instructions have been given to provide at least 15% of the total Bangladesh Bank refinance scheme for the CMSMEs at an interest rate of bank rate+5%. Banks are also instructed to extend fresh credit facilities in favor of at least 3 Women Entrepreneurs per branch annually. Furthermore, to encourage the women's participation in getting credit, banks are instructed to setup a dedicated desk in each branch and to form a Women Entrepreneur Development Unit at their head office to help and monitor the women entrepreneurship and allied activities. If possible, the banks and NBFIs are also advised to employ women officials at the desks, and to provide suggestions and services for women entrepreneurs regarding project preparation, the loan application process, etc. Instructions were also given to all banks and NBFIs to consider sanctioning loans up to Tk 2.5 million to women entrepreneurs without collateral but against personal guarantees under the refinance facilities provided by Bangladesh Bank. The policy measures taken by BB are having a positive impact on the share of women in financial services.

Enhancing eligible collateral base for greater access to finance.

Sufficient collateral is one of the important prerequisites to avail loan from any bank or financial institution in Bangladesh. Among the collaterals, immovable fixed assets are most widely acceptable. Hence, financing to escalate the cottage, micro, small and medium enterprise (CMSME) industry hinders due to lack of adequate immovable collateral. Movable assets can be considered as alternative source of collateral for the CMSME loans. A project named „Secured lending and movable collateral reform in Bangladesh‟ has been undertaken jointly by BB, Ministry of Finance and International Finance Corporation (IFC) of World Bank Group.

The objective of this project is to generate the acceptability of transferable or movable assets through reformation of eligible collateral. Consequently, widen the periphery of eligible assets considered as collateral and to ease financing intricacy for the CMSME entrepreneurs.

International Collaboration and Knowledge Sharing

BB has built partnership with some international strategic alliances and become member of international organizations to boost financial inclusion, financial deepening and also to ensure an enabling and inclusive financial environment in Bangladesh. Bangladesh Bank has been a primary member of Alliance of Financial Inclusion[4]

[4] AFI (https://www.afi-global.org) is a global knowledge exchange platform of 99 regulators from 88 countries

(AFI) since 2009. BB has also been acting as the Vice-chair of the Financial Inclusion Working Group of the Organization of Islamic Cooperation (OIC). This working group of the central banks of the Islamic countries is working for the promotion of financial inclusion as well as for improving access to finance, financial education and consumer protection.

It is well-mentionable that due to significant progress in financial inclusion, BB has been awarded with the AFI Policy Award in 2014 and AFI Gender Inclusive Ambassador award in 2018.

Regulatory responses due to COVID-19

BB has taken several steps in Covid-19 pandemic situation, including the following:

- Uninterrupted digital financial services in different sectors by enhancing transaction limit and waivers of fees;
- Disbursement of Salary, Wages and Government Social Safety Net benefit through the workers"/customers bank account or mobile wallets;
- Disbursement of Government allowance of distressed population affected by providing cash assistance to 5 million poor families who have lost their profession during the corona virus pandemic through Mobile Financial Services (MFS) and Tk 10 account;
- Formed a Revolving Refinance Scheme with an initial fund of Tk 30 billion for providing credit facilities to the poor people, farmers, holders of small/marginal businesses and the wage earners who have returned from abroad due to COVID-19 through Microfinance Institutions (MFI).
- Launched a refinance scheme of Tk 50 billion to facilitate working capital for the agro business holders.
- Provide assistance from the Corporate Social Responsibility (CSR) fund of the banks to the COVID-19 affected people.
- Developed financial assistance package of Tk 200 billion for capital loan/ investment facility for Cottage, Micro, Small and Medium Enterprises (CMSME) and Tk 100 billion Refinance Scheme for CMSME sector to provide working capital facility.

9. Conclusion

Challenges for financial inclusion

for financial inclusion.

The main challenge for financial inclusion at this moment is to recover from the adverse effects of the ongoing COVID-19 situation. The pandemic has affected the economies all over the world. The poor and marginal people are struggling for their survival as many of them lost their livelihood. So, the governments and central banks have to innovate ways to revive the income generating activities of these segments of the populace.

Another challenge for financial inclusion is to ensure the financial literacy for all. As per the goal no. 4 of the SDGs[5], it is required to ensure financial literacy for all. A study paper[6] by BB finds that inadequate financial literacy is one of the major obstacles in access to finance in Bangladesh. The paper shows that due to low level of financial literacy among the rural people, they are not aware of the available financial services in the market, which is causing inefficient use of the services. Consumers are not well informed of their rights and options. Increased financial literacy can help to overcome these issues.

It is also important to focus on youths in improving financial literacy as not only they will grow up to be more technologically savvy citizens, but also they will be able to act as educators in instilling the financial literacy amongst their peers and elders. Therefore, this segment must be encouraged through interventions tailored to their age and interests.

Also the present COVID-19 pandemic situation where physical visit of financial service providers is discouraged, the digital financial services can be a great resort to make the transactions online. The literacy on digital financial services may help people to know about online mode of transaction procedures.

Policy recommendations and way forward

Bangladesh is on the verge of getting its first National Financial Inclusion Strategy (NFIS-B), the draft of which has already been finalized and waiting for the Cabinet"s approval. NFIS-B will be a comprehensive manuscript for accelerating financial inclusion and increasing awareness on challenges, creating trust and affiliation among different stakeholders, applying technology for the reach and sustainability of the initiatives and developing various financial products and services. This will provide a roadmap on how to implement and coordinate financial inclusion initiatives in Bangladesh.

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[5] The Sustainable Development Goals (SDGs) consists of 17 goals which have been designed to "achieve a better and more sustainable future for all".

[6] Survey on Impact Analysis of Access to Finance in Bangladesh", July 2019, Pg-33. https://www.bb.org.bd/pub/research/sp_research_work/srw1903.pdf

BB, as a financial sector regulator, is committed to provide the necessary policy interventions to drive future developments in financial inclusion and will work in close coordination and engagement with institutional actors, to build awareness on their role to foster and promote financial inclusion. With the collaboration and active participation of all the stakeholders, BB aspires to bring all the people of the nation under the umbrella of financial inclusion.

Annex-6

COUNTRY PAPER FOR SAARCFINANCE WEBINAR ON FINANCIAL INCLUSION








BHUTAN'S FINANCIAL INCLUSION JOURNEY

'Reflection on the role of visionary leadership, dynamic collaboration and upholding the values of Gross National Happiness (GNH)'

Contents

Country Profile

The kingdom of Bhutan, also known as the land of thunder dragon (Druk-Yul) is a small landlocked Buddhist country occupying the Himalayan land area of 38,394 square km, nestled in South Asia with a population size of around 760,000. Thimphu is the capital of Bhutan and its currency is Ngultrum (Nu.) pegged to Indian Rupee (INR) at 1:1.

Bhutan adopts the constitutional monarchy where the King is the head of state and prime minister heads the government. Bhutan also has a religious head known as the 'Je Khenpo'. Democracy in Bhutan started only in 2008.

Bhutan is known for its development philosophy of Gross National Happiness (GNH), it's rich culture, traditions and pristine environment with rich bio-diversity. Bhutan is a carbon neutral country and by law, mandates at least 60% of the country to be maintained under forest cover at all time.

Bhutan is an agrarian country and its economy is mainly driven mainly by hydropower, tourism, and forestry. As per World Bank, Bhutan's GDP stands at 2.447 billion (USD), GDP per capita at 3,243.23 USD (2018), GNI at 6.98 million PPP dollars, GNI per capita stands at 9,250 PPP dollars (2018) and observes GDP growth rate at 3.0% annual change (2018).

About Gross National Happiness (GNH)

Gross National Happiness (GNH) is a development philosophy guided by measurement of the collective happiness in the Kingdom of Bhutan. The term was coined in 1972 by Bhutan's fourth Dragon King, Jigme SingyeWangchuck pacing GNH over GDP as the goal of the government. The United Nations passed Resolution 65/309, that was adopted unanimously by the General Assembly in July 2011, placing "happiness" on the global development agenda.

The collective happiness is emphasized in keeping harmony with nature and traditional values are expressed with 9 domains of happiness and 4 pillars of GNH.

The four main pillars of Gross National Happiness are:

1. Equitable and Sustainable socio- economicdevelopment
2. Preservation and promotion of the culturalandspiritual heritage
3. Conservation of environment
4. Good governance

The nine domains of GNH are psychological well-being, health, time use, education, cultural diversity and resilience, good governance, community vitality, ecological diversity and resilience, and living standards. Each domain is composed of both subjective and objective indicators to measure the ultimate GNH Index.

Gross National Happiness as a development paradigm, has made inclusive policies bringing developments in the remote areas while preserving the culture, tradition, rich natural environment and forest cover. The concept of GNH has largely enabled promoting focus on self-sufficiency, self-reliance, reduction of the gap between the rich and the poor, good governance and key empowerment of the citizens of Bhutan.

Background Rationale

The Royal Monetary Authority of Bhutan spearheaded the formulation of the National Financial Inclusion Strategy (NFIS) 2018-2023 and the National Financial Literacy Strategy (NFLS) 2018-2023. The NFIS and NFLS was approved during the 139th RMA Board Meeting held on 21st July 2018.

RMA together with Financial Institutions, embarked on the journey to enhance inclusive finance to meet the aspiration of His Majesty the King following the Royal Address delivered during the 109th National day celebrations on 17th December, 2016. Formulating the NFIS and NFLS 2018-2023 are the key outcomes of the inaugural conference for Bhutan Economic Forum for Innovative Transformation (BEFIT) held in 2017 on the theme of enhancing financial inclusion in the country.

The rationale(s) for Bhutan to pursue financial inclusion for equitable socio-economic development were drawn from the following:

1. **Greater FI measure as National Priority:**The NFIS captures the current state of Financial Inclusion Indicators as of December 2017 (baseline) with; 1) 64.47% of adults with formal savings account, 2) 16.08% of adults in Bhutan have access to credit and 3) 17.79% of adults in Bhutan have life insurance policy. Bhutan therefore strives to improve these key sets of financial inclusion value store transaction accounts including the enabling transition of delivery channels from traditional to innovative financial services.
2. **Usage of Informal Financial Services**: As reflected in the Demand Side Survey conducted by AFI in 2013, 94% informal financial services were accessed in the rural areas and only 37% accessed formal financial services. These observations led policy makers to develop financial inclusion policy strategies to improve formal access to finance particularly in the rural areas.
3. **Common Barriers/challenges to financial inclusion: Traditional collateral based** financial products and services with strict KYC hampered the need, access and fulfillment of the customer's demand of appropriateness, inclusiveness and affordability. Lack of specialized financial institutions, low level of financial literacy, difficult geographical terrain, scattered population, lack of infrastructures and lack of enabling regulations further added to the operational costs of the financial services and common challenges for Bhutan. Enabling regulations, reshaping the financial sector, innovative financial products, enabling infrastructures, modern channels and enhancing financial literacy were perceived as possible solutions.
4. **Effective Consumer Protection and Financial Stability**: emerging financial market resulting to a greater risk of fraudulent practice, exploitation and wavered financial decision-making cloud up confidence and judgmental abilities of the vulnerable. Redress mechanism reforms to improve decision making after recognizing risks associated were crucial coupled with strong financial sector landscape enabled by people's capability of managing and growing assets.
5. **Financial resilience and empowerment**: Underscores for socio-economic groups needed to be improved; expenses made by households were mostly towards consumption, women participation was lower in terms of economic activity, low level of savings, lack of appropriate insurance etc. Reforms for the vulnerable segments were required towards enhancing basic savings, credit, insurance with enabling combination of social protection and resilience measures.

The five-year strategy documents were formulated based on a collaborative approach reflecting the importance of cross sectoral stakeholders. The strategies are anticipative to guide the provision of inclusive opportunities and awareness to the unserved and underserved segments of the population.

The Financial Inclusion and Literacy (FIL) Division was restructured and upgraded to Financial Inclusion Secretariat (FIS), effective from 1st July, 2018 was fully equipped with reinforced manpower and budget, to implement the national level financial inclusion plans and policies through multi stakeholder collaboration. The FIS strives towards the nationwide benefit outcome of reducing the percentage of excluded citizens, increase citizen's financial capability, confidence and create conducive environment for economic transformation enabling; *(i) job creation/increased employment (ii) poverty reduction & income inequality and (iii) promote sustainable and inclusive economic growth.*

Summary of the NFIS and NFLS 2018-2023

Financial inclusion is the provision of appropriate financial products and services at an affordable cost by formal financial service providers that meet the needs of the unserved and underserved segments of Bhutan's population- (NFIS 2018-2023)

The Royal Monetary Authority launched the National Financial Inclusion Strategy (NFIS) 2018-2023 and the National Financial Literacy Strategy () 2018-2023 on 30th August 2018 as approved by the RMA Board during its 138th Board Meeting held on 22nd June, 2018.

Both strategies are the first initiative of the Authority aligned to RMA's vision, mission and strategic pillar of reinforcing stable and economic growth through its strategic priorities of promoting Financial Inclusion and Financial Literacy.

The strategy documents are an outcome of the international conference, the 2017 Bhutan Economic Forum for Innovative Transformation (BEFIT), themed towards promoting financial inclusion.

To fulfil the financial inclusion definition, the NFIS aims to enhance access to and usage of quality and affordable formal financial services by all Bhutanese through an inclusive financial system.

The first five-year strategy document aligns its focus to set clear agenda targets for improving inclusive savings, credit and insurance as priority areas. The strategy seeks to deliver its vision in the context of enhancing four underpinning pillars as follows:

1. Appropriate financial products and services
2. Financial accessibility and proximity
3. Financing for economic growth
4. Financial capability and consumer protection

The strategic pillars are further supported through policy and regulatory framework, appropriate infrastructure and institutional coordination as financial inclusion enablers.

The NFLS 2018-2023 is a complementary document to support the NFIS 2018-2023 and promote financial knowledge, confidence and consumer protection.

The NFLS aims to strengthen financial capabilities and empower all Bhutanese towards greater financial inclusion focusing on four key focus areas: 1) entrepreneurial development, 2) financial access and usage, 3) financial management and responsible finance and 4) digital finance and consumer protection. The strategic priorities focus on strengthening effective collaboration among relevant stakeholders, enhancing financial education, providing targeted support, and putting in place enabling policies and measurements.

Expanding access to affordable and quality financial service requires a coordinated effort between the government, central bank, educational institution, financial institutions, NGOs and individuals. Towards this, the RMA initiated the development of National Financial Inclusion Strategy (NFIS) and the National Financial Literacy Strategy (NFLS) with setting up of the NFIS Governance members such as the NFIS Steering Committee and working group implementation of the strategy are carried out and outlined in the Financial Inclusion National Action Plan (FINAP) 2019-2023

Current State of Financial Inclusion in Bhutan: (Supply Side Data)

Financial Inclusion at a Glance (2019)

Financial Inclusion (Percent)			
Account Ownership	***2017***	***2018***	***2019***
Saving	64.30	63.80	67.56
Credit	16.00	16.80	19.70
Insurance	16.30	18.00	19.56

Access Points	**Total**			**Per 10,000 Adults**		
Branches	**2017**	**2018**	**2019**	**2017**	**2018**	**2019**
Population				496,044	506,220	515,224
Total Branches	170	170	174	3.43	3.36	3.38
Total Bank Branches	98	98	105	1.98	1.94	2.04
Total Insurance Branches	68	40	36	1.37	0.79	0.70
Total MFI Branches	29	32	33	0.58	0.63	0.64
Total Extension offices	66	70	81	1.33	1.38	1.55
Others Access Points						0.00
Total Agents	2,333	2,396	2,442	47.03	47.33	47.40
Total ATMs	188	246	274	3.79	4.86	5.32
Total POS	759	779	1,035	15.3	15.39	20.09

Financial Service Providers (Nos.)	
Banks	5
Insurance	3
Pension	1
Micro Finance	4
Brokers	9
Private Money Lender	3

Account Ownership: Expanding access to affordable and appropriate financial products and services

Financial inclusion in general refers to access to useful and affordable financial products and services by individuals and businesses that meet their needs - transactions, payments, savings, credit and insurance - delivered in the most responsible and sustainable manner. Having a bank account, credit and insurance in general is used by many institutions as an indicator of financial inclusion. Therefore, Bhutan has also adopted the same indicators to measure financial inclusion.

Of the 515,224 adult Bhutanese population above the age of eighteen, 67.56 percent of adult Bhutanese population owns a bank account in one of the formal financial institutions including micro-finance. Around 20 percent of Bhutanese population has availed credit facility which is currently active with one of the financial institutions in Bhutan. In terms of insurance, 19.56 have an insurance policy with one of the insurance company in Bhutan. From 2017 to 2019, credit ownership saw the highest growth with 23 percent followed by insurance with 20 percent growth. Saving account ownership recorded the growth of around 5 percent account ownership. The number of account ownership, credit and insurance by both value and volume for each financial institution has increased from 2014 to 2019.

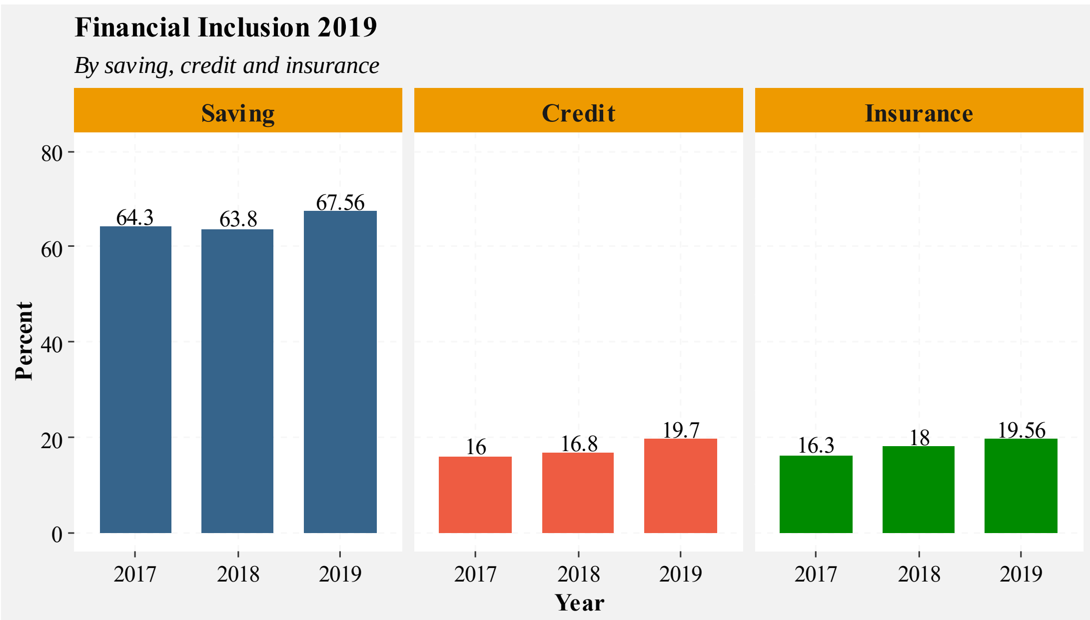


Figure 1:Account ownership by products and year

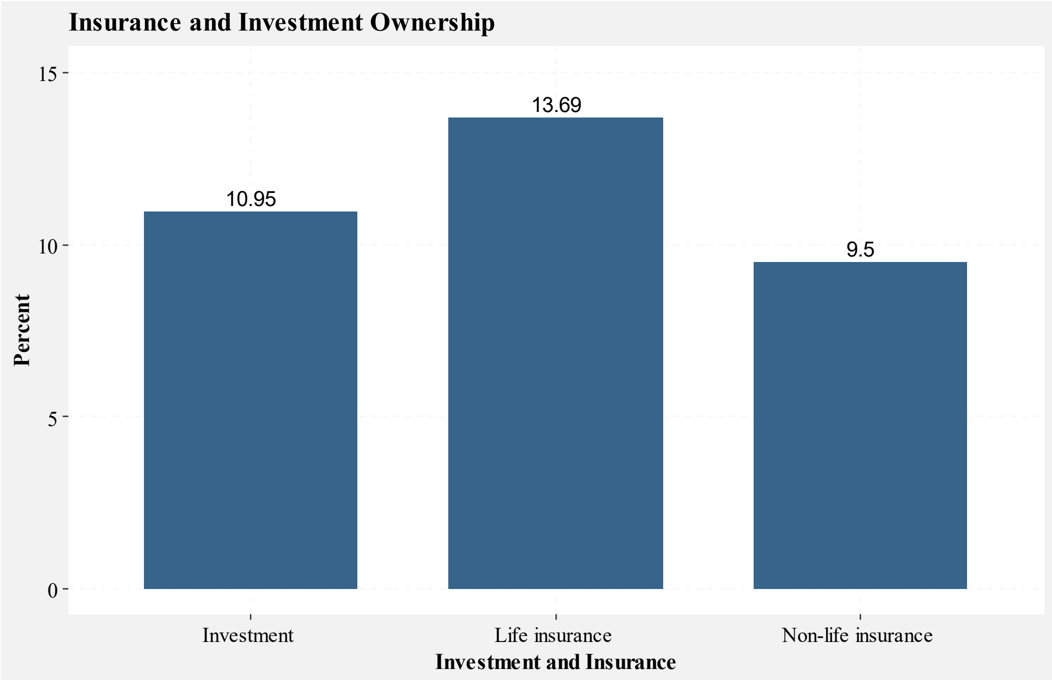


Figure 2: Investment and Insurance account ownership in %

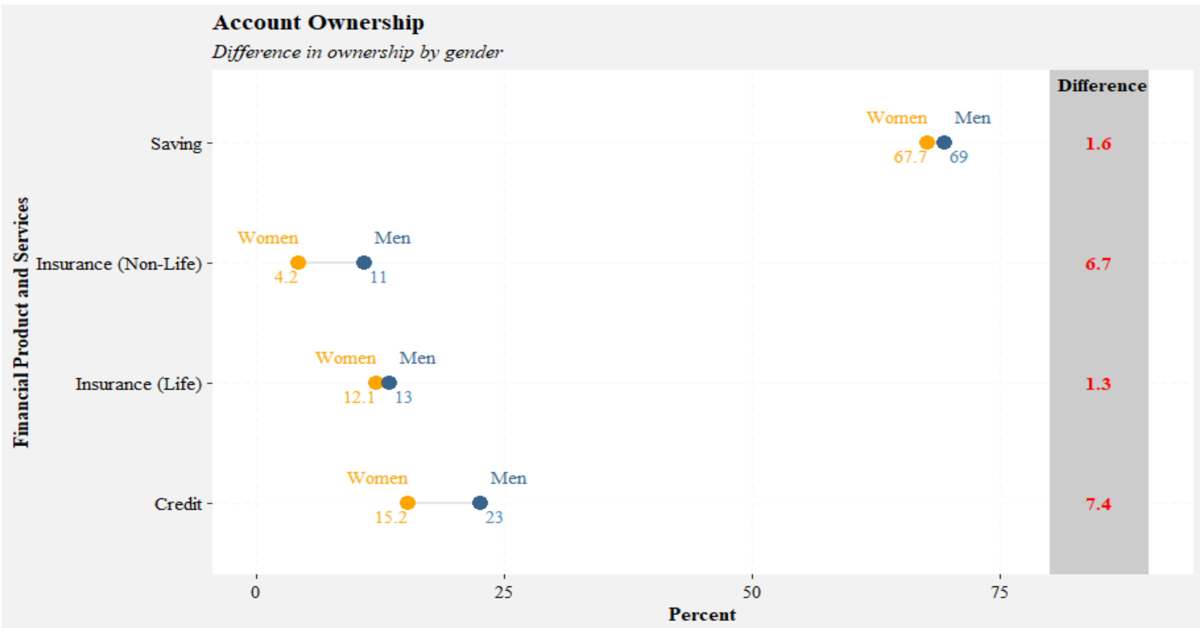


Figure 3: Account ownership by gender to total female and male adult population

However, like in many countries around the world, there is a gender difference in account ownership of various financial products and services in Bhutan as well. While the gender gap in not high in saving account ownership, the gap is higher in ownership of non-life insurance and credit. In terms of credit, 7.4 percent more men have availed credit facility than women.

Multiple financial product ownership: Account ownership of saving, credit and insurance

Analysis of accounts ownership among the adult shows that 33,624 (6.52 percent) owns a saving account and insurance policy, and availed credit from one of the financial institutions. A total of 32,071 (6.22 percent) owns a bank account and an insurance policy. Although all those availing credit facilities are required to open a bank account, around 1,750 do not have a bank account. These individuals may be those who availed credit facilities from the National CSI Development Bank (formally known as Rural Economic Development Centre Ltd). as they are not required to open a bank account. A total of 223,624 adults (43.40 percent) only owns a bank account but has not availed credit or owns insurance.

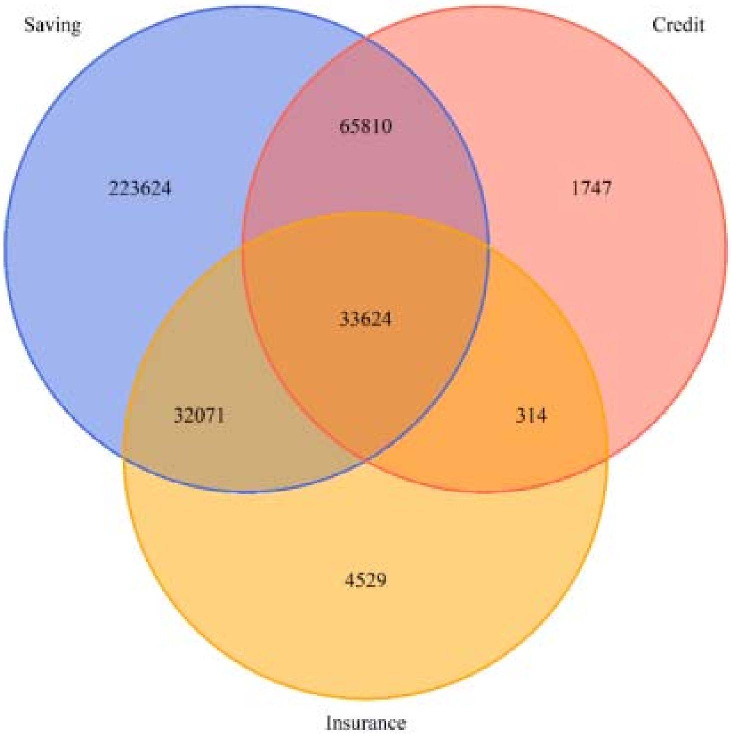


Figure 4: Multiple financial product ownership: Account ownership of saving, credit and insurance

Saving account ownership by Dzongkhag

The ownership by district shows that Thimphu has the highest number of saving account ownership while Gasa has the lowest ownership. However, it may be noted that the account ownership by district is based on where the individual opened a bank account. Since an individual can open a bank account in any of the branch and operate the account from other branches of the same bank, the account ownership may not necessarily represent the level of financial inclusion in the district. Nevertheless, the number of ownerships corresponds to the size of the population indicating that number of ownerships is higher in populated districts of Thimphu, Chukha, Sarpang, Paro, Samtse, Wangdiphodrang, Mongar and Trashigang. Owing to the population size of these districts, most of the banks operate a full-fledged branch in these districts. The higher account ownership in Thimphu may also be a result of higher proportion of population in employment who are required to own a bank account.

Adult credit ownership by Dzongkhag

The number of individuals accessing credit facilities also shows a similar trend with ownership of saving account. Higher number of individuals have accessed loans from bank and branches located in Thimphu. Thimphu has provided almost two times more the number of loans than Chukha, and 53 times more the number of loans than Gasa (which has the lowest loan ownership). Thimphu’s disproportionate number of loans compared to other district may be result of the bank’s loan approval procedure where loan beyond certain amount requires the approval of corporate head office. Since the corporate office of all the financial institutions are based in Thimphu, number of loan accounts are much higher.

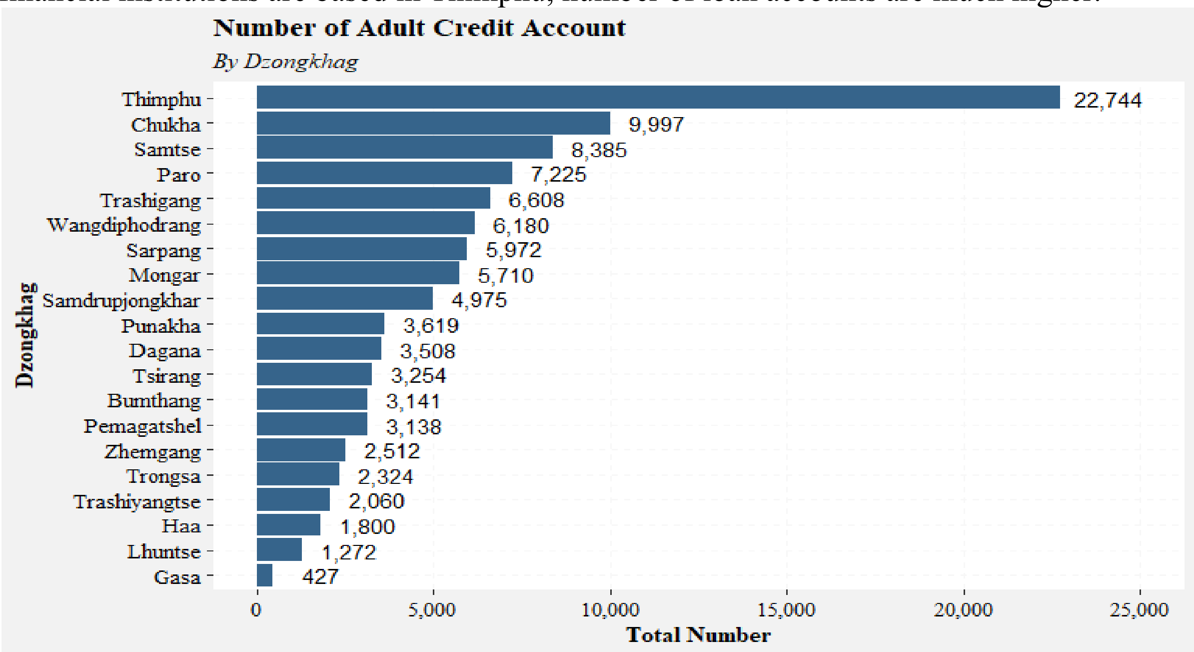


Figure 6: Number of Adult Credit Account

Insurance ownership by Dzongkhag

Ownership of insurance policy also shows a similar pattern with highest number of insurances in Thimphu followed by Chukha, and with least number of insurance policy holders at Gasa. Thimphu has almost twice the number of insurance policy holder to Chukha and 130 times more the number of insurance holder compared to Gasa. Since Haa, Lhuntse and Gasa have relatively fewer population compared to other Dzongkhags in Bhutan, the number of account

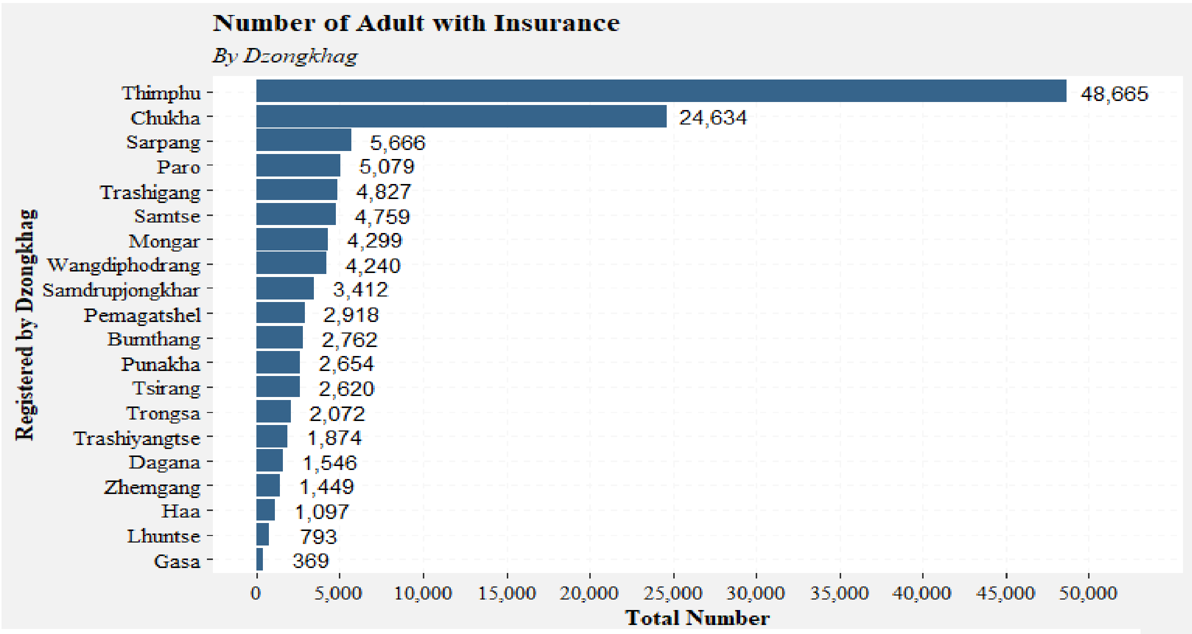


Figure 7:Number of Adult Insurance Account

Saving account ownership by age

Among the adult population, the number of saving account ownership is highest among age categories of 26 to 30. The number of account ownership decreases as the age increases after 30. Although the proportion of population in different age groups between 20 and 45 is almost equal, the number of account ownership is relatively higher among those between the age of 26 to 35 years. This may be due to higher literacy rate among the younger population and their employment in formal sectors which requires mandatory account ownership. Towards encouraging saving among children and minors, many banks provide saving facilities to those below the age of 18 years. Some of the notable saving scheme are Piggy Bank of Bhutan National Bank and Young Savers Account of Bank of Bhutan. In 2019, a total of 5200 unique child saving accounts were reported by the banks.

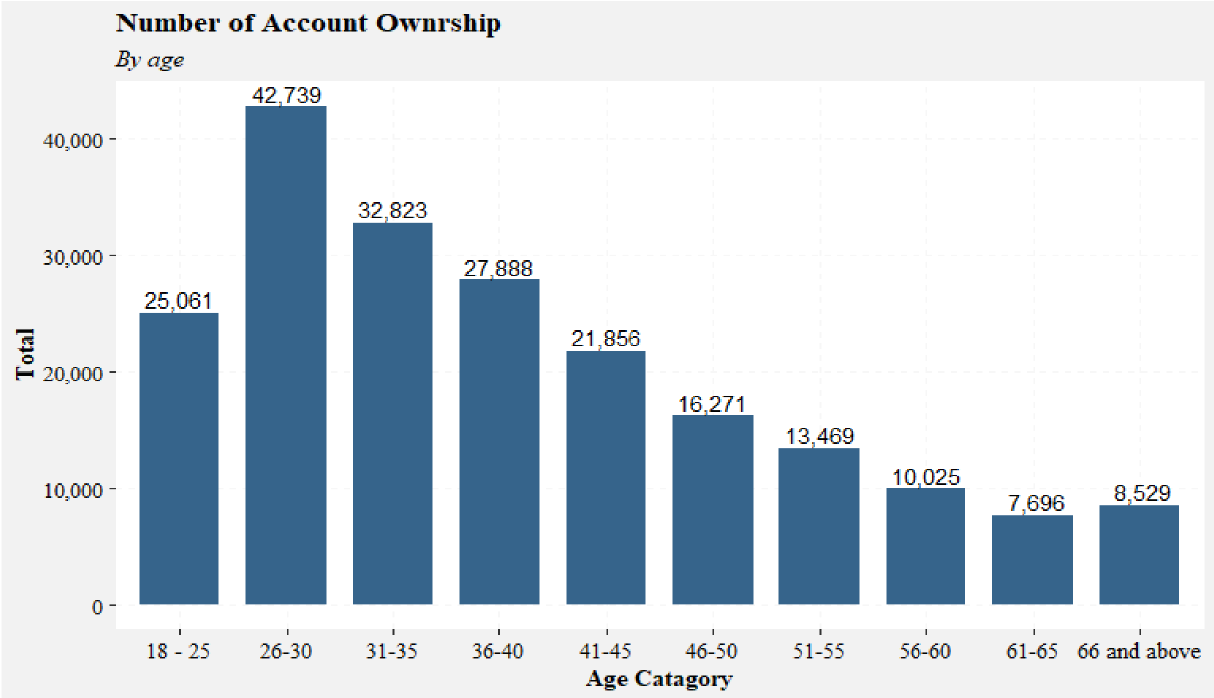


Figure 8:Number of account ownership by age category

Trends of savings and loan from 2014-2019:

The current total savings amount is observed to be at Nu. 38.54 billion, a growth of 17.90% as compared to 2018. Similarly, loan amount stands at Nu. 154.31 billion in 2019, an increase of 26.89% as compared to the previous year.

Trend in Savings and Loan	2014	2015	2016	2017	2018	2019
Loan (in billion)	65.49	76.39	90.35	105.13	121.61	154.31
Deposit (in billion)	17.24	19.04	24.01	27.89	32.69	38.54

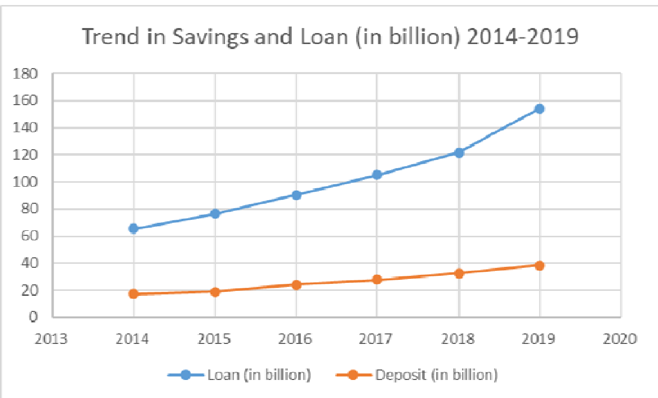


Figure 9:Trend in savings and loan (in billion) 2014-2019

Access Points: Developing infrastructure to enhance financial accessibility

Access points plays a pivotal role in enhancing access to finance as it facilitates and eases transactions cost considering the distance to be traveled in order to avail the closest access points for the clients.

The number of physical access has increased from 2017 to 2019. Among the establishment of branches and extension officers, the highest increase is recorded in the number of total bank branches. During the same period, Bhutan saw a significant increase in alternative delivery channels such as ATM, POS and Agents.

The number of total branches which includes banks, insurance and branches of other financial service providers have remained same per 10,000 adults from 2017 to 2019. The number of bank branches and extension offices have seen some growth from 2017. There has been significant growth in the number of ATM and POS machines, and extension office. Over all, there is an increase in the access point per 10,000 adults in Bhutan from 2017 to 2019.

	2017	2018	2019
Total Branches	170	170	167
Total Bank Branches	98	98	113
Total Insurance Branches	68	40	27
Total MFI Branches	29	32	27
Total Extension offices	66	70	97
Total Agents	2,333	2,396	2,442
Total ATMs	188	246	274
Total POS	759	779	1,038

Figure 10: Number of access point by year

Access Points	Per 10,000 Adults		
Branches	**2017**	**2018**	**2019**
Population	496,044	506,220	515,224
Total Branches	3.43	3.36	3.38
Total Bank Branches	1.98	1.94	2.04
Total Insurance Branches	1.37	0.79	0.70
Total MFI Branches	0.58	0.63	0.64
Total Extension offices	1.33	1.38	5.49
Others Access Points			
Total Agents	47.03	47.33	47.40
Total ATMs	3.79	4.86	5.32
Total POS	15.3	15.39	20.09

Figure 11: Number of access point per 10,000 Adults by year

Branches by Dzongkhag (District)

The number of bank and insurance branches and extension offices are higher for populated areas like Thimphu, Trashigang, Samtse and Chukha. The number of branches is higher for districts with higher number of Gewogs. Thimphu has the highest number of bank and insurance branches and extension office while Gasa which is the least populated district has the lease number of bank and insurance branches. The higher number of bank and insurance branches for districts like Trashigang, Samdrupjongkhar and Samtse is because of the higher number of extension offices in these districts.

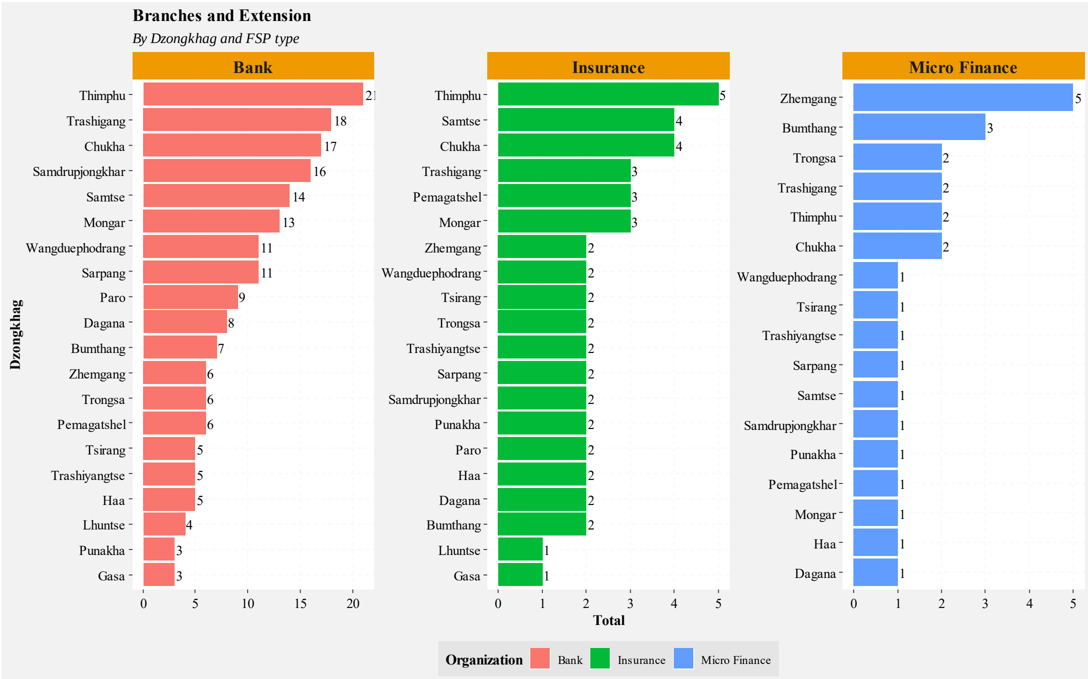


Figure 12: Dzongkhag-wise branches and extension by Bank, Insurance and Micro-Finance

ATM and POS by district

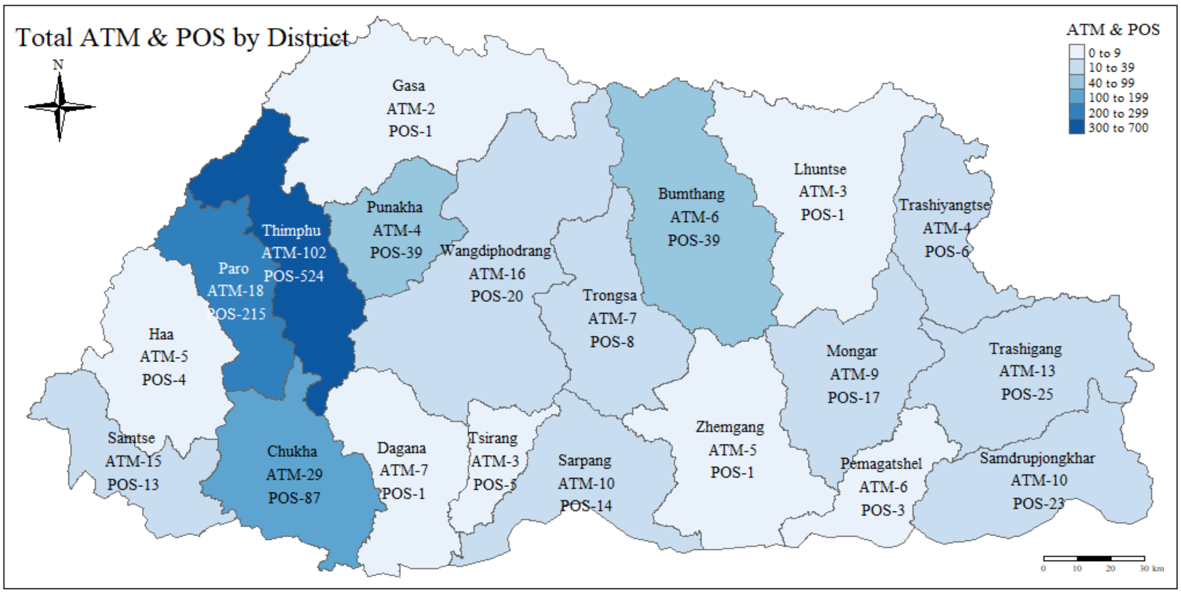


Figure 13: Distribution of ATM and POS by district

The distribution of ATM and POS also shows a similar pattern to distribution of bank and insurance branches. Thimphu has the highest number of ATM and POS with 102 and 524 respectively followed by Paro and Phuntsholing. Less densly populated districts such as Gasa and Lhuntse has less than 3 ATMs. Dzongkhags that are considered remote like Gasa, Lhuntse, Zhemgang and Dagana has only one POS machine each in the whole district.

Bhutan has made significant efforts in introducing enabling regulations, digital channels, introducing new market players, new financial products and schemes, financial literacy curriculums and programs etc. as remarkable transformation since 2017 in addressing financial inclusion challenges. However, more efforts and smartness still needs to be pursued in order to advance in the inclusive usage of fianncial services and to better ensure quality impact beyond access. The introdution and launching of various financial inclusion initiatives are forward looking with great progressive potentials aimed to benefit the country and it's people. Capitalizing on the current initiatives, Bhutan targets ambitiously to meet 85% financial inclusion by 2023 with deepening parameters and quality dimensions in order to continuosly meet the economic aspiration of maintaining a just, equal and a harmonious socety at all times.

Mobile banking

Prior to the launch of first mobile banking app in April 2015 by Bank of Bhutan, the mobile banking services were offered through SMS by telecom companies. Within four years, all banks and an insurance company offered mobile banking and insurance services. The services offered by most of the mobile banking services include utility bill payment, insurance and loan payment, fund transfers, QR code payment, making donations, among many others. BOBL has the highest number of mobile banking users with close to 140,000 users followed by BNBL with around 40,000 users. The higher number of mobile banking user for BOBL reflects higher customer base and also pertains to be the first mobile banking application in Bhutan.

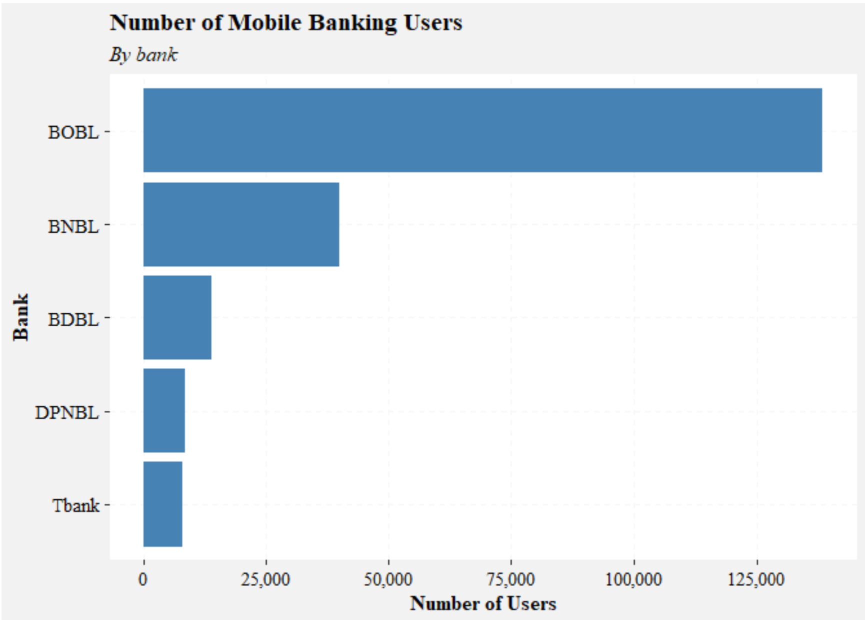
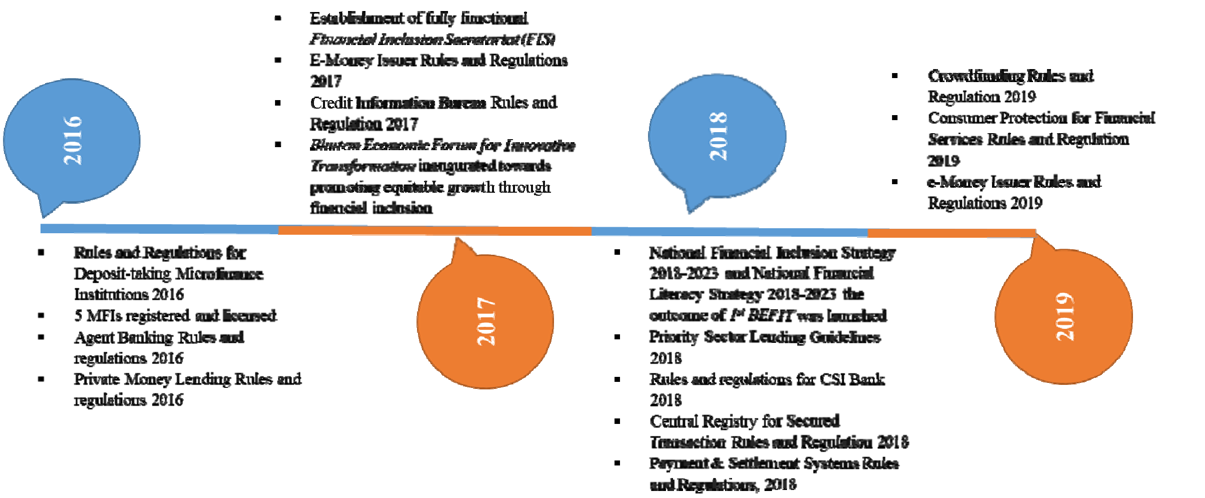


Figure 14: Number of mobile banking users by banks.

Financial Inclusion Milestones (RULES AND REGULATIONS)



Bhutan's financial inclusion milestones are built within the following key clusters of enabling regulations, programs and projects:

a) **Financial Inclusion Strategy**: The National Financial Inclusion Strategy (NFIS 2018-2023) and the National Financial Inclusion Strategy (NFLS 2018-2023) were launched in 2018 as an outcome of the Bhutan Economic Forum for Innovative Transformation (BEFIT) 2017. Financial Inclusion Secretariat (FIS) was established at the RMA to undertake implementation of the NFIS and NFLS 2018-2023. The Joint-Financial Inclusion National Action Plan (FINAP 2019-2023) was also formulated to implement the NFIS and NFLS 2018-2023.

b) **Access to finance and Financial sector landscaping reforms**: To enable new players in the financial market targeting to reach the unreached and underserved, regulations for Micro-Finance Institution, Agent Banking and Private Money Lending were initiated and launched in 2016. Cottage Small Industry (CSI) Bank regulation was also launched in 2018 to supplement upgradation of the deposit taking MFIs and enabling a focused lending to CSIs.

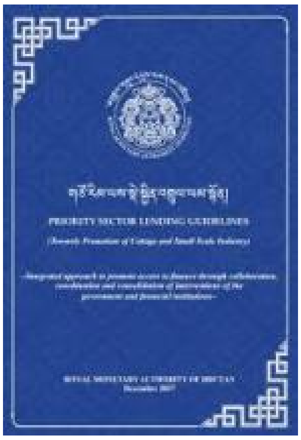
   Alternate access to finance through Crowdfunding (regulation 2019), Priority Sector Lending (PSL 2018) and Jabchor - an initiative for angel investment through equity financing were also initiated.

c) **Digital transformation**: Bhutan now observes popularity towards digital banking; regulations for e-money issuers (2016), Payment and Settlement System (2018), launch of Bhutan Financial Switch, electronic Public Expenditure Management System (e-PEMS) and Global Interchange for Financial Transaction (GIFT) payment system in 2019.

d) **Financial Literacy**: Financial Literacy plans have been focused to 1) curriculum development and integration areas – integrating into the formal mainstream education, Non-formal education and vocational institutes, and 2) program development areas – Youth Ethics (YE) Banking, an incentive-based school program, Student Business Seedling (SBS) programs, Little CEOs sessions, FinLit talks and blogging, FL on wheels, TOT programs etc. Regulation for Consumer protection was also developed in 2019 to complement the enabling initiatives of financial inclusion and literacy.

In addition to the above enabling regulations, in 2020, RMA is set to introduce and endorse the Green Finance Roadmap, Sandboxing Framework, P2P Lending regulation, Credit Cooperative guidelines and Co-operative Bank Regulation.

Expanding Sources of Finance: Financing for economic development



One the initiatives of expanding alternate source of financial is Priority Sector Lending. Following the launch of the initiative, committees were instituted and focal persons were appointed at the districts including the financial institutions. A total of 1,561 projects were received from all the district after its launch in 2018. Of the total project received 1,278 were approved by the Dzongkhag and recommended to the financial institutions. After the review of all the proposals, the financial institutions approved 494 projects.

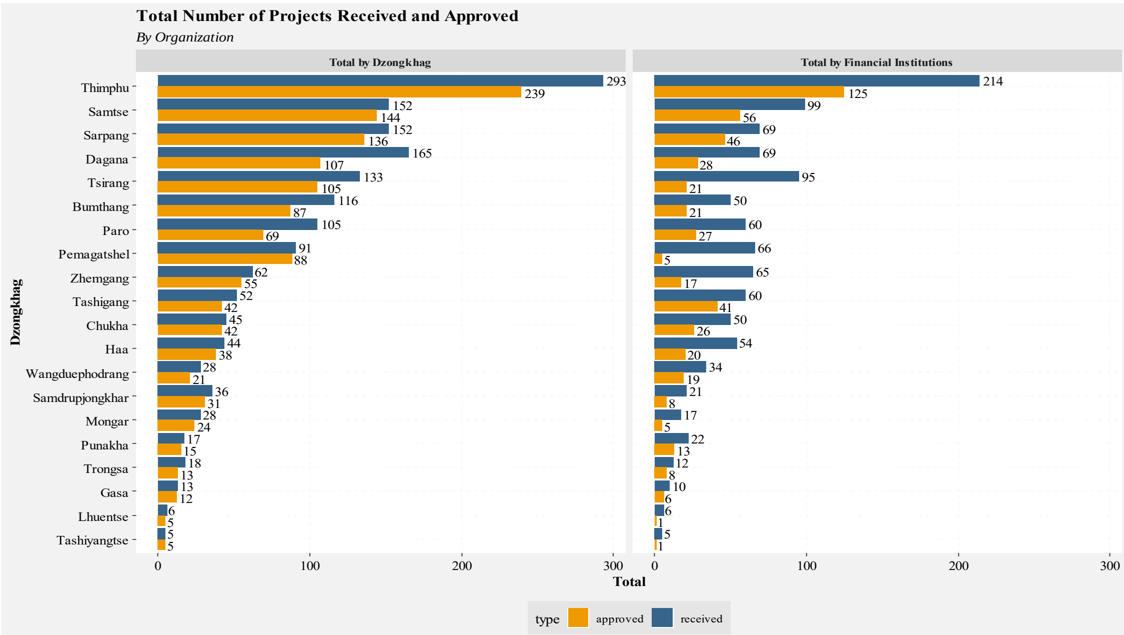


Figure 4: PSL project application and approval by Dzongkhag and FIs

JABCHOR (Equity Financing Platform)

Jabchorisaninitiativetopartnerwithentrepreneursandgrowwiththemintoasuccessfulventure,based ontrustandconfidencesupportedbylegallyexecutedbusinesspartnershipdeed,recognizedbylawsof theBhutan. The second season of Jabchor was conducted on 17^{th} July 2019 during the 2^{nd} biennial summit of the Bhutan Economic Forum for Innovative Transformation (BEFIT). Of the five businesses that pitched during the conference, three businesses secured a total funding of Nu. 11.25 million.

Figure 5: Jabchor entrepreneur - Housing.bt

Figure 6: Jabchor entrepreneur - One Click Shop

Figure 7: Jabchor entrepreneur - Chey Chey Sanitary Pads

Following the issuance of Crowdfunding Rules and Regulations in July 2019, three companies accelerated from the Jabchor platform were able to successfully campaign through crowdfunding portal (Bhutan Crowdfunding Portal- BCP). The three companies raised a total capital of Nu. 24.23 million from 245 investors.

Biennial Bhutan Economic Forum for Economic Transformation (BEFIT) 2019 International Summit

BEFIT 2019 International Summit themed on 'equitable growth through financial inclusion', brought together wide range of knowledge expertise from 30 reputed international participants sharing valuable experiences focused on micro-finance, SME and Agri-financing and digital financial services. The entire summit was aimed to guide towards formulation of the National Financial Inclusion Strategy for Bhutan and open doors for networking. AFI actively supported with facilitating speakers on behalf of AFI and provided technical team assistance for the overall proceeding recordings of the summit.


PANEL DISCUSSION

BEFIT 2019:

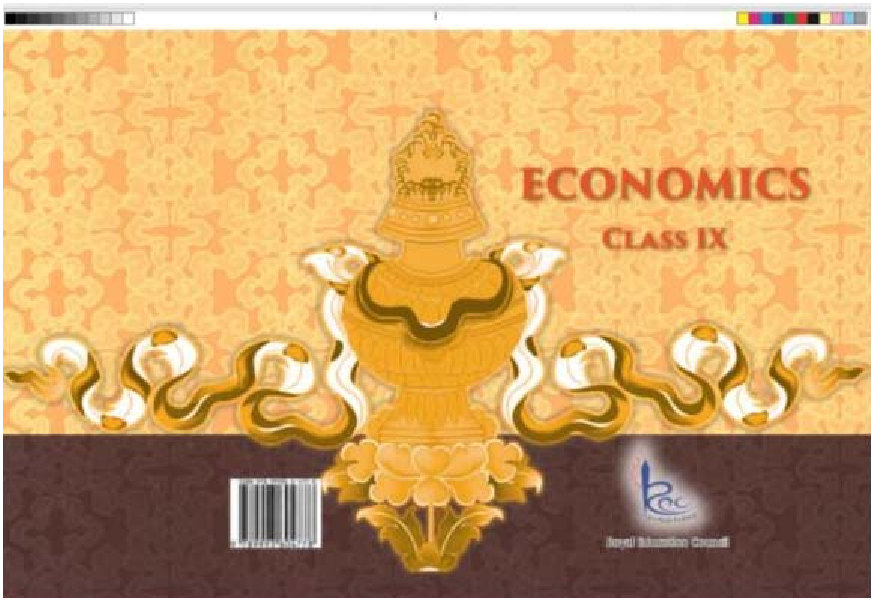
BEFIT 2019 International Summit was themed 'catalyzing Cottage Small industries (CSI) towards economic diversification. The critical area of focus was to expand CSIs through policy reforms, enabling e-commerce platforms and partnership between CSIs and foreign investors. AFI provided its support to RMA through mobilizing key resource speakers moderating the SME panel discussions.

Reforms and Initiatives: Enhancing financial capability and financial literacy programs

In 2019, RMA revised the Private Money Lending Rules and Regulations 2016 and Consumer Protection for Financial Services Rules and Regulations 2019. The rules and regulations aim to expand access to finance and provides mechanism to protect the consumers.

In view of the increasing role of financial literacy and education, a MoU was signed between Ministry of Education, Royal Education Council, and the Royal Monetary Authority to integrate financial literacy and education in the mainstream school curriculum. As a result of the collaboration, the text books for grade IV Social Studies, IX Economics, XI & XII Accountancy with components of financial education have been published for implementation from the 2020 academic session. Other subject integration is under way.

Figure 8: MOU Signing with the Royal Education Council for Financial Literacy Integration graced by H.E Education Minister to the MOE.



8.2 Historical Development of Money

Money in the present form came into existence through a long process of evolution from commodity money to fiat money and today, in virtual form. The origin of money carries a long history of social evolution

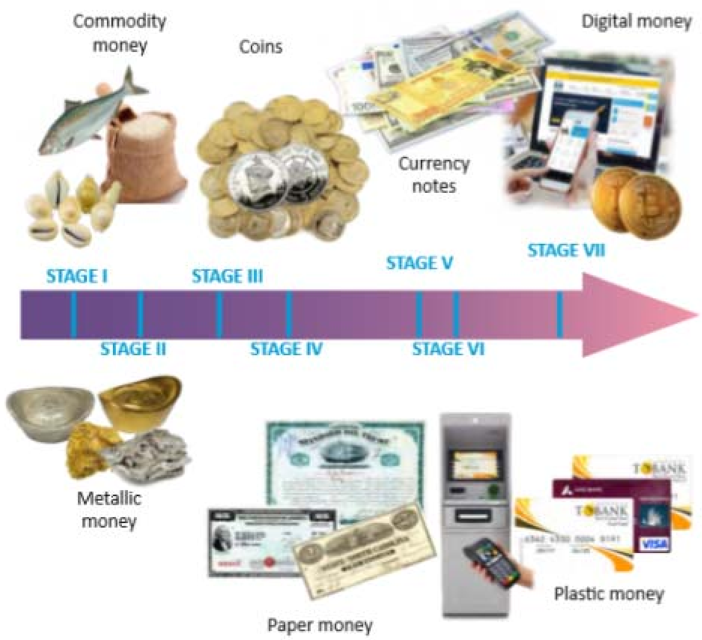


Figure 8.1 Evolution of money

YOUTH ETHICS-(YE) BANKING:

Youth Ethics Banking, known as YE Banking was designed and implemented in 2018 with the aim to bring young students in to the banking system. In 2019, the YE-Banking incentive camp, which is an annual event, was held in Goshing Primary School, Zhemgang on 30th October 2019.

A total of 16 pilot recipient schools from across the country participated in the annual camp. Since remotes schools are generally perceived to be at a disadvantage, YE Banking focused mostly in remote primary schools. Sakteng, Laya, Lauri, Zangkhar, Goshing, Dechenling are few among the others with some schools of these schools as far as three to five days walk from the nearest road point. The schools were selected across the country in coordination with MOE based on school's remote location, pro-activeness, enthusiasm and geographical penetration. A total of 16 schools in 14 Dzongkhag with a total student of 5,382 benefited from the program in 2019. A total payout of Nu. 794,444 was made to the schools in 2019.

Sl.NO	Dzongkhag	Number of Schools	Total Students	Total Payout
1	Bumthang	1	871	117,630
2	Chukha	1	552	32,642
3	Dagana	1	479	58,592
4	Gasa	1	152	18,428
5	Lhuntse	1	134	33,242
6	Paro	1	106	30,790
7	Pemagatshel	1	265	54,126
8	Samdrupjongkhar	1	141	26,576
9	Samtse	1	404	78,020
10	Sarpang	2	327	56,320
11	Thimphu	1	914	120,000
12	Trashigang	2	275	79,968
13	Wangduephodrang	1	656	58,692
14	Zhemgang	1	106	29,418
		16	5,382	794,444

Royal Monetary Authority (RMA) in collaboration with relevant agencies organized two entrepreneurship programs for school going youth. Student Business Seeding, an entrepreneurship program was organized in Gelephu where a total of 63 students, 35 girls and 28 boys participated in the program. Little CEO, which is part of the SBS program, was organized in Thimphu where 24 students from across the country participated in the program. Of the total student who attended the Little CEO program, 50 percent of the participants were girls and 50 percent were boys.

Figure 9: Honorable Governor of RMA gracing one of the SBS program

Figure 10: Little CEOs program with students from across the country. Picture with Prime Minister Dr. Lotey Tshering

Student Business Seedling (SBS)

Royal Monetary Authority (RMA) in collaboration with Entrepreneurship and Self-Employment Division (ESED) under Department of Employment of Human Resources (DoEHR) of Ministry of Labour and Human Resources (MoLHR) conducted "Student Business Seedling" Program at Gelephu, Sarpang. The SBS program was aimed at promoting entrepreneurship and building entrepreneurial competencies for students and YE-Banking teachers. A total of 63 students, 35 girls and 28 boys participated in the program and the top 5 students were awarded cash prizes.

The 10 days program consisted of two courses:

1. Entrepreneurship education
2. STEMSEL (Science Technology Engineering Mathematics Social Learning Enterprise)

The STEMSEL program was included to encourage participants to take interest in programming in an era where digitalization is getting more prominent by the minute. It teaches the participants to use the programming lessons in their real life to capitalize their ideas as commercially viable ventures in future.

Figure 11: GMW celebrated with the nuns

Common Barriers/Challenges to financial inclusion:

Traditional collateral based financial products and services with strict KYC hampered the need, access and fulfillment of the customer's demand of appropriateness, inclusiveness and affordability. Lack of specialized financial institutions, low level of financial literacy, difficult geographical terrain, scattered population, lack of infrastructures and lack of enabling regulations further added to the operational costs of the financial services and common challenges for Bhutan. Enabling regulations, reshaping the financial sector, innovative financial products, enabling infrastructures, modern channels and enhancing financial literacy were perceived as possible solutions.

Conclusion: Scope, opportunities and solutions

The state of financial inclusion provided in this report highlights the current state and progress over years in terms of supportive regulations promoting financial inclusion, infrastructural access points, access to basic financial products and services, digital channels, alternate sources of financing and financial literacy.

Financial inclusion efforts have been prioritized at the national level with joint support from the key government agencies and financial service providers. The RMA has taken several measures to diversify and enhance financial inclusion towards strategic economic development. The National Financial Inclusion Strategy provides a road map for Bhutan to collectively plan and strategize financial inclusion initiatives to enable regulatory interventions, enhance appropriate financial products and services through digitally defined solutions to the unreached and underserved population in the country.

The report also explores opportunities for furthering and unlocking financial inclusion in the next three to five years and includes the following:

- Recreating Appropriate financial products: Financial inclusion in Bhutan currently measures at 68%. Within the basic financial products, the scope of deepening inclusion will relate to increasing more access to formal savings. Sustainable and new credit products need to be promoted such as Inclusive Green Finance, collateral replacement products such as warehouse receipts, credit reports, shares and other accounts receivables, credit guarantee schemes etc. All FSPs collectively must focus on financial service delivery to geographical areas other than Thimphu and Chukha to meet the national financial inclusion target of 85% by 2023.
- Improving access points: To promote financial inclusion to the unserved and underserved, access points particularly agent banks could be promoted further.
- Introducing new market players: Bhutan currently has smaller but adequate numbers of financial players catering to a segment of adult population. But there is scope for introducing new and effective players strategically to increase and facilitate access to finance particular welcoming the private sector involvement in terms of Fintech development. Additionally, BCCI and RSEBL could redefine its respective roles towards facilitating alternate access to finance such as the angel investment platform and crowd funding platform. There is also scope for including cooperative and self-help groups to the formal financial service provider's list.
- Leveraging Fintech and DFS: Fintech is another area of accelerating digital initiatives and technologies for financial inclusion. Sandboxing regulations initiated could further incorporate and open up new fintech products and schemes from the private fintech firms. There is untapped potential in fostering interoperability, particularly with QR code and wallet services. There is scope of promoting e money to be also included in the FI value store transactions.
- Enhancing financial literacy and consumer protection: Enhancing financial literacy is one key area to promote financial capabilities in terms of improving financial knowledge, skills and behavior towards making effective financial decisions.

While promoting financial inclusion, all policies must focus on balancing growth with consumer protection capacity in terms of having in place effective redressal mechanisms, fair market conduct and inclusive treatment, consumer information privacy and extending rights and responsibilities of both consumers and service providers. Financial literacy curriculum developments could also extend further to Non-formal education and vocational institutes in addition to the current integration with REC in the mainstream curriculum. A modified version of Fintech curriculum could also be developed to be implemented for the National Service, FITI, GCBS, CRST etc. All other efforts to increase knowledge products and other social media promotion should continue based on the popularity of the delivery channel.

- Enhancing Effective measurement: There is indeed a need for a demand side survey to gauge the financial inclusion penetration in the underserved and unserved population for further supportive interventions and redefining financial inclusion objectives where relevant. Additionally, a financial capability measurement tool could also be developed to gauge the financial literacy index.

The possibilities listed above can extend to other requirements and demand in keeping with the country's situation and development policies.

To meet financial inclusion objectives, collaboration and collective efforts are key to drive access to finance. All agencies outside the government should also partner to supplement Government initiatives for overall inclusive development and attainment of the country's sustainable goals.

Annex-7

Reserve Bank of India

Country Paper on Financial Inclusion in India

SAARCFINANCE Webinar on 'Financial Inclusion'
December 02, 2020

CONTENTS

Abbreviations

Section

List of Select Abbreviations

AA	Account Aggregator
ABPS	Aadhaar BridgePaymentSystem
ACP	Annual Credit Plan
AEPS	Aadhaar Enabled Payment System
ANBC	Adjusted Net Bank Credit
ATM	Automated Teller Machine
APY	Atal Pension Yojana
BC	Business Correspondent
BF	Business Facilitator
BSBDA	Basic Savings Bank Deposit Account
BOS	Banking Ombudsman Scheme
CCC	Certified Credit Counsellors
CDD	Customer Due Diligence
CFL	Centre for Financial Literacy
CTS	Cheque Truncation System
DBT	Direct Benefit Transfer
DFI	Development Financial Institution
DCCB	District Central Co-operative Bank
FAME	Financial Awareness Message
FLC	Financial Literacy Centre
FIAC	Financial Inclusion Advisory Committee
FIF	Financial Inclusion Fund
FIP	Financial Inclusion Plan
FSDC	Financial Stability and Development Council
GCC	General Credit Card
IMPS	Immediate Payment Service
INFE	International Network for Financial Education
IPPB	India Post Payments Bank
ICT	Information and Communication Technology
IRDAI	Insurance Regulatory and Development Authority of India
JAM	Jan Dhan- Aadhaar-Mobile
KYC	Know Your Customer
LBS	Lead Bank Scheme
LWE	Left Wing Extremism
MDR	Merchant Discount Rate
MPFI	Monitoring Progress of Financial Inclusion
MSME	Micro Small and Medium Enterprises
MUDRA	Micro Units Development & Refinance Agency
NACH	National Automated Clearing House
NABARD	National Bank for Agricultureand Rural Development
NBFC	Non Banking Finance Company
NEFT	National Electronic Fund Transfer
NCFE	National Centre for Financial Education
NPCI	National Payments Corporation of India
NGO	Non-Government Organization
NHB	National Housing Bank
NSFE	National Strategy for Financial Education
NSFI	National Strategy for Financial Inclusion
NSP	Non Bank System Participants
OECD	Organisation for Economic Co-operation and Development
ODR	Online Dispute Redressal

OSDT	Ombudsman Scheme for Digital Transactions
P2P	Peer to Peer
PB	Payments Bank
PCR	Public Credit Registry
PMJDY	Pradhan Mantri Jan Dhan Yojana
PMJJBY	Pradhan Mantri Jeevan Jyoti Bima Yojana
PML	Prevention of Money Laundering
PMMY	Pradhan Mantri Mudra Yojana
PMSBY	Pradhan Mantri Suraksha Bima Yojana
PFRDA	Pension Fund Regulatory and Development Authority
PSL	Priority Sector Lending
RIDF	Rural Infrastructure Development Fund
RTGS	Real Time Gross Settlement
RBI	Reserve Bank of India
RRB	Regional Rural Banks
SEBI	Securities and Exchange Board of India
SFB	Small Finance Banks
SHG	Self Help Groups
SIDBI	Small Industries Development Bank of India
SLBC	State Level Bankers' Committee
SME	Small and Medium Enterprises
StCB	State Central Co-operative Bank
TGFIFL	Technical Group on Financial Inclusion and Financial Literacy
TReDS	Trade Receivables Discounting System
UIDAI	Unique Identification Authority of India
UNSDG	United Nations Sustainable Development Goals
UPI	Unified Payments Interface
URC	Unbanked Rural Centre
V-CIP	Video based Customer Identification Process

Executive Summary

India'sjourney of Financial Inclusion has been built on the objective to provide access to formal financial services to the most vulnerable at an affordable cost in a timely manner with adequate safeguards. The coronavirus pandemic, which has affected both lives and livelihoods in an unimaginable proportion, has further brought to fore the importance of **financial inclusion** *and the crucial role played by financial inclusion instruments in somewhat alleviating the miseries of the poor and vulnerable.*

Financial Inclusion has come a long way in the country with the bank branch density in rural parts improving from25,000 population per bank branch to 1500 population per access point in 2020 with the introduction of Business Correspondents (BCs).Further, Pradhan Mantri Jan Dhan Yojana (more than 41 crore beneficiaries) and Aadhaar (126 crores appx.) along with improvement in mobile telephony (mobile tele-density improving to 86%), popularly referred to JAM trinity has been instrumental in furthering of financial inclusion. Though, enhanced flow of credit to disadvantaged segments and sectors has led to growth of per capita credit in rural India from ₹3010 in 2010 to ₹10,252 in 2020, the share of rural credit (10%) in the total credit has remained very low.

Developments in the technological and telecommunication space has led to growth in acceptance infrastructure (increment of 350% in number of Point of Sale (PoS) machines during 2015-2020) and spurt of innovations in the payment landscape including Unified Payment Interface (UPI) has redefined the electronic/digital transaction sphere. Advent of Fin-techs have also contributed to expansion of financial intermediation, more particularly credit intermediation in the country. Technology has been an enabler, however, with its low touch model and a seemingly new interface (digital) coupled with low level of digital literacy, effective financial awareness and robust grievance redressal mechanism has assumed even greater importance.

Financial inclusion in the country is at the cusp of a remarkable juncture with digital savvy millennials joining the workforce, social media blurring the urban-rural divide and technology shaping the policy interventions. Digitisation of financial services provides the consumer with plethora of choices;however, it also makes them vulnerable to the challenges of privacy and security (cyber). Thus, it becomes imperative that advancement is juxtaposed with adequate safeguards and policy makers continue to promote responsible innovation in the financial inclusion sphere.

SECTION-I- INTRODUCTION

Financial Inclusion - A Journey of a Billion Footsteps

"Sarvodaya through Antyodaya – Welfare of all through the upliftment of the weakest"

India's journey towards **Financial Inclusion (FI)**draws inspiration from the above principle conceptualized by Father of the Nation, Mahatma Gandhi, which sets its basic objective of '**Inclusiveness**'and '**Equity'.** Inclusiveness aims at wider participation of the public in the formal economy so that the benefits of growth penetrate to the bottom of pyramid. Inclusiveness and equity go beyond poverty alleviation, encompassing equality of opportunity for all sections of society especially the disadvantaged including poor, women, farmers, small enterprises etc.

Financial inclusion is increasingly being recognized as a key driver of economic growth and poverty alleviation the world over. Access to formal finance can boost job creation, reduce vulnerability to economic shocks and increase investments in human capital.[i]Seven[ii] of the seventeenUnited Nations Sustainable Development Goals (SDG) of 2030, view financial inclusion as a key enabler for achieving sustainable development worldwide by improving the quality of lives of poor and marginalized sections of the society.

The policy makers in India i.e. Government of India (GoI) and the Reserve Bank of India (RBI), acknowledged early on, the implications of poverty for financial stability and endeavoured to ensure that poverty is tackled in all its manifestations so that the benefits of economic growth reach the poor and excluded sections of the society.

SECTION II: OVERVIEW OF FINANCIAL INCLUSION IN INDIA

Country Profile

India is world's second largest country in terms of population and seventh largest in terms of area, being home to nearly 18% of the world population and occupying 2.2% of the land area.

Table-II.1 -India at a glance	
Population	121 Crores (1.2 billion) *
Rural	83.37 Crores (833.75 million)
Urban	37.71 Crores (377.10 million)
Population Density (PD) (Persons per Sq, Km)	382
Population Density Range (Minimum to Maximum)	17 (Arunachal Pradesh) to 11,320 (New Delhi)
Area	32.87 lakh Sq.km.
Proportion of land under hilly terrain[iii]	22%
Language	22 Scheduled Language[iv] and more than 19,500 dialects/languages.

Current Estimates – 135.26 Crores**[v]Source: Census 2011***

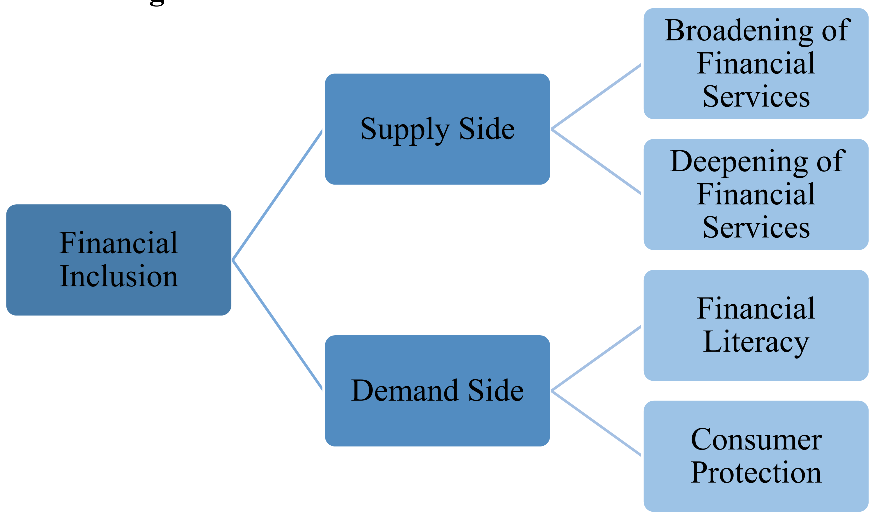
Its sheer size both as per population and geographical expanse and diversity in population mix based on languages, cultural and ethnic practices etc. and terrain ranging from mountainous and hilly regions to desert area, pose unique proposition for ensuring financial inclusion.

Financial Inclusion – Definition & Dimension

With the objective of inclusiveness and equity at its core, Financial Inclusion in the country has been defined as "***the process of ensuring access to financial services, timely and adequate credit for vulnerable groups such as weaker sections and low-income groups at an affordable cost***"[vi].

Accordingly, Financial Inclusion can be broadly classified as under[vii]:

Figure-II.1 -Financial Inclusion: Classification



Financial Inclusion has three basic dimensions of Access, Usage and Quality through which the supply side and demand side of financial inclusion can be measured[viii].

Access to formal financial services refers to the range of financial services that are available to the customers.

Usage corresponds to the extent and ways in which customers make use of the services they can access.

Quality of the services, i.e. how well they fit with the needs of the customers.

Overview of FI

India adopted the bank led financial inclusion model and interventions have been made through mandate and incentives for the financial services providers to further financial inclusion with focus on rural India, which is home to almost 70% of the country's population, by way of access, availability of affordable services & products and facilitating credit offtake.

Financial Inclusion journey of the country can be traced back to the 1960s when the focus was on channelizing of credit to the neglected sectors of the economy and weaker sections of the population. The nationalization of banks in two tranches in 1969 and 1980, made banking facilities accessible and affordable.

Banking Infrastructure

RBI has always been striving towards a more competitive, efficient and heterogeneous banking structure so as to meet varied customer needs in a more efficient manner.

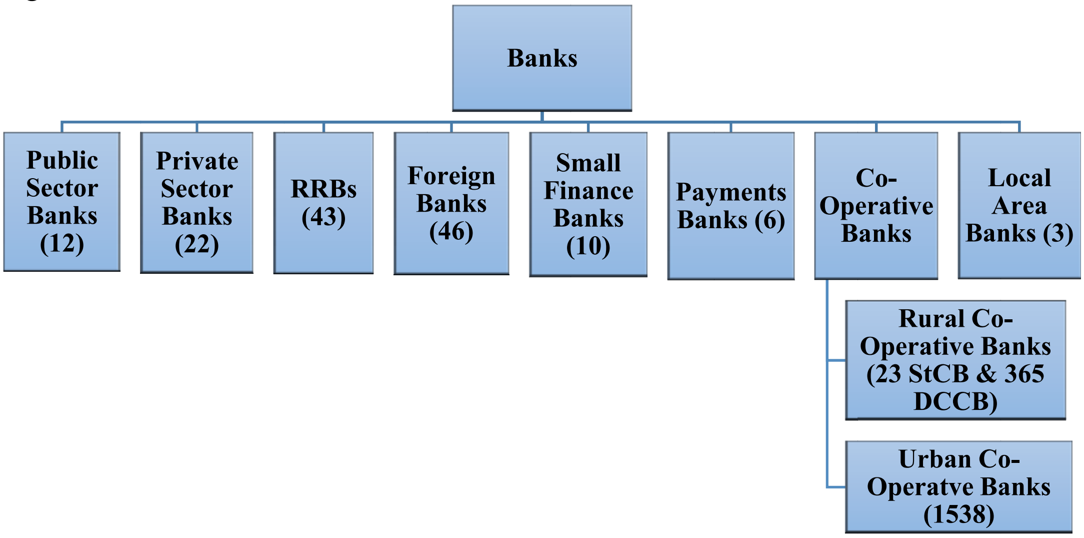


Figure-II.2 - Banking Structure

Source: RBI

Regional Rural Banks (RRBs) were establishedto advance the efforts of financial inclusion in the rural parts of the country, with a framework of having operations limited to a particular region (State). The rural co-operative credit system in India is primarily mandated to ensure flow of credit to the agriculture sector.

Though RBI has adopted a bank led financial inclusion model, however, Non-Bank entities have acted as a critical enabler in furthering and deepening of financial inclusion in the country, especially the Micro Finance Institutions and with advancement in the technological sphere, credit intermediation over the digital platform are case in point onrole of Non Bank Financial Companies (NBFC) in financial inclusion.

In addition, there are several ‘Development Financial Institutions’ (DFIs) viz. National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB), Small Industries Development Bank of India (SIDBI) and Export-Import Bank of India (EXIM Bank) catering to the development needs of specific sector.

Box-II.1- Differentiated Banks

Small Finance Banks and Payments Banks have been set up with the objective of deepening the reach of financial inclusion by bringing hitherto financially excluded sections of the populace into the folds of formal financial system by providing instruments of savings, remittances and supply of small credit products through high technology and low-cost operations.

Financial Literacy& Consumer Protection

Globally, the triad of Financial Inclusion, **Financial Literacy and Consumer Protection** has been recognized as intertwining threads in pursuit of Financial Stability.[ix]

In India, a large number of stakeholders, including the Central and State governments, Financial Sector Regulators, financial institutions, civil society, academia and others are involved in spreading financial literacy.

With a view to scale up the financial literacy efforts, Financial Literacy Centre (FLC) have been setup by the banks in the country. Further, financial literacy activities are also being undertaken by all the rural branches of Scheduled Commercial Banks including RRBs.

In order to strengthen the institutional mechanism for dispute resolution, the Reserve Bank in the year 1995 introduced the Banking Ombudsman (BO) scheme, an alternate dispute redressal mechanism for resolution of disputes. There are 21Banking Ombudsman offices in the country at present. In the wake of evolving and dynamic changes in the financial ecosystem, RBI has also implemented similar mechanism pertaining to NBFCs, digital transactions etc.

SECTION III: REGULATORY FRAMEWORK, GUIDELINES &STRATEGIES

Regulatory Framework

The Government of India and RBI have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country. Some of the major efforts made in this direction include - nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme, formation of self-help groups, permitting Business Correspondents (BCs) /Business Facilitators (BFs) to be appointed by banks to provide last mile delivery of banking services, Basic Saving Bank Deposit accounts, developments in the payments systems, foray of differentiated banks, encouraging innovations etc. The fundamental objective of all these initiatives is to reach the hitherto financially excluded population.

Institutional Mechanism

Financial Stability and Development Council (FSDC) set up by the Government as the apex level forum, to monitor macro prudential supervision of the economy, also focusses on **financial literacy and financial inclusion.**

Technical Group on financial inclusion and financial literacy (TGFIFL),one of the several working Groups/technical Groups under the FSDC Sub-committee, reviews and monitors progress in the financial inclusion sphere. The Reserve Bank of India has also constituted a **Financial Inclusion Advisory Committee (FIAC)** to spearhead the efforts towards greater financial inclusion in the country.

Lead Bank Scheme (LBS) - The Lead Bank Scheme, introduced by RBI in 1969, aims at coordinating the activities of banks and other developmental agencies through various fora to enhance the flow of bank finance to the priority sector and other sectors and to promote banks' role in the overall development of the rural sector.

Access – Policy Interventions

Emphasis on rural penetration of bank branches – Mandate & Incentive

Relaxation is provided to domestic scheduled commercial banks (other than RRBs) to open **Banking Outlets**[x] in Tier 1 to Tier 6 centresprovided at least 25 percent of the total number of 'Banking Outlets' opened during a financial year are in **Unbanked Rural Centres**[xi] **(URC)**.

Further, specific incentive has been provided to banks for opening outlets in any Tier 3 to Tier 6 centre of North-Eastern States and Sikkim as well of LWE affected districts by treating them as URC, where banks are required to open 25% of the Banking Outlets opened during the year.

'Roadmap for provision of banking services in villages with population less than 2000 and more than 2000' and 'Roadmap for opening brick and mortar branches in villages with population more than 5000 without a bank branch of a scheduled commercial bank' are initiatives implemented through LBS fora to extend the reach of banking infrastructure in the underbanked and unbanked centres of the country.

Business Correspondents (BC) Model

To ensure greater financial inclusion and increase the outreach of banking sector, RBI, in 2006, permitted banks to use the services of intermediaries for providing banking and financial services through BCs.

BC Model has been strengthened in the last decade with inclusion of new eligible entities as BCs, provision of inter-operability at the retail outlet, relaxed distance criterion norms for base bank branch etc. With adoption of digital mode of payments, Micro-ATMs deployed at BC outlets have been technologically upgraded and updated to align with prevalent banking requirements and needs. Recognising the need to keep BC model relevant and suit the diverse needs of people at large, BC Certification and Train the Trainers Program have been introduced to strengthen capacity of BC agents.

Deposit and Credit – Policy Interventions

Box-III.1- Basic Saving Bank Deposit Account (BSBDA)

Banks, vide guidelines on 'Financial Inclusion- Access to Banking Services – Basic Savings Bank Deposit Account (BSBDA)', have been advised to offer basic minimum facilities such as cash deposit, receipt/credit, minimum four withdrawals in a month, ATM card etc. in the BSBD Account, free of charge, without any requirement of minimum balance.

Banks are free to provide additional value-added services, including issue of cheque book, beyond the above minimum facilities, which may/may not be priced (in non-discriminatory manner) subject to disclosure.

The impetus to ensure availability of banking facilities in the remotest part of the country needs to be complemented by making the banking services affordable and attractive for the poor and vulnerable. Accordingly, banks were advised in 2005 to make available a **basic banking 'no-frills' account** either with 'nil' or very low minimum balances as well as charges. These accounts have been reclassified as Basic Saving Bank Deposit Accounts (BSBDA).

Priority Sector Lending (PSL)

Priority sector lending is a special dispensation to enhance targeted credit flow to sections/sectors of the society/economy viz. small and marginal farmers, micro, small and medium enterprises, low cost housing, students for education, social infrastructure, renewable energy and weaker sections.

Credit flow to MSME

Credit plays a vital role in development of MSME sector as funds at a reasonable cost can increase their competitiveness. RBI has taken several measures to improve the flow of credit to the MSME sector, which, inter-alia, includes bank credit to MSME andbank credit to registered NBFCs (other than Micro Finance Institutions) for on-lending to micro and small enterprises up to ₹20 lakh per borrower being eligible for classification as priority sector lending. Under the aegis of Pradhan Mantri Mudra Yojana (PMMY), a Micro Units Development & Refinance Agency (MUDRA) Ltd.has been set up by Government of India for development and refinancing of micro units enterprises.

Annual Credit Plan (ACP)

One of the crucial functions of LBS is to allocate annual credit targets to banks for each region. These plans aim for decentralized credit planning with the basic objective of mapping the existing potential for development through bank credit by taking the long term physical potential, availability of infrastructure support, marketing facilities, and policies/programmes of Government etc.

Customer On-Boarding

One of the major challenges in bank linkage of poor and vulnerable is lack of proper identity documents to suffice for Know Your Customer (KYC) and Prevention of Money Laundering (PML) guidelines. In order to address this issue, relaxed KYC norms have been prescribed for specific segments and products have been designed with certain restrictions to enable account opening by such sections.

BSBDA - Small Account is a case in point, where a customer can open account with the bank with relaxed KYC requirements subject to certain restrictions and periodic review of the same. Relaxed KYC requirements have been prescribed for SHGs, where in Customer Due Diligence (CDD) of only office bearers is required at the time of account opening.

Digital customer on-boarding

Video based Customer Identification Process (V-CIP), has been introduced in 2020 as an alternate consent based on-boarding process to be implemented through digital devices. In addition, “Digital KYC” and " Equivalent e-Documents”, as provided in amended PML Rules, have also been introduced.

Digital Financial Inclusion

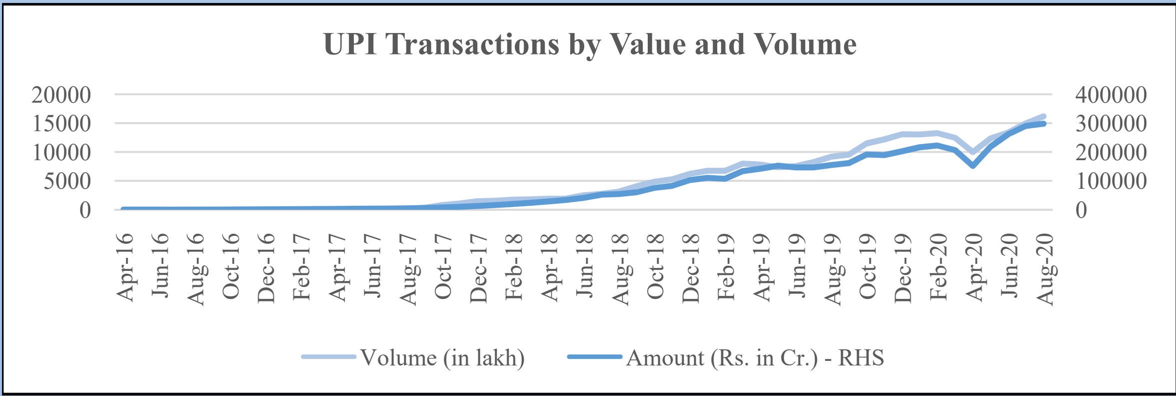
India is acknowledged as a leader in the world in the area of retail payments with innovative products and increased adoption of digital meanswhich have been instrumental in unhindered delivery of financial services, especially to the vulnerable segments of the society even during these testing times (Annex I).

In order to make payment systems available round the clock andreduce cost of payment services to make them affordable, series of initiatives have been introduced viz. introduction of Cheque Truncation System (CTS),Immediate Payment Service(IMPS), round the clock Real Time Gross Settlement (RTGS)[xii]&National Electronic Funds Transfer (NEFT), waiver of charges on NEFT transactions etc.

The JAM trinity- Jan Dhan accounts, Aadhaar and Mobile puts togethera bank account, a robust identity mechanism and a mobile device. It has become an important driver for schemes like Direct Benefit Transfer, which has strengthened financial inclusion[xiii].

Box-III.2 - Unified Payments Interface – A Game Changer

UPI is an instant real-time payment system for facilitating inter-bank transactions. The UPI platform facilitating payment transactions through smartphones, using a virtual address without exposing the underlying bank account is available round the clock. The ease of onboarding and availability through third party apps has ensured its rapid adoption across the country.



Source:RBI

The UPI transactions by volume and value have also been growing steadily over the years, gaining pace especially in the last two years. In August 2020, UPI-based payments clocked record 16,188 lakh transactions, as compared to 9,183lakh transactions a year before. Thetransactions in value terms amounted to ₹2.98 lakh core in August 2020, compared with ₹1.55 lakh crore a year ago.

Globally, as well, there has been lot of interest in UPI. The Bank for International Settlements (BIS) had expressed interest in working with the Reserve Bank towards building a prototype of the system that could be replicated and scaled up in other countries

Aadhaar based payment systems

Aadhaar, the world's largest initiative to provide biometric identity has facilitated financial inclusion through innovative digital platforms. The NACH - Aadhaar Payments Bridge (APB) System, has facilitated the Direct Benefit Transfer scheme of Government. Similarly, the Aadhaar enabled Payments System (AePS) facilitates fund transfers / payments and cash withdrawals through Micro ATMs and Business Correspondents using Aadhaar authentication.

Expanding and Deepening of Digital Payments Ecosystem

Box-III.3 - Strategy – Financial Inclusion and Financial Education

National Strategy for Financial Inclusion: 2019-24

NSFI:2019-24 goes beyond banking and involves all financial service regulators including SEBI (Capital Market), IRDAI (Insurance), PFRDA (Pension) and recommends i) universal access of financial services ii) provision of bouquet of products including insurance and pension and iii) measures for skill development with thrust on financial literacy and consumer protection across financial services. NSFI aims to provide necessary fillip to expand the base of financial intermediation and ensure provision of gamut of products and services to various segments of under-served and un-served population.

National Strategy for Financial Education: 2020-25

NSFE: 2020-25 lays down the vision to create a financially aware and empowered India byinculcating financial literacy concepts among the various sections of the population through financial education to make it an important life skill, with a targeted approach in a holistic manner. NSFE adopts a 5 C approach through emphasises on development of relevant **Content**, developing **Capacity** of the various intermediaries involved in providing financial services, leveraging on the facilitating role of **Community** led model for financial literacy through appropriate **Communication** strategy by enhancing **Collaboration** among various stakeholders.

With a view to expanding and deepening the digital payments ecosystem, 42 districts across 28 states including 8 districts under the 'Transformation of Aspirational Districts' programme of the Government of India have been identified to make the district 100% digitally enabled within one year.

Financial Literacy - Policy Interventions

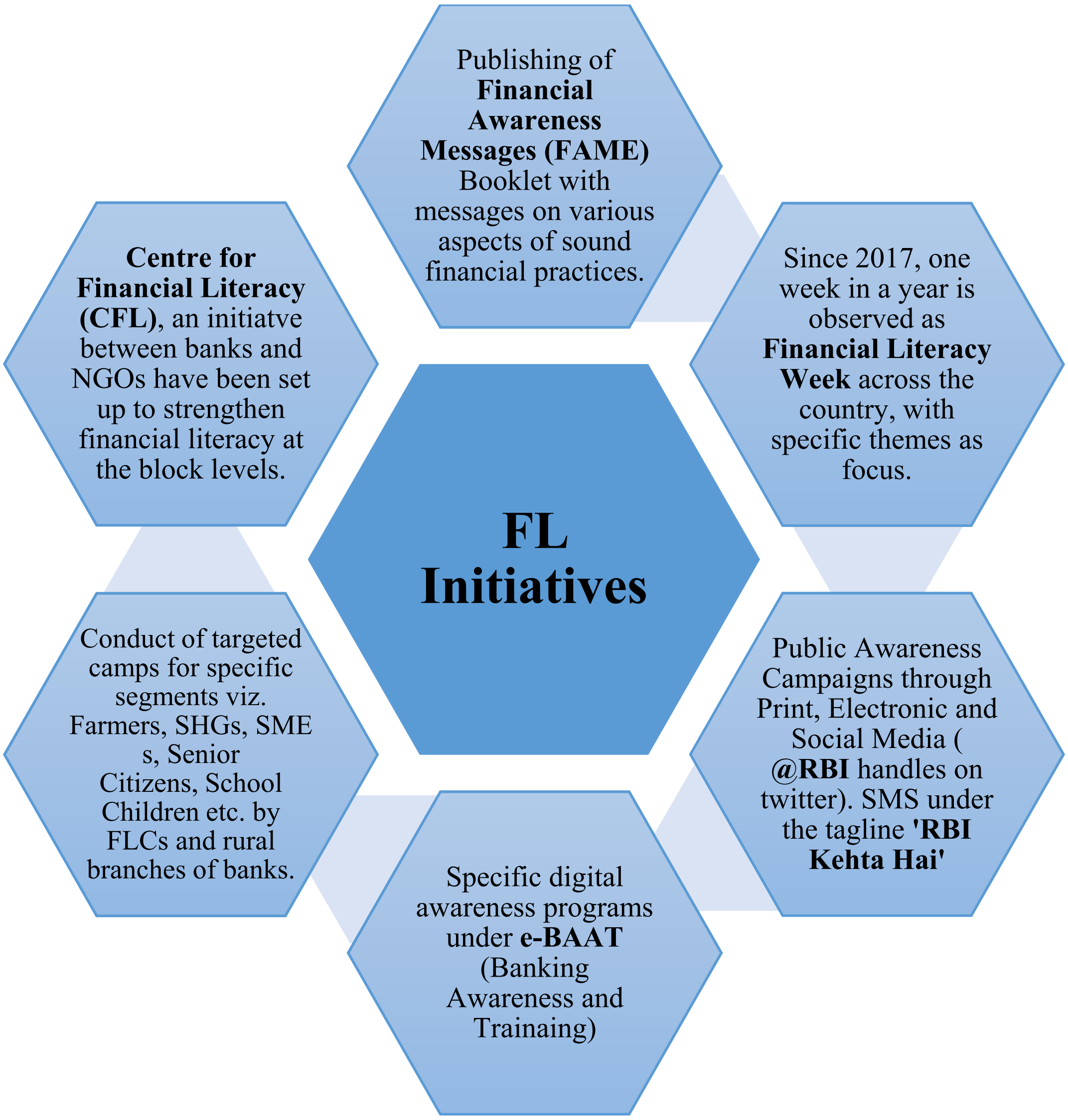


Figure-III.1- Financial Literacy Initiatives

Box-III.4 - National Centre for Financial Education (NCFE)

Recognising the need for coordinated and concerted efforts to promote financial education, beyond banking covering aspects of investment, insurance and pension, across all sections of the population as envisaged in National Strategy for Financial Education, National Centre for Financial Education has been established as a not for profit (section 8) company promoted by all the four financial service regulators including Reserve Bank of India (Banking), Securities and Exchange Board of India (SEBI- Capital Markets), Insurance Regulatory and Development Authority of India (IRDAI- Insurance) and Pension Fund Regulatory Authority of India (PFRDA- Pension).

Consumer Protection – Policy Interventions

Box-III.5 - Complaints Management System

The RBI launched the **Complaints Management System (CMS)**, a state-of-the-art application to digitize its grievance redressal process and aid seamless flow of information amongst the participants like banks, NBFCs, System Participants etc. The CMS also captures the details of the complainant which shall be used to study the trends of complaints based on age-sensitive data analytics

Figure-III.2- Consumer Protection Measures

Broadening of BOS

- Mobile/ Electronic Banking transactions included as valid ground of complaint under the BOS.
- Separate ombudsman for Non Banking Financial Companies (NBFC-BO) and for Non -bank System Participants (NSPs) in the form of a dedicated Ombudsman Scheme for Digital Transactions (OSDT)

Strengthened Grievance Redressal mechanism of service providers

- The Internal Ombudsman (IO) Scheme for Scheduled Commercial Banks and for non-bank issuers of pre-paid payment instruments (PPIs).
- "Charter of Customer Rights" has been formulated with right to privacy enshrined to adequately emphasizes the importance of data protection and education.

Measures for Digital Payments

- To safeguard interest of customers in event of unauthorised transactions, limited liability guidelines have been prescribed with provisions of Zero liability on customers subject to certain conditions.
- A framework for Turn Around Time (TAT) for failed or unsuccessful digital transactions has been prescribed with provision for compensation.
- Online Dispute Resolution (ODR) system for resolving customer disputes and grievances pertaining to digital payments.

Schemes and Incentives

Financial Inclusion in the country is envisaged as business proposition for the financial institutions and several initiatives have been undertaken to facilitate the same.

Financial Inclusion Fund (FIF) has been created with the objective to support developmental and promotional financial inclusion activities of financial institutions including banks.

Deposit Insurance- With a view to safeguard the interest of depositors and strengthen public confidence in the banking system, provision of deposit insurance has been prescribed for the deposits placed with bank. Deposit Insurance and Credit Guarantee Corporation (DICGC) manages the scheme with provision for insurance cover of Rs.5, 00,000/- per depositor for deposits held.

Box-III.6 - Pradhan Mantri Jan Dhan Yojana (PMJDY)

The Government of India launched PMJDY scheme on August 28, 2014 to bring in the hitherto excluded sections of the society into the folds of formal financial services.

PMJDY, a deposit product, aims to achieve broader financial inclusion by providing platform for low value credit –'Over Draft Limit', insurance schemes – ' Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY)' and pension scheme ' Atal Pension Yojana (APY)'.

As on October 21, 2020, 41.13 crore beneficiaries, of which female beneficiaries account for more than 55%, have opened PMJDY accounts with amount outstanding of ₹ 1, 30,458.93 crores.

Merchant Discount Rate (MDR)[xiv] - Taking into account the twin objectives of promoting debit card acceptance by a wider set of merchants, especially small merchants, and ensuring sustainability of the business for the entities involved, MDR for debit cards have been rationalised.

Farmers	• Interest subvention (IS) of 2% and Prompt Repayment Incentive (PRI) of 3% are incentive provided to farmers for short term loans.
Women	• Recognising the value of formal finance to women in overall economic development of the society, **Self Help Gropus** (SHGs) are conceived as community owned, self-managed informal savings & credit delivery mechanism by a group of 10-20 members (mostly women) having homogeneous socio-economic background, who operate on the principle of self-help, solidarity and mutual interest.
Senior Citizen and Differently abled	• Banks have been advised to provide basic banking facilities, such as pick up of cash and instruments against receipt, delivery of cash against withdrawal from account, delivery of demand drafts, etc.to senior citizens of more than 70 years of age and differently abled persons at the doorstep of such customers.

Segment Specific

Compliance and Monitoring

Financial Inclusion policies encompass a wider context with involvement of Government (Central and State), Central Bank (Regulation, Development, Payment & Settlement etc.) and Development Institutions (NABARD, SIDBI etc.). Progress made by financial service providers across the length and breadth of the country are being monitored through co-ordination on a common platform as well as individually by concerned stakeholders.

Financial Inclusion Plan (FIP)- RBI has encouraged banks to adopt a structured and planned approach to financial inclusion with commitment at the highest levels through preparation of Board-approved Financial Inclusion Plans (FIPs). The Plan captures self-set targets of the banks on parameters such as number of outlets (branches and BCs), BSBDAs opened by bank branches and BCs, overdraft facilities availed in those accounts, transactions in Kisan Credit

Card (KCC), General Credit Card (GCC) accounts and transactions through the BC-ICT channel.

Monitoring Progress of Financial Inclusion (MPFI) - In order to align RBI's policies with the vision outlined in the National Strategy for Financial Inclusion (NSFI): 2019-24, the FIP template has been revised and rechristened as "Monitoring Progress of Financial Inclusion (MPFI)" to capture more granular data and qualitative aspects on the ground level.

Review at regional level through LBS fora - State Level Bankers Committee (SLBC), the apex inter-institutional forum under lead bank scheme, is responsible for creating adequate coordination machinery in all States, on a uniform basis for development of the State. SLBC has representation from banks, RBI, NABARD, Government departments etc. with provision for special invitees from industry bodies, exporters, farmers organisations etc.

PSL Returns –The compliance to priority sector lending norms is monitored on 'quarterly' basis. Shortfall in lending by the banks under priority sector is accounted for contribution to the Rural Infrastructure Development Fund (RIDF)[1].

Recent Initiatives

Developments in the Fin-Tech Space

The mobile and internet penetration has created a conducive atmosphere for the FinTech driven financial inclusion in India. The entry of non-banking entities permitted in the payment system ecosystem has further accelerated the FinTech driven financial inclusion.

Regulatory Sandbox

Recognizing that innovation is the key to progress, the Reserve Bank has prescribed anEnabling Framework for Regulatory Sandbox with the objective of fostering responsible innovation in financial services, promoting efficiency and bringing benefit to consumers. The first cohort under the Regulatory Sandbox with theme of retail payments have been initiated which includes areas of innovation under (i) Mobile payments including feature phone-based payment services; (ii) Offline payment solutions; and (iii) Contactless payments.

Peer-2-Peer (P2P) Lending

An intermediary bringing the borrowers and lenders over an electronic platform, it provides a market place for exchange of information and instructions between the trustee, lenders and

[1]See page no.36

borrowers.The platform itself doesn't take any credit risk and transactions are reported to credit information companies. There are 21 P2P platforms which are functional.

Account Aggregator (AA)

It retrieves or collects information related to financial assets of a customer from the holders of such information and aggregates the same before presenting it to the customers or users specified by customers. The larger goal of AA is to attain Data empowerment or data democratization in an emerging market economy.

Trade Receivables Discounting System (TReDS)

One of the perennial problems faced by MSMEs is delayed payments. To address this issue, the Reserve Bank introduced the TReDS in 2014, which is an electronic platform where receivables of MSMEs drawn against buyers (large corporates, PSUs, Government departments) are financed through multiple financiers at competitive rates.

PSL Norms – Revised

To align with emerging national priorities and to bring sharper focus on inclusive development, PSL guidelines have been comprehensively reviewed to enable better credit penetration to credit deficient areas; increase the lending to small and marginal farmers and weaker sections; facilitate bank finance to start-ups; boost credit to renewable energy, and health infrastructure. To address regional disparities in the flow of priority sector credit, higher weightage has been assigned to incremental priority sector credit in 'identified districts' where priority sector credit flow is comparatively low.

MSME – Revised Definition

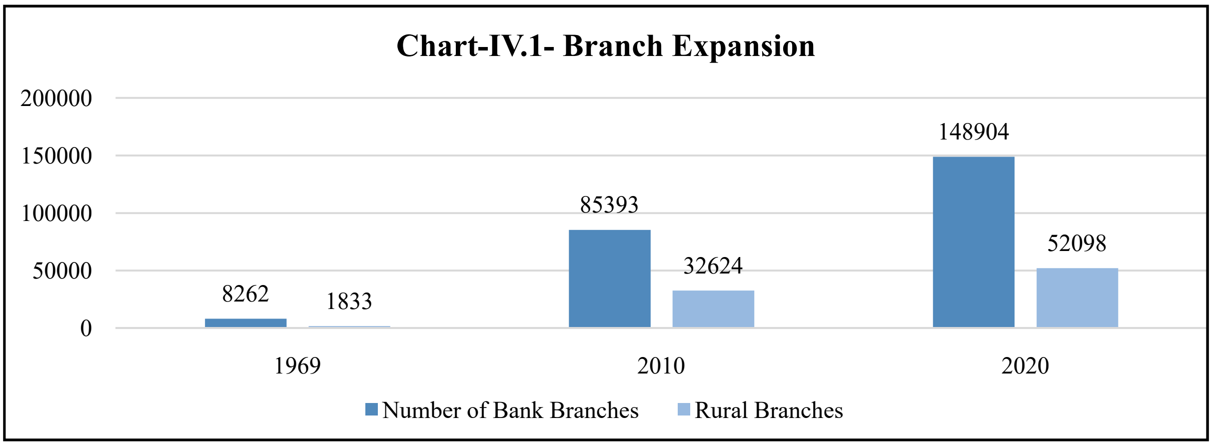
The definition of Micro Small and Medium Enterprises has been revised after a decade, wherein dual criteria viz. Investment in Plant & Machinery and Turnover, is considered for classification of MSMEs. Further, the distinction between manufacturing and services enterprises has been done away with.

SECTION IV:STATUS OF FINANCIAL INCLUSION IN INDIA

There are various ways to measure the progress in FI through creation of an Index, surveys etc. In the following section, progress in FI in the country across various parameters has been assessed across a time span of ten/five years.

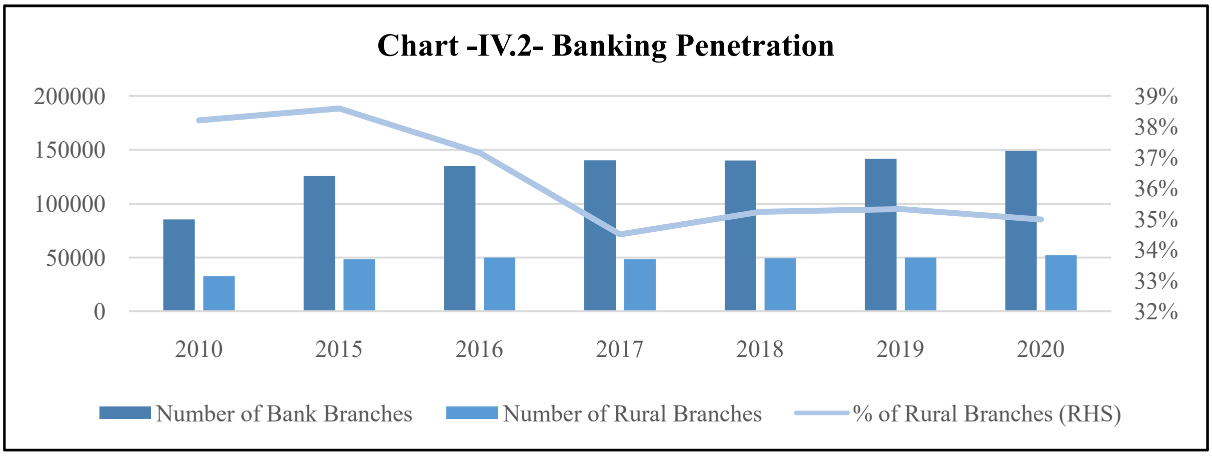
Access

Following nationalisation of banks in 1969, the number of commercial bank branches in the country have increased from 8262 in 1969 to 1, 48,904 as on March 2020, with share of rural branches in the total bank branches witnessing a gradual rise from 22% in 1969 to 35% in 2020.



Source:RBI

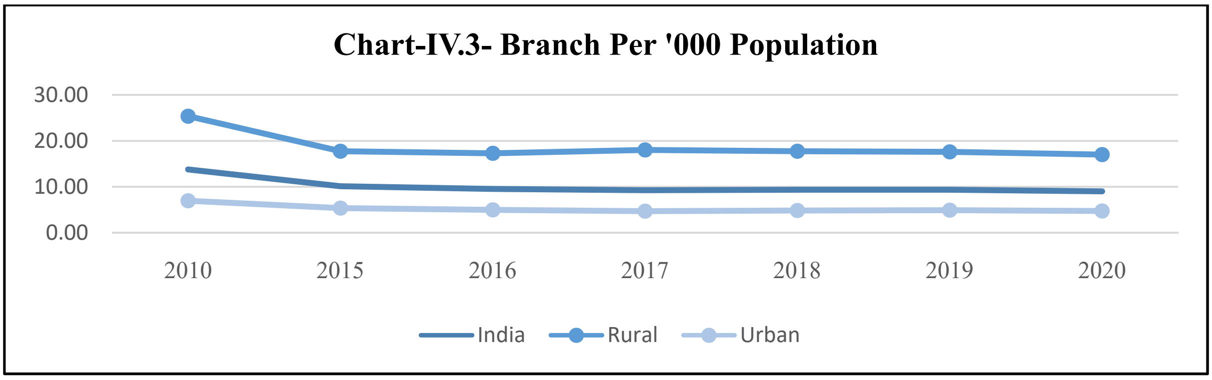
In the last decade, brick & mortar presence of banks has steadily increased from 85393 branches in 2010 to nearly 1.50 lakh branches in 2020, witnessing a growth of nearly 75%. During the same period, rural branches have grown by almost 60%[xv].



Source: RBI

Banking Infrastructure Density

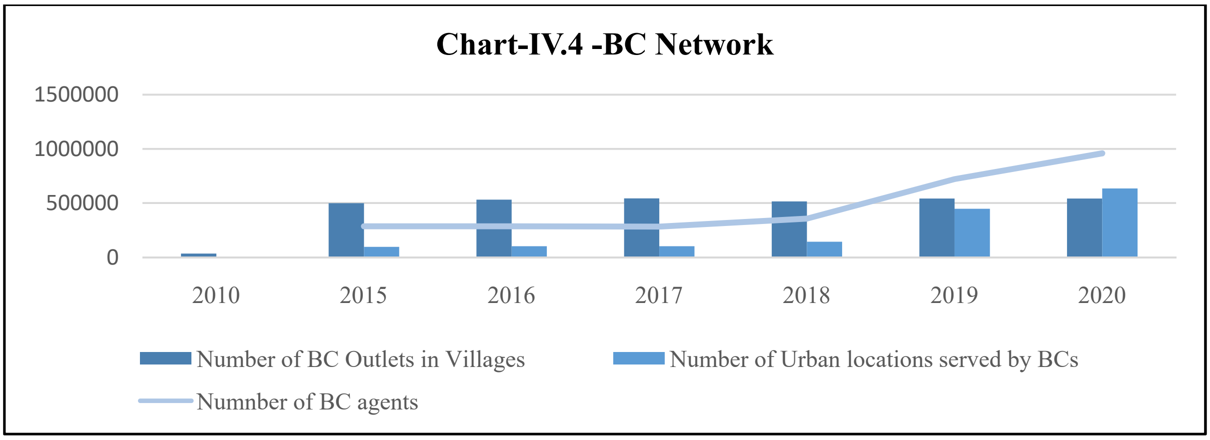
Access based on population is one of the key indicators to measure the progress of financial inclusion. With one bank branch for 64,000 people in the year 1969 it has come down to one bank branch for 9000 people in 2020. The gap for the country in the last decade (2010 to 2020) has reduced significantly, with population per branch figures for rural India reduced from 25380 in 2010 to 17020 in 2020.



Source: RBI& Census Projections

Business Correspondents (BC)

In the last decade (2010-20), banking outlets in villages through BCs have increased from around 34000 to more than 5 lakh outlets while urban locations served by BCs have witnessed exponential growth from less than five hundred such locations in 2010 to more than six lakh urban locations in 2020.

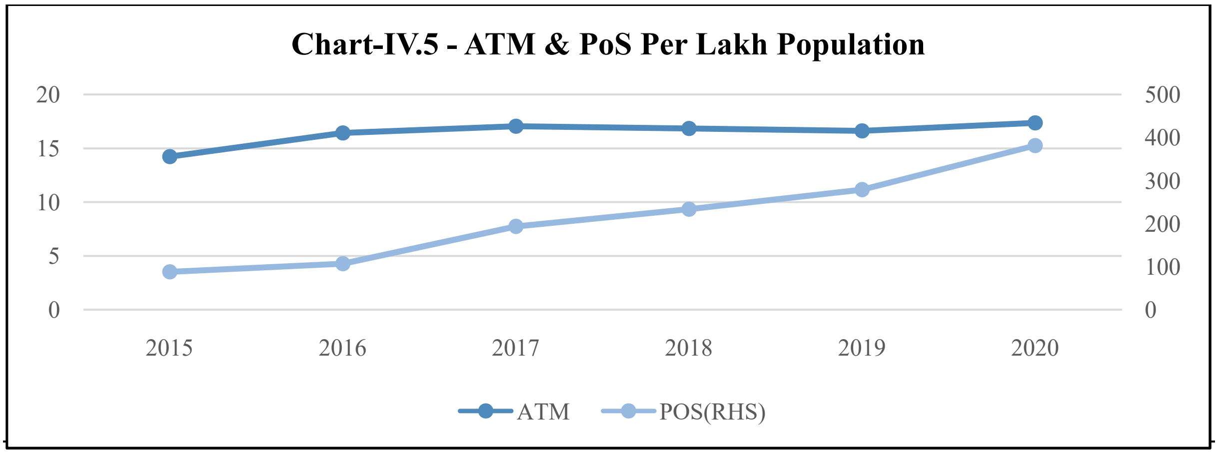


Source: RBI

Since 2015, BC network in villages have hovered around the 5 lakh mark. However, BC outlets in urban locations have seen significant rise in the last two financial year, which is also reflected in the increased number of BC agents in the year 2019 and 2020.

ATM & Point of Sale (PoS)

Since 2015, ATMs in the country have grown by around 30% from 1.81 lakh in 2015 to 2.34 lakh in 2020 while number of PoS has increased more than 3.5 times from 11.27 lakh to 51.39 lakh during the same period.

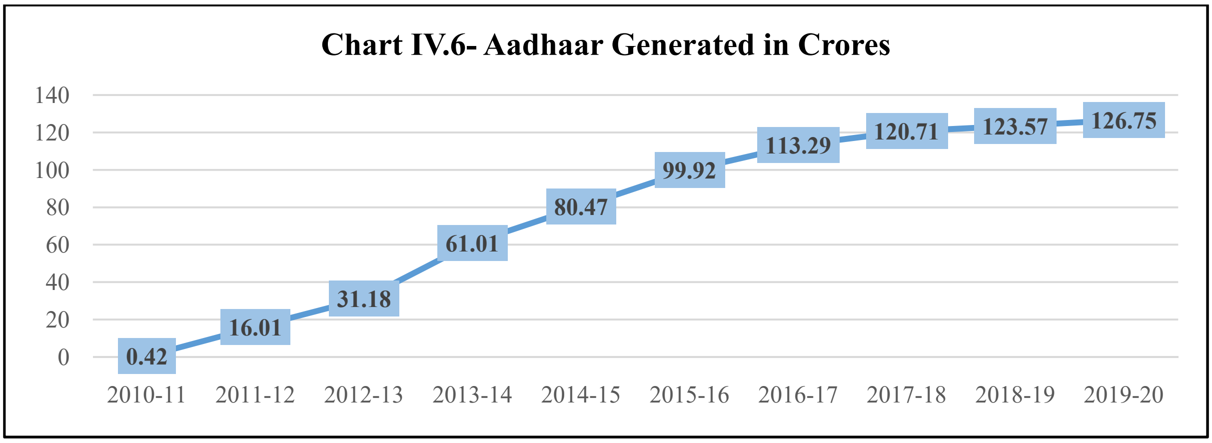


Source: RBI& Census Projections

Number of ATMs per lakh population has only marginally increased from 14 in 2015 to 17 in 2020. However, during the same period number of PoS per population has risen from 88 in 2015 to 381 in 2020 registering an increase of more than 300%.

Digital FI Infrastructure - Status

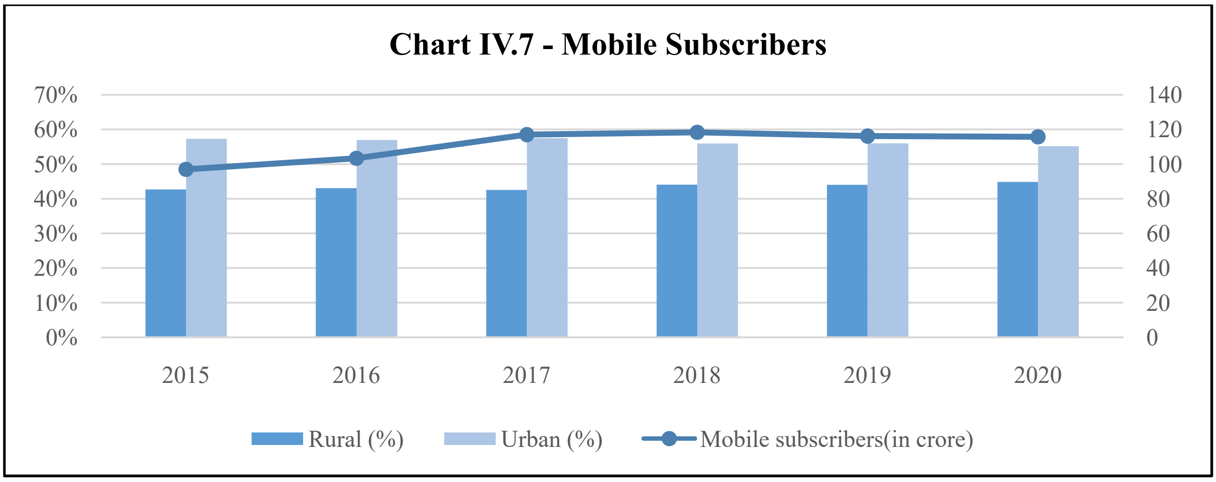
Aadhaar is mandated to provide unique Identification numbers (UID) to all residents of India. From the first ever issuance in September 2010, more than 126[xvi] crore Aadhaar numbers have been generated. Aadhaar has been instrumental in extending banking services to the last mile by providing identity document for on-boarding, bio-metric for facilitating transactions and targeted delivery of DBT.



Source: www.uidai.gov.in

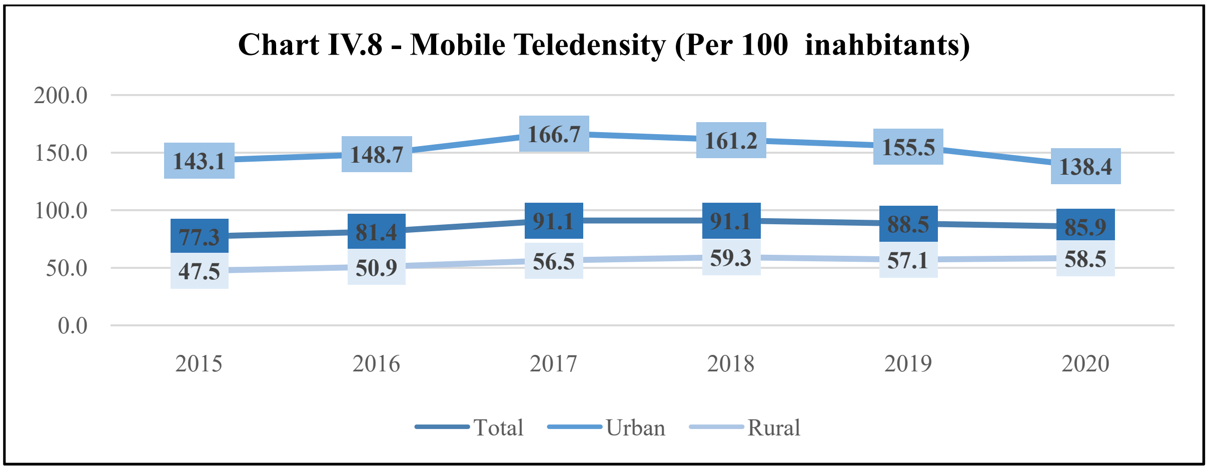
Mobile Telephony & Internet

The mobile usage in India has recorded a remarkable growth in last decade, with more than 90 per cent of the population having access to mobile phones. As on March 2020, almost 116 crore populations have access to mobile phones in the country which constitutes more than 98 per cent of total telephone subscribers. Last decade has also witnessed a staggering increase in usage of smart phones in India.



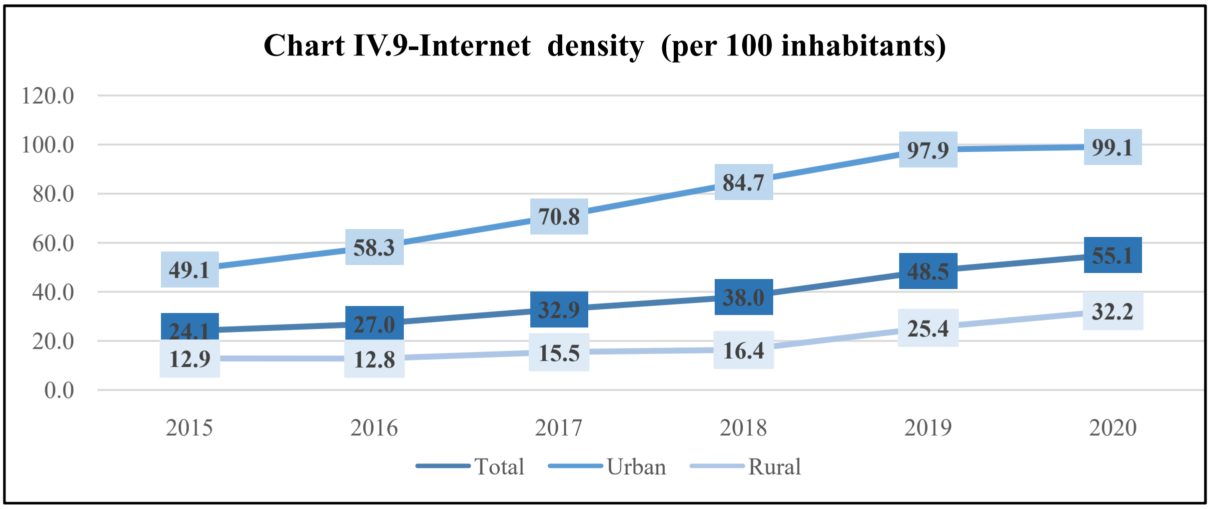
Source: www.trai.gov.in

The enhanced mobile penetration led to higher mobile tele-density (mobile tele subscribers per 100 inhabitants) from 77.3 in 2015 to 85.9 in 2020. However, the gap in tele-density between urban and rural area continue to be high during this period. The mobile tele-density for urban area was 138.4 in 2020where as for rural area it was 58.5.



Source: www.trai.gov.in

Internet Density in India has more than doubled from 24 in 2015 to 55.1 in 2020. Internet density in urban area is close to 100 in 2020, whereas in rural area it is only32 per cent. While India has achieved significant improvement in internet penetration, the gap between urban and rural area is a matter of concern.



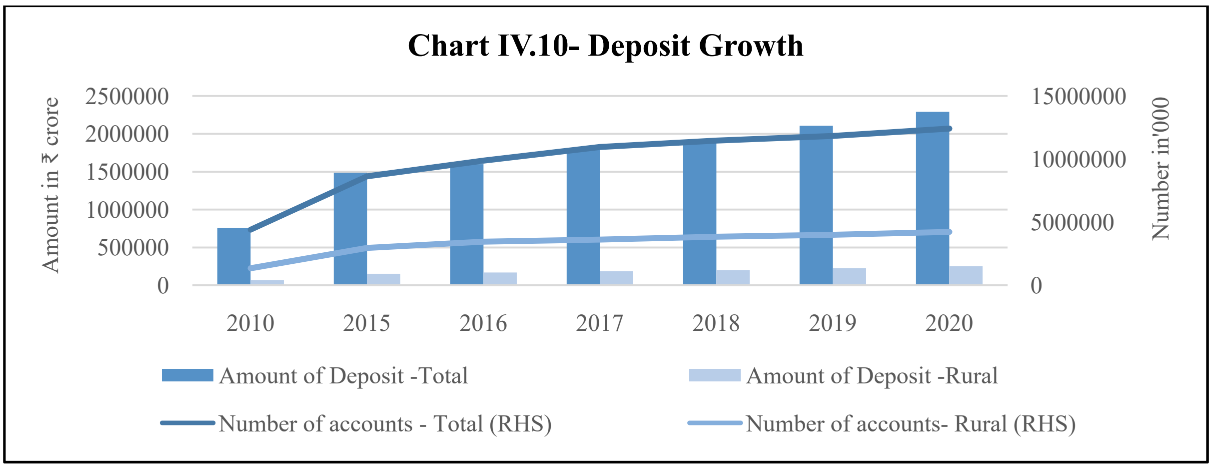
Source: www.trai.gov.in

In the last decade, there has been tremendous improvement in the banking infrastructure in the country, with bank branch network increasing by 75% and with introduction of BC model, the banking access density too has improved considerably.With improvement in telecommunication and penetration of mobile phones in the rural parts, digital channels are increasingly becoming the preferred mode of banking. However, lower penetration of internet in the rural parts is a bottleneck in furthering of financial inclusion, especially digital financial inclusion.

Going forward, it is felt thatwith advancement in the technological sphere and enhanced adoption of alternate delivery channels, physical form of bank branches may pave way for tech driven delivery channels as primary banking models.

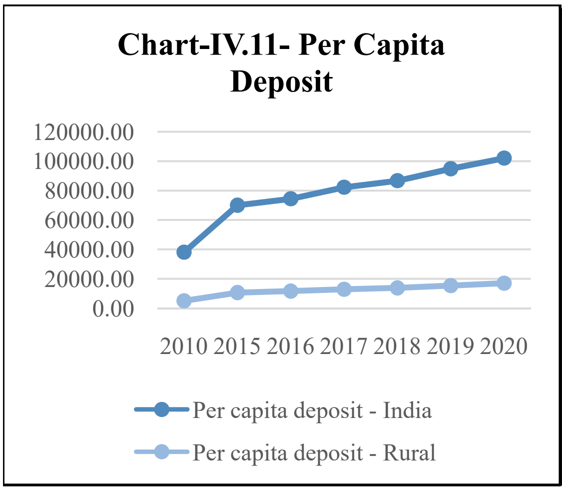
Deposit

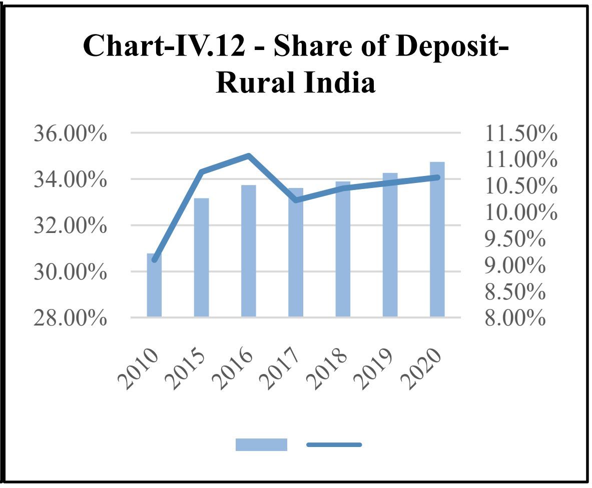
Over the past decade there has been significant growth both in number of deposit accounts and amount, with growth in rural India surpassing the national average. Number of deposit accounts and amount in the country registered an increase of 182% and 200%, whereas for the same period increment of 214% and 258% respectively is observed for rural India.



Source: RBI

Per capita deposit in the country witnessed a growth more than 150% in the last decade with per capita deposit in the rural parts rising by more than 200% during the period. In rural India, per capita deposit in the year 2010 was at around ₹ 5000/- which increased to ₹ 17, 000 in 2020.



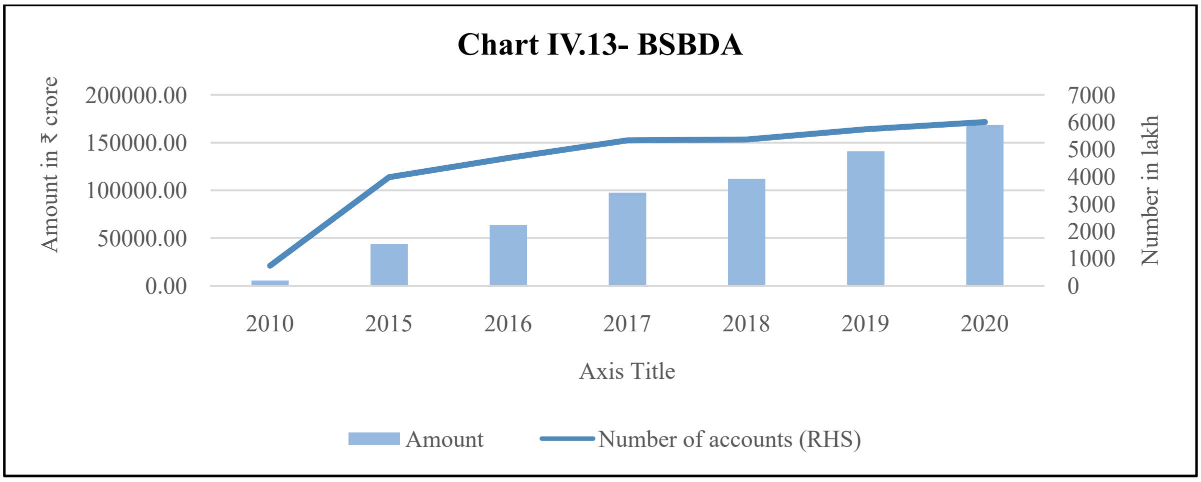


Source: RBI

Rural India's share of deposit has improved gradually over the last decade with share of number of accounts increasing from 30.50% in 2010 to 34% in 2020. During the same period, share of amount marginally increased from 9% in 2010 to 11% in 2020.

BSBDA

Since its introduction, BSBD accounts have grown in numbers, particularly in the last decade (2010-2020) number and amount outstanding in these accounts have risen exponentially by more than 8 times and 30 times respectively, which refers to wider participation in the banking system. Launch of PMJDY in 2014 has contributed immensely to this growth.



Source: RBI

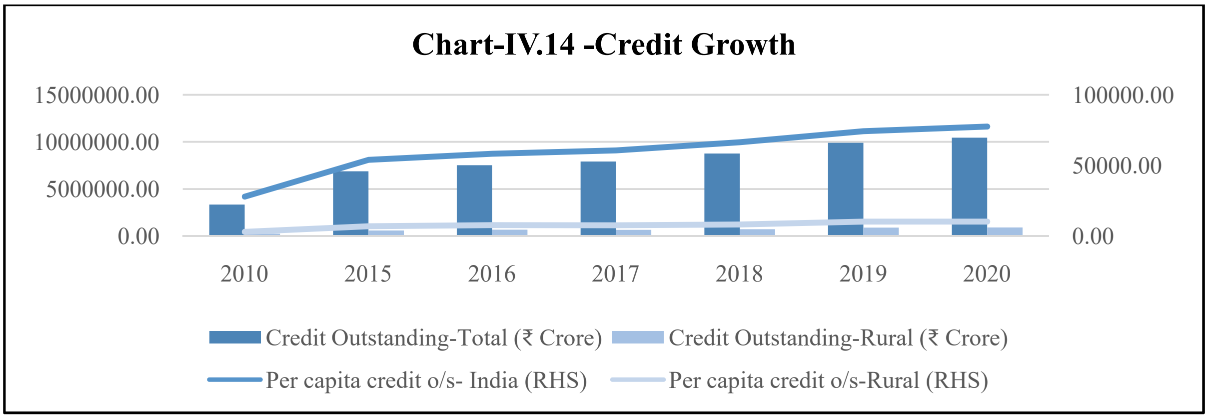
Significant jump observed in the year 2015 and 2016 may be attributed to the launch of PMJDY scheme.

Thrust on including the excluded into the folds of formal financial system has resulted in significant rise in the deposit base in the last decade with number of accounts per capita increasing from less than 1 in 2010 to more than 1.5 in 2020. However, during the last decade per capita number of accounts in rural parts have remained below 1, indicating need for customised products for rural populace.

Credit

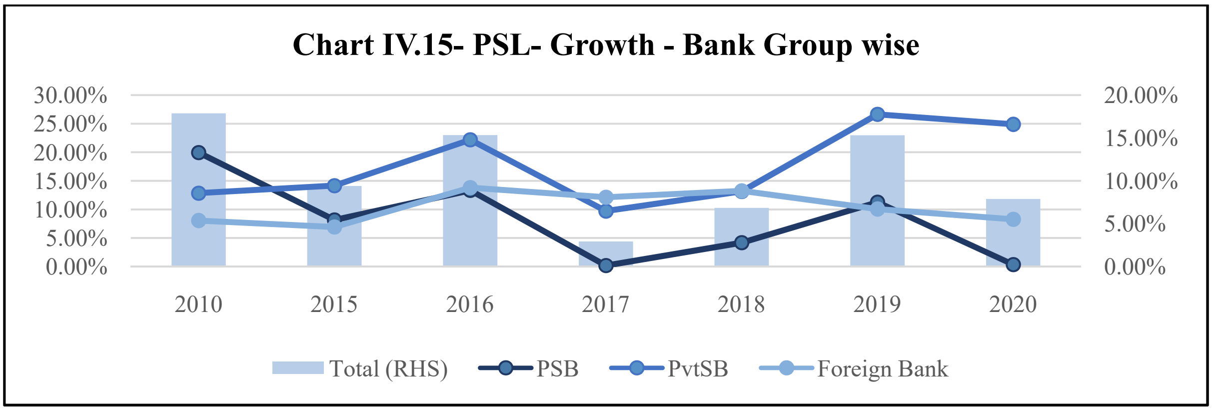
With expansion of banking infrastructure, economic reforms post 1991, Green revolution etc., credit offtake in country has risen multi folds, from ₹3599 croresoutstanding in 1969 to ₹104.50 lakh crores in 2020. In the last decade pan India outstanding bank credit has grown by more than 200% from ₹ 33.45 lakh crore in 2010 to ₹104.50 lakh crore in 2020, with growth in rural India (more than 250%) surpassing the national average.However, share of rural credit in the total credit has remained below10% during the decade.

In the last decade (2010-2020),pan India per capita credit has grown by 2.77 times whereas per capita credit o/s has grown by almost 3.5 times in rural India.



Source: RBI

Priority Sector Lending (PSL)



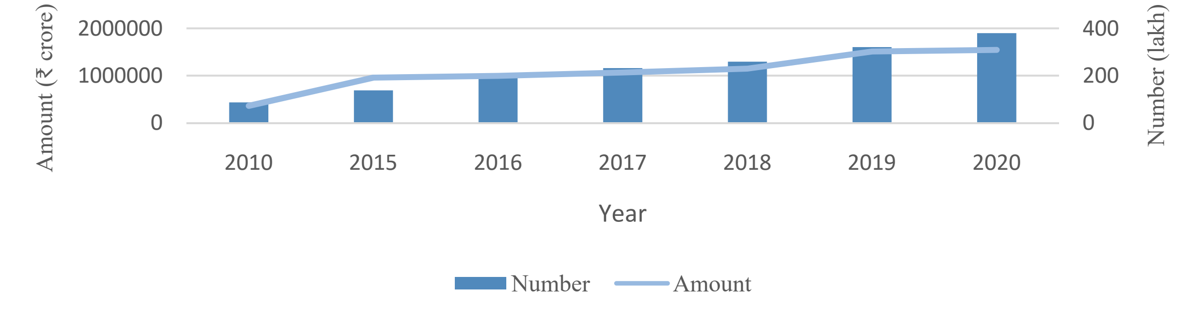
*Y-o-Y growth in PSL amount of PSB, PvSB and Foreign Banks ***Source: RBI***

Priority sector lending in absolute terms registered a fourfold growth from ₹9.65 lakh crore in 2010 to ₹37.54 lakh crore in 2020.[xvii] However, Y-o-Y growth in outstanding PSL amount has not been steady with average growth in the last five years remaining below 10%, which is reflective of low average credit growth in the country during the period.[xviii]

Flow of Credit to Micro, Small and Medium Enterprises

Bank credit to MSMEs have increased by more than 300% (both number and amount outstanding) in the last decade (2010-2020).Average growth in credit outstanding to the sector over the last five years (2016-2020) have remained at 10% whereas the average growth in number of accounts have been above 20%.

Chart- IV.16 - Credit to MSMEs

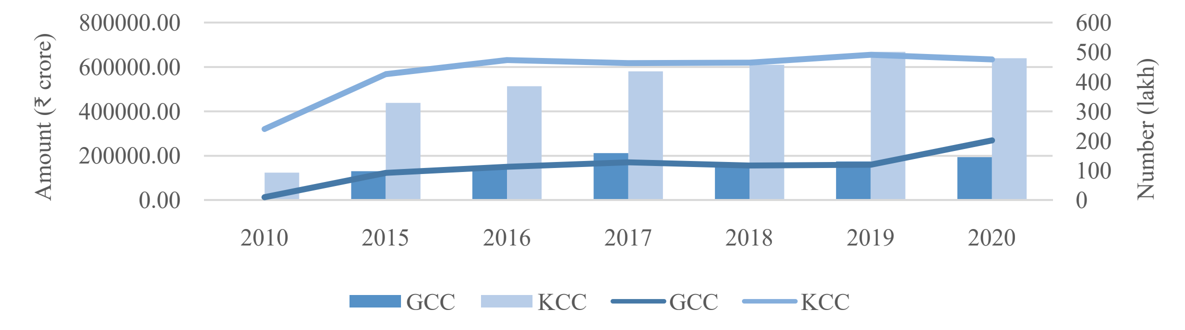


Source: RBI

Kisan Credit Card (KCC) (Farm)&General Credit Card (Entrepreneurial)

The Kisan Credit Card (KCC), which provides adequate and timely bank credit to farmers under a single window for cultivation and other needs, including for consumption, investment and insurance, has steadily increased in the last decade with more than 5 times increment in amount outstanding from ₹1, 24,000 crore in 2010 to ₹6,39,069 crores in 2020.

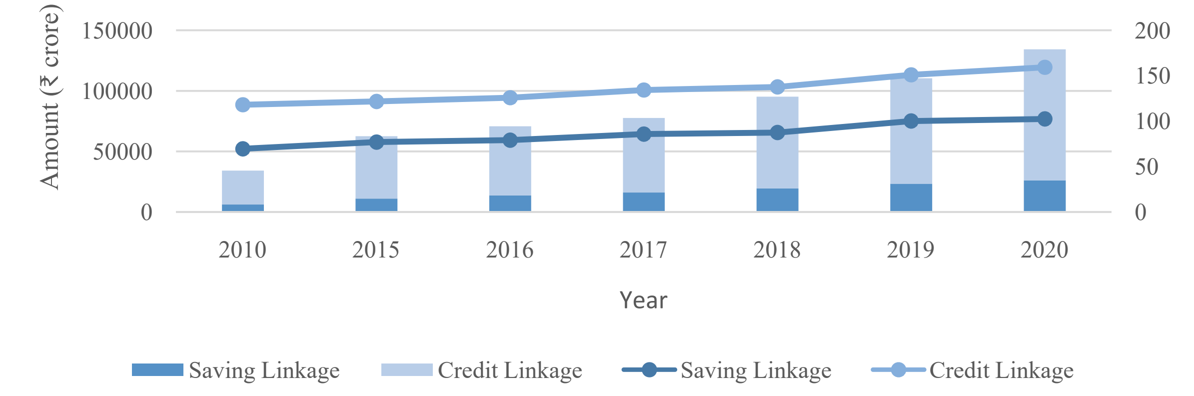
Chart-IV.17 - KCC & GCC



Source: RBI

Under General Credit Card (GCC) scheme, small value entrepreneurial credit to artisans, weavers, small enterprises etc. has exponentially risen in the last decade from ₹3500 crores in 2010 to ₹1, 94,048 crore in 2020.

Chart-IV.18- SHG-BLP



Self Help Groups (SHG) – BanK Linkage (SHG-BLP)

Source: RBI

Number of saving linked SHGs have increased from nearly 70 lakh in 2010 to more than 1 crore in 2020 with saving amount rising by more than 4 times from ₹6198 crore to ₹26,152 crore. During the decade, credit linked SHGs have withnessed tremendous growth with amount outstanding increasing by almost 300% from ₹28,038 crore in 2010 to ₹1,08,075 crore in 2020.

Overdraft in BSBDA (Consumption)

Small value overdraft in BSBD accounts extended to the needy people to meet their consumption needs have risen from 2 lakhs to more than 60 lakh in number while amount involved has increased from ₹10 crore to ₹529 crore in the last decade.

Credit intermediation by the financial service providers is the most critical aspect of financial inclusion of the marginalised segment/sector. In the last decade, there has been significant growth in numberof accounts as well the amount outstanding under entrepreneurial credit, consumption credit and credit to priority sector. Further, during the last decade, per capita rural credit growth has outpaced the national average, however, the quantum of per capita credit in rural India remains a meagre fraction of the national level.

Financial Literacy and Consumer Protection- Status

Financial Literacy programs are conducted by FLCs and rural bank branch to make customers aware of specific banking products, do's and don'ts of the digital transactions, consumer protection measures etc. 36,678 financial literacy programs[xix]with 24.65 lakh participants were organised in the country in the year 2020 with 67% of such programs being target specific with themes viz. SME, Farmers, SHG, Digital etc.

There were 1, 95,901 complaints received in the Offices of the Banking Ombudsman (OBOs) in FY 2018-19 which includes significant number of digital complaints. With rising adoption of digital payments, the percentage share of digital complaints to total complaints in the OBOs has significantly increased from 28% in 2017-18 to 33% in 2018-19.

SECTION V: CHALLENGES IN FINANCIAL INCLUSION

With efforts in strengthening the banking infrastructure (measures to improve access) coupled with focus on making the services available and affordable (BSBDA & PMJDY), financial inclusion has come a long way. In terms of the World Bank **'Global Findex Report-2017',** 80% of population in the country have account with the banking system.However, still a lot needs to be done to broaden and deepen financial inclusion in the country.

The major challenges in furthering of financial inclusion in the country and measures undertaken to address the same are mentioned below:

V.1 Physical Infrastructure- Inadequacies

Lack of banking presence in the hinterlands of the country due to perceived dearth of business opportunity is one of the foremost conventional challenges in extending the services of formal financial services. Particularly in rural India, population per bank branch at around 17,000 is significantly higher than the national average of 9,000.

- **Measures undertaken**
  - NSFI:2019-24, inter-alia, lays emphasis on improving access to banking and recommends provision of banking services to every village within 5 Kms radius / hamlet of 500 households. As on August 2020, more than 99% of target under the milestone has been achieved by the banks.
  - Introduction of differntiated banks viz. SFBs and PBs, in particular India Post Payments Bank, with its vast reach and presence has considerably improved access to banking services in rural parts. The extent of access measured in terms of provision of banking services including the BC infrastructure along with brick & mortar presence (**access points)** in the rural area shows improvement by 88% with 1500 population per access point in 2020 as against 12000 population in 2010.

V.2 Digital Infrastructure - Inadequacies

Poor digital acceptance infrastructure has been one of the key concerns for digital banking penetration in the rural parts of the country. Absence of, or erratic, internet connectivity, especially in remote areas, is a major impediment for adoption of digital payments.

- **Measures undertaken**
  - **Payment Infrastructure Development Fund (PIDF) -** The Reserve Bank has set up PIDF with focus on increasing the acceptance infrastructure (both physical and digital modes) across the country with emphasis on Tier III to Tier VI centres and the north-eastern parts of the country.
  - **Feature phone based and Off-line payment solutions -** To encourage technological innovations that enable offline digital transactions, Reserve Bank issued guidelines to permit a pilot scheme to be conducted for a limited period. Under the pilot scheme, authorised Payment System Operators (PSOs) – banks and non-banks – will be able to provide offline payment solutions using cards, wallets or mobile devices for remote or proximity payments. Offline payment solutions are expected to promote financial inclusion.
  - **Bharat Net Project -** Telecommunication plays a vital role in bridging the gaps in communication and facilitates financial transactions. Bharat Net project of Government of India aims to set up Optical Fibre Network to provide connectivity to 2,50,000 Gram Panchayats (GPs) of the country, which would ensure broadband connectivity with adequate bandwidth. As on,October 30,2020 , 4.67 lakh Kms of Optical Fibre Cable (OFC) have been laid covering 1.59 lakh GPs.

V.3 Low Credit Offtake

Credit offtake in the country has remained on the lower side due to lack of credit absorption capacity, absence of collaterals etc. In the last decade average growth in credit outstanding has been only 11%. Though the average growth in rural India was at 14% in the last decade, share of credit of rural India has remained below 10% over the years.

- **Measures undertaken**
  - **Rural infrastructure Development Fund (RIDF)** has been constituted to provide loans to State Governments and State-owned corporations to facilitate rural infrastructure projects and improve credit offtake in the region as a result. Banks contribute to the Fund to the extent of their shortfall in stipulated priority sector lending. Impact evaluation studies have revealed that RIDF projects, inter-alia, have led to enhanced credit flow and financial inclusion in the region.
  - The Digital India Land Record Modernisation Programme (DILRMP) launched by Government of India, to minimise scope of land or property disputes and enhance transparency in the land records. This has the potential to address various issues relating to agricultural credit, provided banks are given access to view land records online and/or they are given the facility to create charge online over land.
  - To faciliate better and faster underwriting standards for credit assessment and pricing by banks, NSFI:2019-24, recommends **Public Credit Registry (PCR)** to be fully operational so that authorised financial entities can leverage on the same for assessing credit proposals from all citizens.
  - Government of India has created **Credit Guarantee funds** for facilitating hassle free credit to select sector/segment **viz.** Credit Guarantee Trust for Micro and Small Enterprises (**CGTMSE) -** providing guarantee cover for micro and small enteprises and Credit Guarantee Fund for Micro Units (**CGFMU**) **-** providing guarantee cover for Micro loans upto ₹10.00 lakh, OD under PMJDY upto ₹10,000/- and collateral free loans between ₹10.00 lah and ₹20.00 lakh to SHGs.

V.4 Low level of Financial Literacy

Assessment of financial literacy initiatives undertaken by NCFE in 2019 to understand the level of financial awareness in the country revealed that only 27.18 % of the respondents have achieved minimum target score/minimum threshold score in each of the components of financial literacy prescribed by OECD-INFE [A minimum of 3 in Financial Attitude (out of 5), 6 in Financial Behaviour (out of 9) and 6 in Financial Knowledge (out of 9)].

With thrust on promoting digital payments to reach the unserved and underserved, low level of literacy, especially of digital payments, may lead to exclusion rather than inclusion. Accordingly, globally it has been felt that digital financial literacy is a pre-requisite for allaying concerns with regard to electronic payment services & products and building trust in the digital payment system.

- **Measures undertaken**
  - The NSFE:2020-25 intends to support the vision of the Government of India and Financial Sector Regulators by empowering various sections of the population to develop adequate knowledge, skills, attitude and behaviour which are needed to manage their money better and plan for their future. The Strategy recommends adoption of a Multi-Stakeholder Approach to achieve financial well-being of all Indians, which inter-alia covers process literacy and **digital literacy**. The recommendations of the same are being implemented by NCFE in consultation with other stakeholders and monitored by TGFIFL.
  - Several measures viz. conduct of financial awareness programs, observing financial literacy week,inclusion of financial literacy in the school curriculum, assessing feedback based on surveys/studies etc. are undertaken to enhance financial awareness among citizens.
  - NSFI:2019-24 recommends expanding the reach of CFLs so as to reach every block of the country , which will address demand side concerns at the last mile.

V.5 Lack of Skill development and Income generation activities

Financial Inclusion leads to mainstreaming of excluded section of the society into the folds of formal financial system. However, with irregular income and lack of entrepreneurial activities, there is very limited activity in most of the accounts**.** As per the Wold bank Global Findex report, 2017,48% of the respondents in the country stated having made no deposit or withdrawal in the last 1 year.

One of the primary reasons for low usage of accounts/accounts lying dormant is lack of income for the account holder. Skill development and engagement in income generation activities are necessary filip to financial inclusion efforts.

- **Measures undertaken**
  - Recognising the importance of skill development and livelihood generation activities in ensuring sustainable financial inclusion, the NSFI:2019-24 lays emphasis on making account holders aware of various Government sponsored skill development programs to enable them to avail benefits of such training/sensitisation programs, which will help them in undertaking income generation activities aligned to their skill set.
  - NSFI also recommends a framework for a focused approach to increase awareness on financial literacy, managerial skills, credit and market linkages needs of newly financially included SHGs/ Micro entrepreneurs.

V.6 Socio-Cultural and Linguistic Barriers

India is a vast country with population mix of varied socio-ethnic background inhibiting linkage with formal financial system due to restricting practices and/or lack of suitable products.

The system of land holding in tribal areas is largely based on customary and traditional practices. These lands are mostly owned by the Village Chiefs/Village Authority and are not in the name of individuals.

India is home to more than 130 crore people with more than 22 official language and 19000 dialects. With thrust on digital financial inclusion, amplified by the pandemic, which has further curtailed physical interaction between bank and customer, digital financial communication in vernacular language has assumed greater significance.

- **Measures undertaken**
  - Banks and Financial Institutions are encouraged to offer customised products /services to the targeted population keeping in mind the socio-cultural requirements. Micro Credit through SHG model has been beneficial in mainstreaming women and poor into the formal financial systems.
  - Capacity building initiatives targeting the front-line managers of financial institutions, who are directly involved with local population, viz. Train the Trainers Programme, Certified Credit Counsellors (CCCs) for MSME, Financial Literacy Counsellors etc. have been designed to keep them updated as well appropriately strengthen their soft skills.
  - Survey/study are being conducted involving banks and PPI issuers to understand the need to have digital financial communication in the regional language to foster digital financial inclusion.

SECTION VI: POLICY RECOMMENDATIONS AND THE WAY FORWARD

Coronavirus pandemic has impacted the world in an unprecedented manner and has taught important lessons on health and hygiene. At the same time, the pandemic has also brought to the fore the criticality of financial systems, especially the digital financial systems, in extending unhindered support to the Governments and Institutions to enable the Public at large in meeting their economic, development and financial needs in a timely manner. In India, a slew of measures were undertaken to mitigate the impact of COVID 19 as detailed in Annex II.

Thrust on digital financial inclusion is no longer an option rather it has become imperative for policymakers around the globe to devise policy level interventions centering around digital payments including Fintech.

Leverage on Fintech

With development in the technological sphere and proliferation of Fin-techs in the financial ecosystem, access to financial service providers/ finance has become convenient for large set of population. However, to extend the benefit of the same to the hinterlands so as to reach to the last mile, more related cohorts under Regulatory Sandbox, particularly **on enhancing credit offtake in rural parts**, may be promoted.

Box-VI.1 - Innovation Hub

The Reserve Bank is in the process of creating the Reserve Bank Innovation Hub (RBIH) as a centre for idea generation and development to promote innovation in the financial sector. RBIH is envisaged to facilitate creation of an eco-system conducive to technological innovation affecting financial services in general, with focus on promoting access to and inclusion of financial services and products.The objective of RBIH is to test potential new capabilities, opportunities in technology and leverage on the same to promote economic development by using technology to deepen financial access and promote inclusive finance.

Since increased adoption of digital mode may give rise to issues related to data privacy, cyber security, fraudulent practices due to anonymity and can adversely affect trust in the financial ecosystem, it is recommended that policy makers promote responsible innovation (Regulatory Sandbox is one such regulatory intervention) and closely monitor the developments in the fin-tech sphere to address any systemic concerns in a timely manner.

Credit Information

One of the major barriers to financial inclusion, globally, has been lack of information/data available in the financial ecosystem, where lender's knowledge of the borrower is incomplete and there is lack of collateral with the borrower to pledge (due to asymmetric information to assess credit worthiness). With proliferation of fin-tech and growing digital economy, availability of tangible data points in the form of digital footprints may be leveraged to mitigate the barrier of lack of collateral and suitable& customised products may be devised. Banks may also be encouraged to use the data points to devise alternate credit scoring models for the disadvantaged. Credit Information Bureaus be strengthened with widening its scope and base.

Broadening of Financial Inclusion

During the last decade, with extension in banking reach, provision of affordable products, and advent of JAM trinity in facilitating DBT (check on pilferage), having a saving bank account with disposable amount has become a reality. Accordingly, it is desirous that habit of thrift and savings may be used for financialisation of savings with focussed approach towards having a suitable investment, insurance and pension product. Recognising the same, NSFI: 2019-24 recommends provision of suitable insurance, investment and pension products for the willing and eligible PMJDY holders.

Improving Financial Capabilities

As has been elucidated in the section III, with thrust on digital financial channels, strengthening demand side measure viz. process literacy, digital literacy etc. assumes even more significance. In order to build trust of public at large on bankingproducts and services, thereby improving financial capabilities of an individual/firm, ubiquitous digital awareness campaigns/modules through various medium, particularly through creation of relevant Audio-Visual content may be promoted.

Robust Consumer Protection Mechanism

Financial Inclusion measures in the contemporary scenario goes beyond banking and includes insurance, pension and investment products. Further, with adoption of digital payment channels, which include both banks and non-bank participants, the interconnectedness of the financial system, which provides convenience, cost effective and simplified solution to the consumer, also pose challenge for the policy makers. It is desirous that keeping in view the inter connectedness of the digital payment channels, a robust grievance redressal mechanism with quicker turnaround time for redressal needs to be developed.

Co-ordination among Stakeholders

Sustainable financial inclusion necessitates action from several stakeholders including Government, Central Bank, Other Financial Sector Regulators, Development Institutions, Financial Service Providers Telecom Service Regulators, Skills Training institutes, civil society etc. Thus, there needs to be a focused and continuous coordination between the key stakeholders to make sure that the customers can use the services in a sustained manner.

Reference

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- RBI Master circular on Lead Bank Scheme (LBS)- dated July 1,2020
- RBI circular on Rationalisation of Branch Authorisation Policy- Revision of Guidelines dated May 18,2017
- RBI Master Circular on Branch Authorisation- dated July 1,2014
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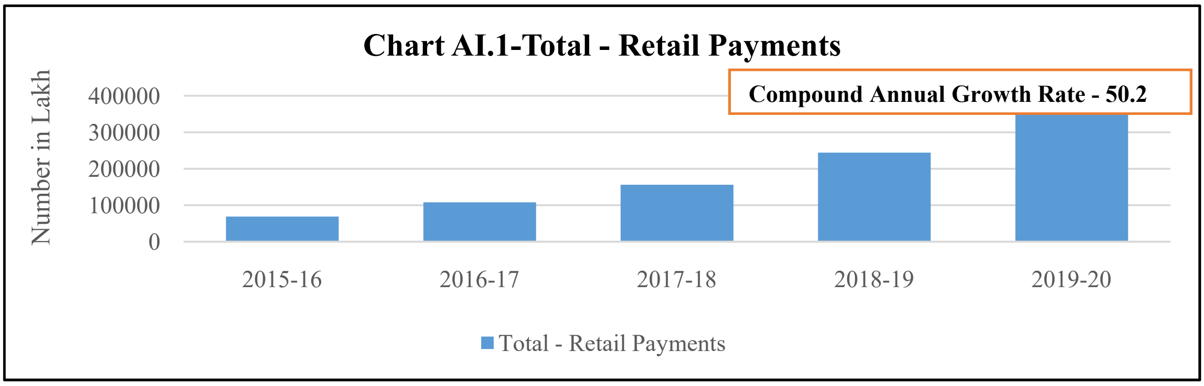
Retail Payments – A Snapshot

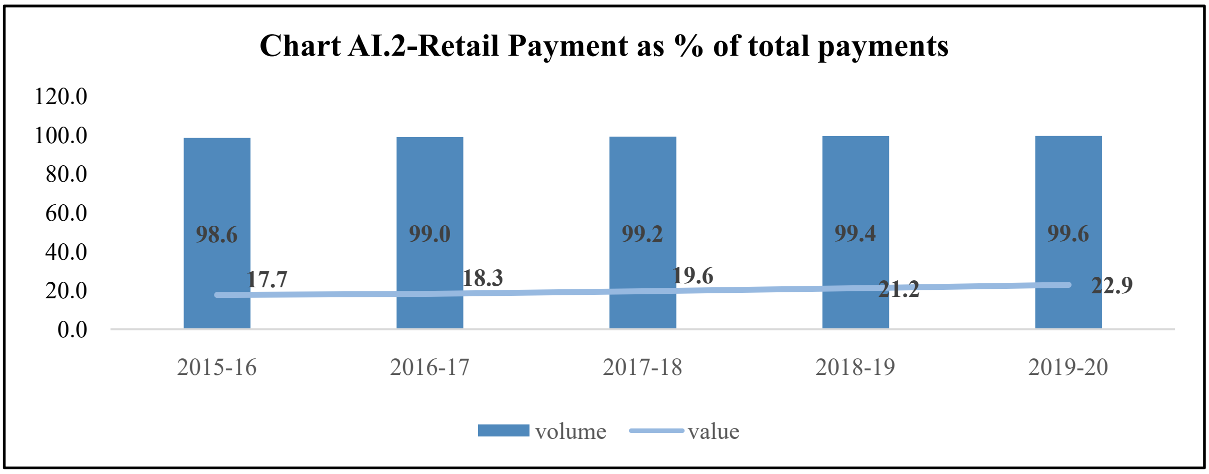
Developments in the payments sphere with product innovations, pervasive mobile telephony, accelerated adoption of technology and improved penetration of internet coupled with conducive regulatory interventions has been key enabler in deepening of financial inclusion.

The retail payments landscape has witnessed introduction of myriad of products spearheaded by the National Payments Corporation of India (NPCI), which includes AePS, IMPS, UPI, USSD, NACH-APBS, Bharat QR and DBT. People having limited access to banking channels have used these payments methods for banking transactions leading to them being financially included.



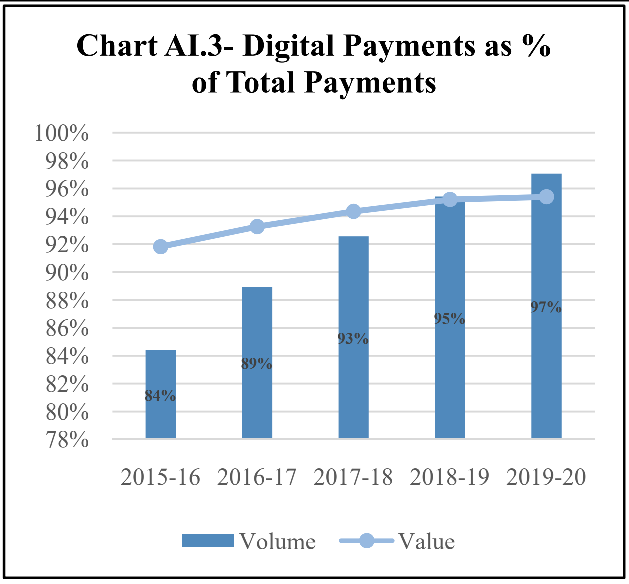
Source: RBI

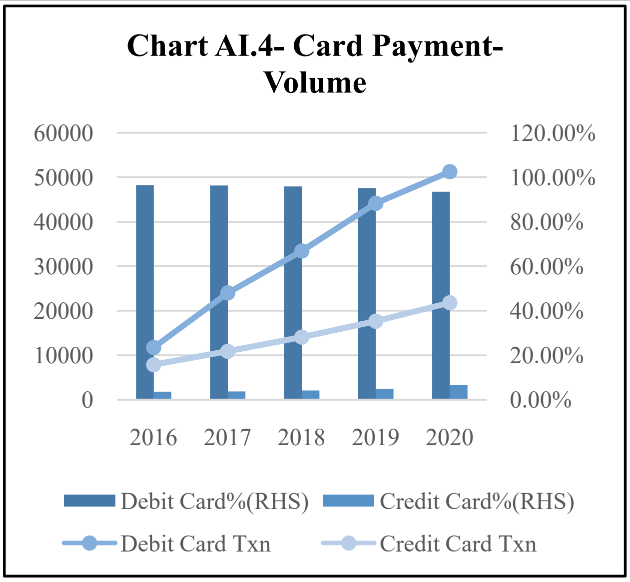
The retail payment in India has recorded a remarkable growth during the last five years 2016 to 2020. The volume of retail transaction has increased from 69341 lakh in 2016 to 352363 lakh in 2020, with a compound annual growth rate of 50.2 per cent, whereas the value of retail transactions have increased with a CAGR of only 23.06%. This indicates rising number of small value transactions reflecting wider participation across segments. However, in terms of value, the share of retail payments holds a lower per cent of 23 per cent in 2020.



Source: RBI

The retail payments in India got the biggest boost with the launching of the UPI.Further, with efforts in improving digital acceptance infrastructure including PoS machines, internet connectivity and access to cheaper data, digital paymentshave also increasingly found traction among the populace. Digital payments as percentage of total payments have gradually increased over the last five years. However, credit card, both in terms of volume and





value,remains a fractionof total outstanding, both in number of cards and transactions.

Source:RBI

Box- AI.1 – Umbrella Organisation for Retail Payments

National Payments Corporation of India (NPCI)

The National Payments Corporation of India (NPCI), a 'Not for Profit' company, was set up in December 2008 as an umbrella organisation for retail payment systems in India with the guidance and support of the Reserve Bank and the Indian Banks' Association (IBA), under the provisions of the Payment and Settlement Systems Act, 2007, for creating a robust Payment & Settlement Infrastructure in India. Retail payments viz. AePS, IMPS, APBS, NACH, BBPS, NUUP, UPI etc. are owned and operated by NPCI.

New Umbrella Entity

With a view to minimize the concentration risk in retail payment systems, from a financial stability perspective and to foster innovation and competition, the RBI released the framework for authorisation of pan-India Umbrella Entity for Retail Payments on August 18,2020.

Impact of COVID-19 on Financial Inclusion and Country Response

The outbreak ofCoronavirus is the worst crisis that has affected the world in the last 100 years with unprecedented negative consequences for both lives and livelihoods.It has adversely affected the socio-economic condition of a large section of population and set a new normal for the global economy.

The Indian economy has been hit very hard by the pandemic, with the second largest case load in the world. Impact of Covid-19 is being felt most acutely by poor and vulnerable sections of the society – particularly women, farmers, migrant labours, SMEs etc. There has been supply side constraints with imposition of country wide lock down forcing financial institutions to function with limited strength ensuring precautionary measures of social distancing and hygiene.

The challenges that beset progress of financial inclusion due to the outbreak of COVID-19 are unprecedented and necessitates a multipronged approach from all stakeholders concerned.In this connection, a slew of measures have been taken by policymakers including Government and Central Bank to mitigate the adverse effect of the crisis on the progress of financial inclusion in the country, of which few are mentioned below:

Government

- Within few days after the nationwide lockdown was announced, the Central Government announced **Rs.1.7 lakh crore economic stimulus** under **'Pradhan MantriGaribKalyanYojana'**, which included direct cash transfers of Rs.500 to women PMJDY account beneficiaries, for the poor to help them fight the battle against COVID-19.
- The Government of India has announced special measures for MSMEs under AatmaNirbhar Bharat Abhiyan to enhance their capability to withstand the economic fallout of COVID-19. To begin with, a new definition of MSMEs has been announced wherein the investment limit has been revised upwards, an additional criterion ofturnover is introduced and the distinction between manufacturing and service sector enterprises has been eliminated. An emergency credit line guarantee scheme (ECLGS) to businesses/MSMEs from banks and NBFCs up to 20 per cent of their outstanding credit as of February 29, 2020 has been proposed. The government will also facilitate the provision of `20,000 crore as subordinated debt to those MSMEs that are classified

as stressed or with non-performing assets (NPA). A Fund of Funds, with a corpus of ₹10,000 crore, will be created for infusing ₹50,000 crore as equity into MSMEs.[2]

Central Bank

Regulatory Measures

- The Reserve Bank permitted a grant of **moratorium of six** months on payment of all term loan instalments (including agricultural term loans, retail and crop loans).
- Financial support was extended in the form of term loan to MSMEs engaged in manufacturing/providing services at an affordable lending rate to undertake manufacturing of medical products and provide medical services to combat COVID19.
- Benefit of 2 per cent interest subvention to banks and 3 per cent prompt repayment incentive for all farmers to be continued to the extended period of moratorium, so as to safeguard the interest of farmers.

Business Continuity Measures

- Banking Services were declared as essential services and Centralised Payments systems were operated uninterruptedly, with staffs performing these functions being isolated in a quarantined environment.
- Cash transfer was smoothly facilitated by the National Automated Clearing House (NACH) – Aadhaar Payment Bridge System (APBS) and remittances were paid out to the intended beneficiaries without any delay.

Financial Literacy and Customer Awareness Measures

- NGOs associated with the Centre for Financial Literacy (CFL), a hub and spoke model initiated in 2017 by RBI to strengthen the financial capabilities of communities, have adopted tele-calling and use of digital and social media for dissemination of important financial awareness and COVID related messages. Further, Regional Offices of the Bank have been advised to explore new avenues of outreach through digital means, local television channels and community radio in coordination with relevant stakeholders.
- As a part of customer awareness initiatives, RBI issued a press release to enhance public awareness about the availability of various digital payments that could be used from home maintaining social distancing.

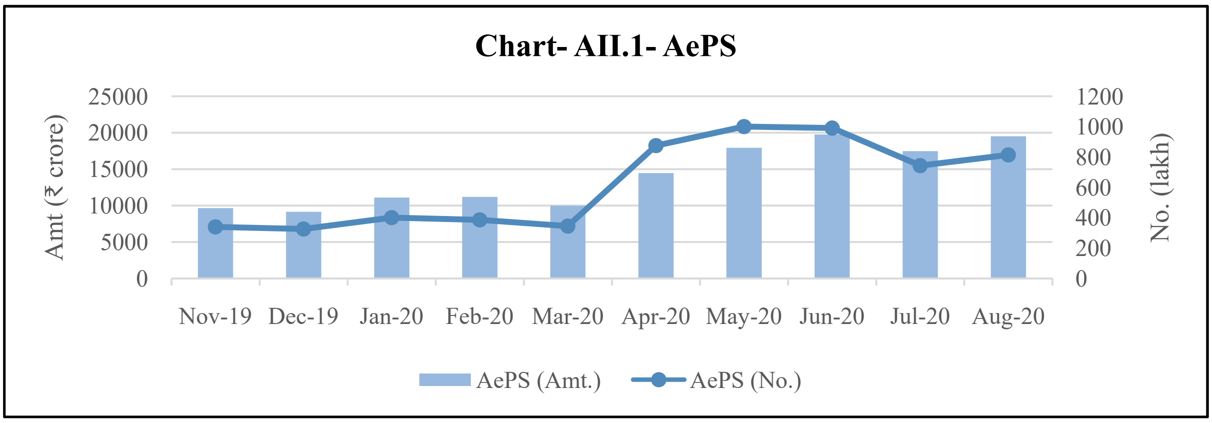
[2]State Finances a Study of Budgets Of 2020-21 -RBI

Customer Grievance Redressal Measures

- The Reserve Bank's Complaint Management System (CMS), which brings all stakeholders viz the Reserve Bank, the entities regulated by the Reserve Bank and customers on a single platform, and has a system-driven workflow process, ensured continued and effective grievance redressal even during the lockdown.
- In line with advisory issued by Government of India (GoI) on April 03, 2020 to redress complaints relating to COVID-19 on priority, the entities regulated by the Reserve Bank were also advised to address the COVID-19 related grievances expeditiously

Business Correspondents

The impact of the pandemic brought to the fore the crucial role played by the alternate delivery channel, particularly BC model, catering to the needs of vulnerable section of the



societyand extending banking services to the last mile.

Source: RBI

As reported by banks and also reflected above (Chart-AII.1), cash withdrawal (AePS) at Micro ATMs had seen a dip in both number and amount of transactions initially, however, with announcement of the economic stimulus package (PMGKY), significant surge was observed in the cash withdrawals during the next few months. BC channel was instrumental in facilitating these low value transactions for the last mile.Several steps have been taken by banks to facilitate unhindered delivery of financial services at BC outlets by way of enhancing overdraft limit in settlement accounts, providing financial support to BCs for meeting cost towards hygiene, transportation, insurance cover and also regularly educating BCs on the precautionary guidelines.

Appendix

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[i] The National Strategy for Financial Inclusion:2019-24

[ii]Eliminating extreme poverty; Reducing hunger and promoting food security; achieving good health and well-being, promoting gender equality; promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work; building resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation; reduce income inequality within and among countries. See https://www.un.org/sustainabledevelopment/sustainable-development-goals/

[iii] https://niti.gov.in/planningcommission.gov.in/docs/reports/genrep/rep_hilldev1202.pdf

[iv] Recognised under 8th Schedule of the Constitution of India

[v] Census of India 2011 Population Projections For India And States 2011 – 2036

[vi]Committee on Financial Inclusion - Chairman: Dr C Rangarajan, RBI, 2008

[vii] Speech by Dr. Raghuram Rajan, Governor, Reserve Bank of India, on July 18, 2016

[viii]https://www.bis.org/ifc/publ/ifcb38.pdf

[ix] Remarks by Dr K C Chakrabarty, Deputy Governor of the Reserve Bank of India, in a panel discussion on "Financial literacy and consumer protection", Washington DC, 22 April 2012.

[x]A **'Banking Outlet'** for a Domestic Scheduled Commercial Bank (DSCB), a Small Finance Bank (SFB) and a Payment Bank (PB) is a fixed point service delivery unit, manned by either bank's staff or its Business Correspondent where services of acceptance of deposits, encashment of cheques/ cash withdrawal or lending of money are provided for a minimum of 4 hours per day for at least five days a week.

[xi]An **'Unbanked Rural Centre' (URC)** is a rural (Tier 5 and 6) centre that does not have a CBS-enabled 'Banking Outlet' of a Scheduled Commercial Bank, a Small Finance Bank, a Payment Bank or a Regional Rural Bank nor a branch of Local Area Bank or licensed Co-operative Bank for carrying out customer based banking transactions.

[xii] w.e.f December 2020

[xiii] DBT entitlements under various state sponsored schemes starts directly flowing into the bank accounts of individuals under DBT mode. It can act as a catalyst to encourage saving habit leading to build up of investment and seed capital for availing productive credit.

[xiv]MDR is a fee charged from a merchant by a bank for accepting payments from customers through credit and debit cards in their establishments and compensates the card issuing bank, the lender which puts the PoS terminal and payment gateways for their services.

[xv] Due to consolidation of banks, particularly of RRBs (82 in 2010 to 43 in 2020), rural branches as percentage of total branches have marginally declined over the years.

[xvi] As on November 4,2020

[xvii] It includes total of PSB, PvSB and Foreign Bank (Total in the chart also includes only PSB,PvSB & Foreign Banks)

[xviii]PSL is based on Adjusted Net Bank Credit (ANBC) of the Banks or the Credit Equivalent Amount of Off Balance Sheet Exposure, whichever is higher.

[xix] Only includes camps conducted by FLCs

2020

Annex-8

Financial Inclusion in the Maldives

MALDIVES MONETARY AUTHORITY

Country Paper

Maldives

Financial Inclusion in the Maldives

Maldives Monetary Authority

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Contents

Executive Summary

Financial inclusion has moved from the peripherals to the key priority in the policy arena to attain inclusive growth and sustainable development in the Maldives. To this effect, Maldives has gained remarkable progress in providing access to finance for the population at large. However, financial inclusion being a multifaceted concept that seeks beyond only financial access, dimensions such as financial affordability, quality, efficiency are of utmost importance for enhancing financial inclusion.Hence, the Maldives seeks policy reform in order to achieve the desired objectives of to achieve sustainable financial inclusion and inclusive growth. Hence, to facilitate this, Maldives Monetary Authority (MMA) is working on formulating the first National Financial Inclusion Strategy that will unify its efforts in promoting the desired financial inclusion in the Maldives.

Despite many favorable conditions and remarkable progress, the Maldives is challenged with unique obstacles in promoting effective financial inclusion policies. The geographical distribution, demographic challenges and lack of institutional frameworks, acts as one of the key barriers in advancing financial inclusion. Similarly, with the recent Covid-19 pandemic and the economic downturn, the challenges towards achieving these goals become greater.

This paper analyses the major trends, regulatory frameworks, key policy initiatives and approaches adopted in enhancing financial inclusion in the Maldives.

Overview of financial inclusion in Maldives

Maldives has a population of around 557,426 people dispersed across 188 islands. The country has been a development success; enjoying robust growth coupled with considerable development of the country's infrastructure and connectivity. It has also provided high quality and affordable public services for the people, resulting in impressive health and education indicators with a literacy rate approaching 100%, and life expectancy of over 77 years.

The Maldivian financial sector however, is in the nascent stage of development with only limited financial products available for the growing Maldivian population. The financial sector is dominated by the commercial banking sector. Presently, there are 8 commercial banks in the Maldives, of which 4 are locally incorporated. The rest of the financial sector is comprised of 5 insurance companies, 8 insurance brokers and 43 agents, 3 Other Financial Institutions (OFIs) which cater to the development of Small and Medium Enterprises (SME), leasing and housing finance markets and the stock exchange.

As of 2019, there are 57 bank branches and 149 Automatic Teller Machine (ATMs) across the Maldives and 8,752 Point of Sales (POS) terminals to cater for a population of 557,426 Maldivians. More than 30 percent of these bank branches and over 50 percent of the ATM and POS infrastructure is based in the greater Male' region. The rest of the infrastructure is distributed across the 188 inhabited islands throughout the country.

The penetration of the formal banking sector is relatively high. According to the recent Findex 2018 survey, 80 percent of the Maldivian adult population have access to finance by means of bank accounts. A single bank dominates the industry with more than 70 percent of these deposit account holdings. The lack of an ideal level of competition and the shallowness of financial markets are challenges to the development of both the financial sector and the payments ecosystem of the country.

Challenges for financial inclusion

The population of the Maldives is scattered across 188 islands, which are geographically dispersed across 20 atolls. One-third of the population resides in the Greater Male' region (capital city region). Most of the other islands have small resident population, with about 25 percent of the inhabitedislands having less than 500 people residing on a permanent basis, hence making it expensive in providing adequate financial services for the population. It is also observed that the level of participation in the financial sector is low in the outer atolls, particularly among women, those working in the primary sector industries of fisheries and agriculture and those operating sole proprietorships and SMEs.

Affordability of financial services is also a critical challenge faced by Maldivians. This is mainly due to lackof economies of scale, institutional and legislative impediments. This, along with high costs of borrowing, denies access to credit for the vulnerable segments of the population, disproportionately so in the outer atolls. Apart from affordability, The Findex Survey conducted in the Maldives in 2018 highlights that 1 in 5 adults are unbanked and the key reasons for their exclusionare insufficient funds, social exclusion (family members having a bank account) religious concerns along with others (refer annex 1). Despite voluntary financial exclusion, the cost of finance, family and social dynamics plays a key role in their choiceof being unbanked (World Bank, 2019).

Lack of comprehensive financial consumer protection framework is also a key challenge faced by consumers. The lack of speedy and reliable dispute resolution mechanisms hinders the progress of financial inclusion in the country.

Financial literacy and familiarity with financial services and products is low in the Maldives, especially in rural areas and especially among older individuals. This results in low uptake and usage of financial services. In addition, lack of digital literacy also hinders the usage of available digital or electronic financial services by some segments of the population. Similarly, financial consumer protection is an area of concern.

Like many developing countries, the Maldives too is challenged with reliable data to assess and monitor the level of financial inclusion. Hence, in the absence of accurate supply and demand side data, policy makers are challenged with formulating realistic policies to enhance financial inclusion in Maldives.

Regulatory Developments enhancing financial inclusion

The Maldives Monetary Authority (MMA), the central bank of Maldives, Ministry of Economic Development (MED) and the Capital Market Development Authority (CMDA) are the key policy making institutions that are actively engaged in promoting financial inclusion in Maldives.

In this regard, there are significant developments that has been brought to the regulatory area in the past few years. One of the key notable developments made is the passing of SME Act in 2013 with the aim of providing financial support to SMEs funded through the national budget. This Act allows, Government to allocate MVR 50 million (USD 3.24) for SMEs each year and also, the formulation of the SME Council mandated with the responsibility of development of SME sector development goals and providing overall coordination and monitoring of SME related projects and policies. The Act also mandates the formation of Credit Guarantee Schemewhich allows SMEs to obtain much needed funds without collateral. This scheme is presently housed in MMA.

Recent amendments proposed to the MMA Act, will allow the Authority to carry out financial development projects and also can mandate the financial institutions regulated by MMA to participate in these initiatives that will facilitate financial inclusion in the Maldives. Similarly, the CMDA Act incorporatesthe mandate to develop and increase public awareness on all matters relates to the capital market activities.

MMA has also submitted the Payment System Act to the parliament that will enable the Authority to licenseregulate, and oversee the National Payment System. Hence, enhancing digital finance and financial inclusion in the Maldives.

This Act also intends to facilitate a conducive environment for the payment service providers. As such, MMA aims to introduce an activity-based licensing system as opposed to a universal license/permit. Hence, both well established and smaller new entrants will be brought under the regulatory regime of MMA without much regulatory burden. In line with this, MMA will set out guidelines and requirements proportionate to the financial and other resource capabilities of potential applicants, under this Act.

Measuring the Level of Financial Inclusion and progress

To measure the growth and progress of financial inclusion, key focus is given to assess the access, usage, and efficiency of financial services in the Maldives. However MMA is challenged with timely and reliable disaggregated data to present a comprehensive view. Nonetheless, most common proxy and common indicators to measure financial inclusion are considered (see table 1, below)

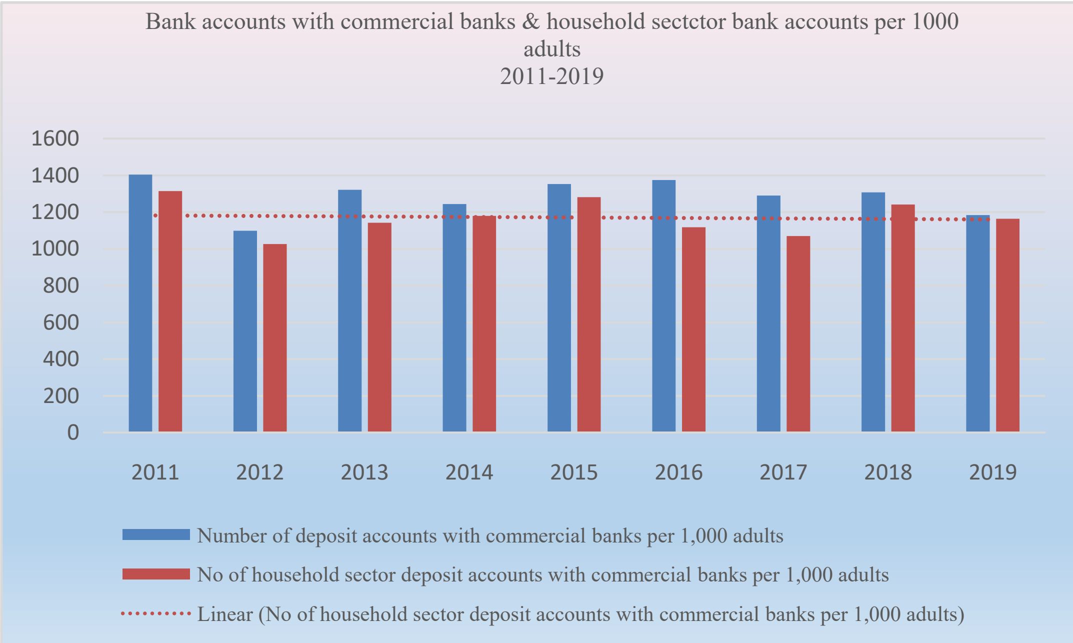
Table 1

Key financial Inclusion Indicators for Maldives	2014	2015	2016	2017	2018	2019
Number of ATMs per 100,000 adults	22.92	23.16	25.47	29.61	31.81	35.27
Number of commercial bank branches per 100,000 adults	10.28	10.04	11.94	13.16	13.11	13.87
Number of deposit accounts with commercial banks per 1,000 adults	1,244.06	1,352.82	1,374.52	1,290.09	1,307.13	1,183.47
Number of household sector deposit accounts with commercial banks per 1,000 adults	1,179.51	1,281.75	1,118.09	1,069.86	1,240.97	1,164.07
Number of loan accounts with commercial banks per 1,000 adults	127.89	149.83	143.75	161.99	161.91	166.10
Number of household sector loan accounts with commercial banks per 1,000 adults	122.55	146.19	138.55	156.85	157.37	160.07
Mobile money transactions: number per 1,000 adults					240.49	564.78
Mobile and internet banking transactions: number (during the reference year) per 1,000 adults					22,803.83	38,478.52
Mobile and internet banking transactions: value (during the reference year) (% of GDP)					841.50	841.80
Number of credit cards per 1,000 adults				58.14	65.21	74.07
Number of debit cards per 1,000 adults				970.27	1,046.89	1,038.37
Outstanding deposits with commercial banks (% of GDP)	43.16	43.63	41.20	39.55	36.00	37.05
Outstanding deposits of household sector with commercial banks (% of GDP)	20.26	20.64	18.78	18.59	17.73	18.32
Outstanding loans from commercial banks (% of GDP)	28.71	27.94	28.85	30.24	29.57	29.45
Outstanding loans from commercial banks to household sector (% of GDP)	7.89	7.91	9.36	11.19	11.74	12.13

Source: MMA, FSA 2019

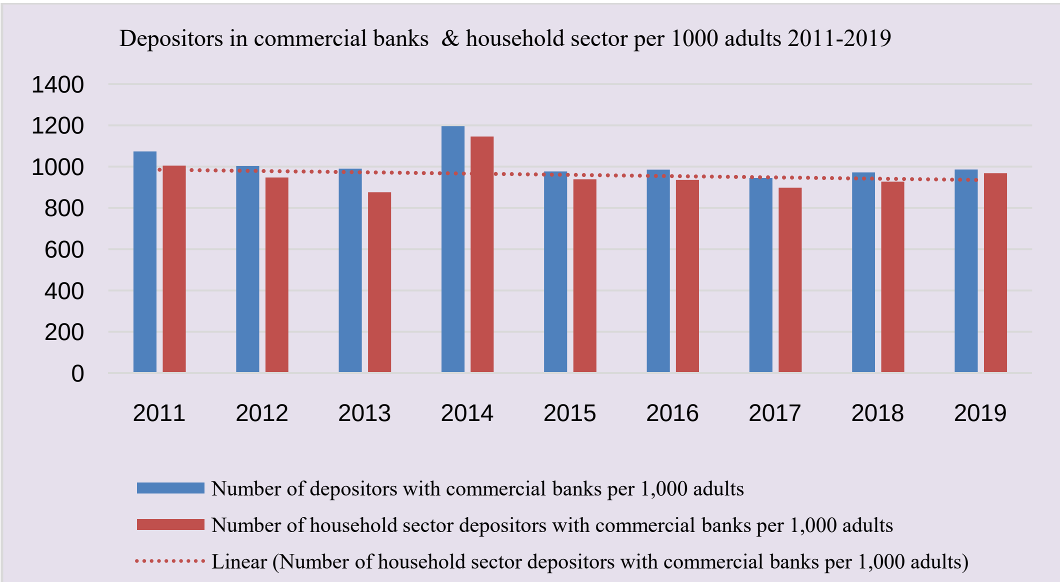
Bank Account Penetration and access to finance

Figure 1



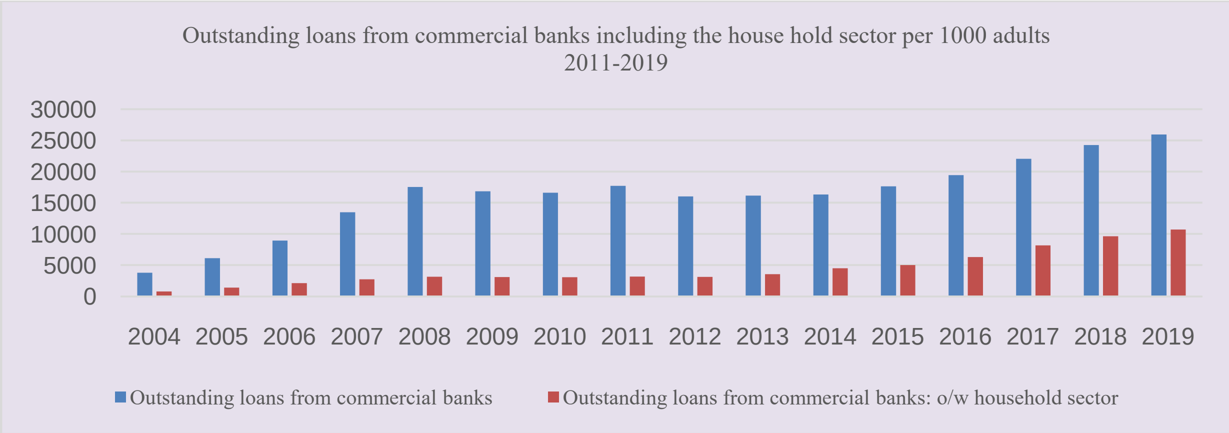
Source: MMA, FAS 2019

Figure 2



Source: MMA, FAS 2019

Figure 3



Source: MMA, FAS 2019

The penetration of the formal banking sector is relatively high with a total 503,261 deposit accounts which represents 495,012 individual accounts. Similarly, in 2019 and there are 419,345 depositors at the commercial banks of which 411,873 are individual depositors.

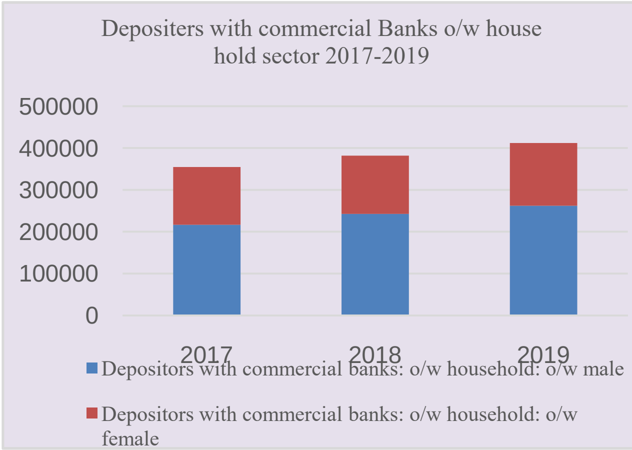
The Maldives has achieved remarkable progress in achieving access to bank accounts (figure 1&2) and financial facilities for individuals (figure 3). The number of bank accounts per 1000 adult population has shown positive growth over the past 10 years. The growth has been steady since 2011 and has seen a trend with more fluctuations since 2015. In 2018, there has been a sudden increase in bank accounts per 1000 adults by 2 percent. Key reason for this change is the new Employment Agency Regulation issued by Ministry of Economic Development that mandated all expatriate employees' salaries to be deposited to a bank account by July 2018. In 2019 the total number of bank accounts per 1000 adults stood at 1184, slightly lower than the previous year.

However, this measure of considering the number of bank accounts per 1000 adults, has its limitations, as this figure consists of multiplesavings accounts in multiple banks for the given individual. The current numbers from different sources, as well as the trend from counts for previous years in IMF statistics all, however, indicate approximately a total of 600,000 bank accounts, which is greater than the Maldivian population. Hence, this measure has to be observed with caution.

The use of credit in the household sector also observes a similar pattern. As shown in figure3. The supply of credit facilities to the individuals has increased by 19 percent in 2019 as the number of household sector loan accounts with commercial banks per 1,000 adults increased from 136 to 160 between 2011 and 2019. The credit facilities from commercial banks to individuals, represents 41 percent of their loan portfolio in 2019 and this is an increase of 238 percent from 2011. It is to be noted that majority of the individual loans are sanctioned towards the highly collateralized housing finance.

Gender disparity in access to finance – commercial banks

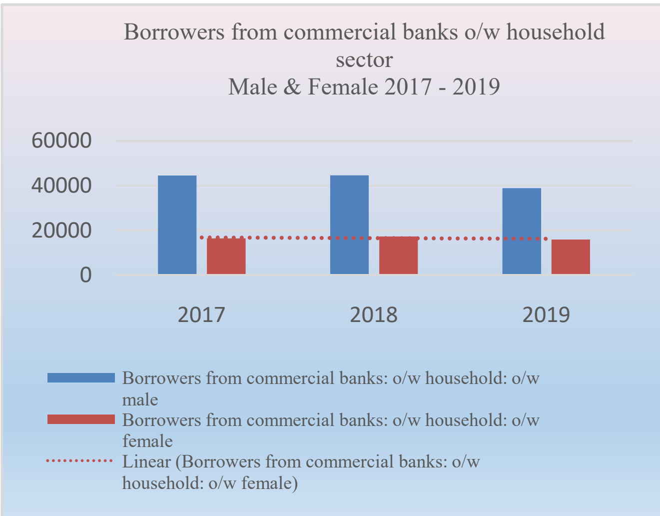
Figure 4



Source: MMA, FAS 2019

Despite the high penetration levels, Maldives too, observes a gender gapand disparity in the use of financial services between men and women as shown in figure 4 and 5. The account ownership and usage of financial services inequalities between men and women are significant despite the non-discriminatory laws in the financial sector. The FAS data 2019, suggests, in the Maldives, less than 30 percent of borrowers at commercial banks are women.

Figure 5



Source: MMA, FAS 2019

In the Maldives 85 percent of men have a bank account and only 75 percent of women do, leaving with an income gap of 11 percentage points (World Bank, 2019). Similarly, women using financial services observes a stagnant growth pattern over the past three years. By the end of 2019,there were 149,841 female depositors at theCommercial banks representing approximately 36 percent of the household depositors.

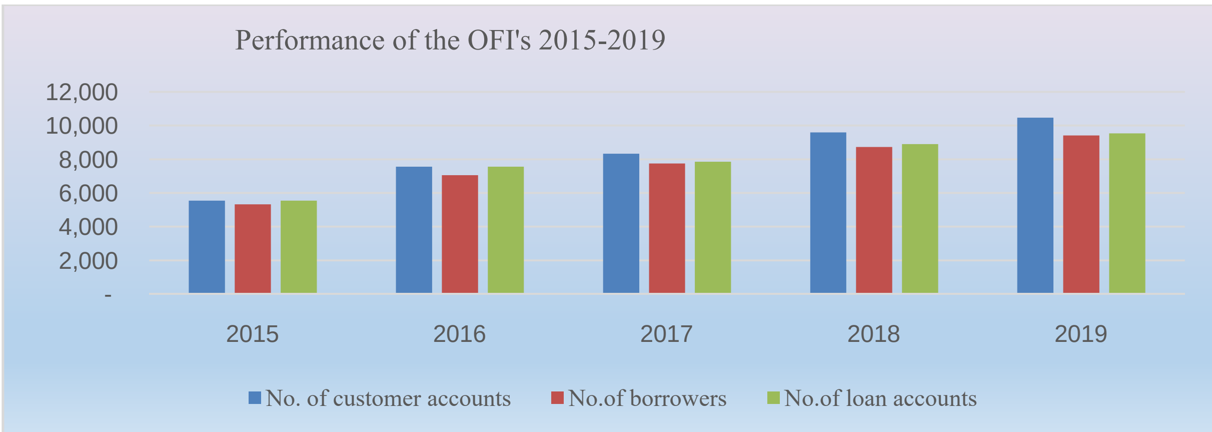
Similar pattern is also observed in household borrowers from commercial banks. The growth rate of female borrower's remains slow. By the end of 2019 there were 38,844 male borrowers while there were only 15,909 female borrowers from commercial banks. Even though there may be ample reasons for this significant gap, lack of financial literacy and other demographical challenges could be hindering the progress of female financial inclusion.

Other Financial Institutions and access to finance

The financial services offered by Other Financial Institutions (OFIs) has also shown progress in terms of the quality and access. During the periods 2015-2019 total number of customers accessing credit from OFIs has increased (figure 6) especially in terms of number of customers and its outstanding loans. The total number of customer accounts has increased by 47 percent from 2015 to 2019. Similarly, the total outstanding loans has seen tremendous growth. The total outstanding loans of the OFIs stood at MVR 2,324(USD 150.7) million in 2019. As compared to 2015, the total outstanding loans has increased by 86 percent as at the end of 2019 and the trend continues

The OFIs in the Maldives comprise of an SME bank, housing finance and a leasing company. There are several government funded credit schemes offered to SMEs through state owned banks at concessional terms. While there is a lack of disaggregated official data to quantify the scale of SME finance in Maldives to gauge the absolute demand and supply within the sector.

Figure 6

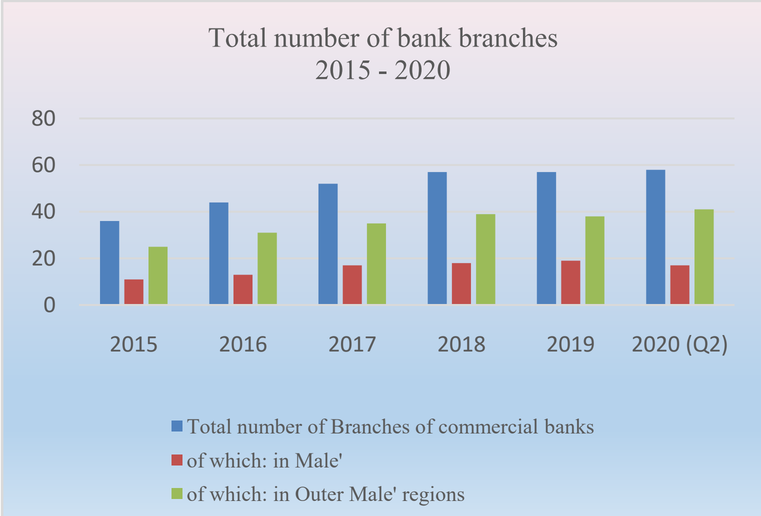


Source: MMA, FAS 2019

Financial Services Outreach

The Maldives and its geographical dispersal poses multitudinous challenges for financial inclusion. Government along with relevant authorities have been trying to circumvent this challenge over the years and it is fair to say that remarkable progress has been made. Like in many other countries in this region, the state-owned bank play a key role in expanding financial services to all inhabited islands in the Maldives. As shown in the figure 7, the presence of banks in the outer Male' area has been increasing steadily over the years. By the end of 2020, second quarter, there were 58 bank branches of which 17 branches were located in Male' with the remaining 41 branches located in the outer Male' regions.

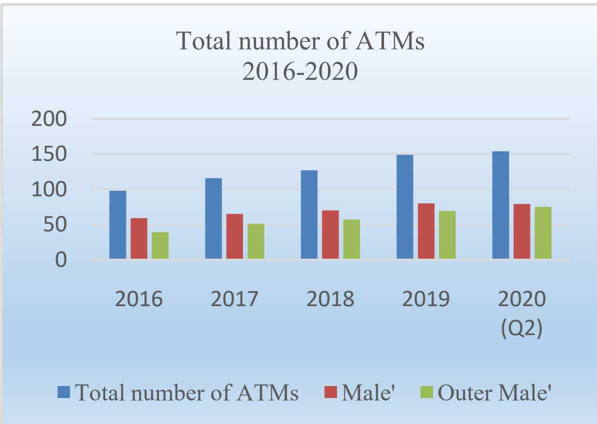
Figure 7



Source: MMA, FSA 2019

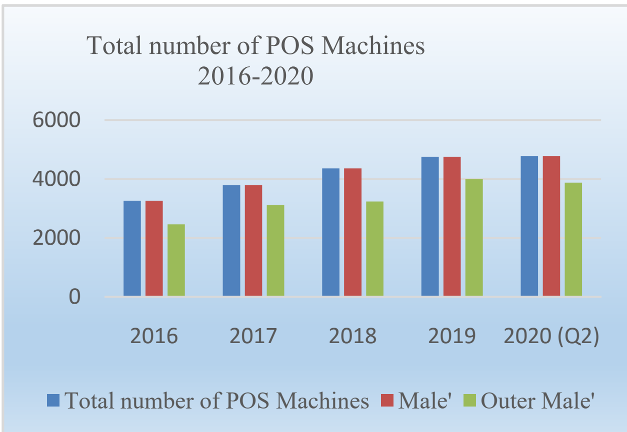
A similar trend is observed in terms of geographic penetration of the banking service in Maldives.

Figure 9



Source: MMA, FAS 2019

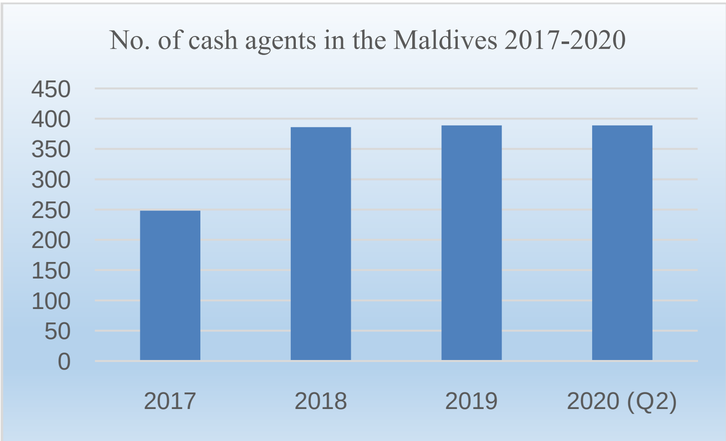
Figure 8



Source: MMA, FAS 2019

The expansion of digital financial services across the country is another key development initiative by the financial institutions. As shown in the above chart (figure 8&9), number of ATMs and POS machines in Male' and outer Male' regions has been increasing and the gap that existed between the regions has narrowed down over the years. This is considered a positive sign as the establishment of these services contribute to achieving the goal of inclusive financial services across the Maldives.

Figure 10



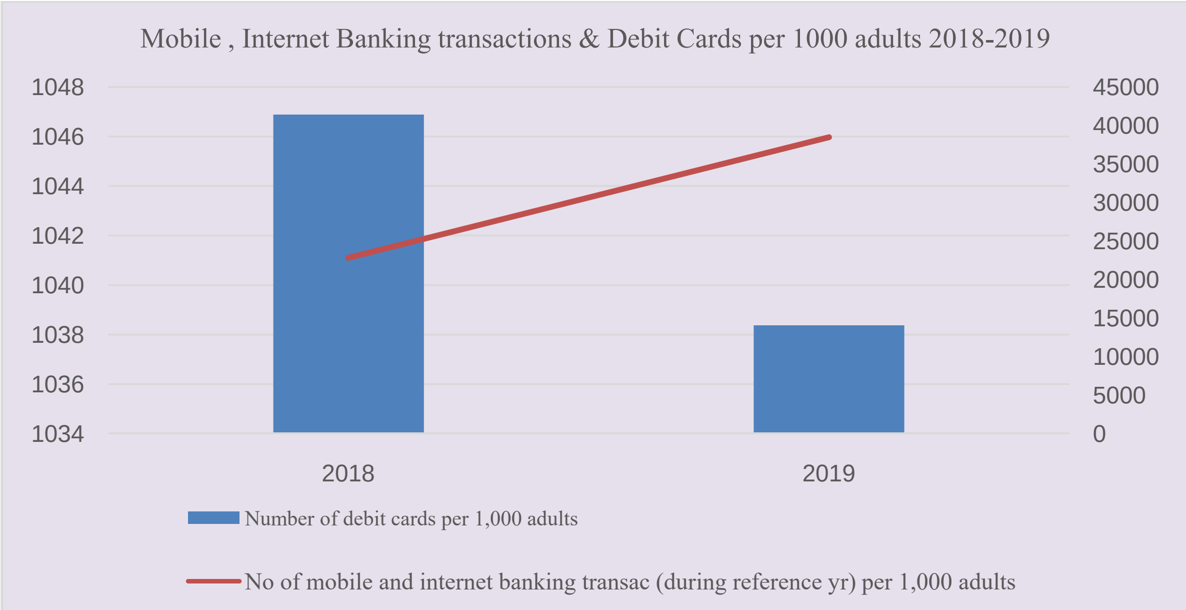
Source: MMA, FSA 2019

The banks provide their services outside the capital city via their agent networks in atolls.As shown in the below chart (figure 10), the count of the commercial banks cash agents had increased to 389 by second quarter of 2020. For instance, Bank of Maldives (BML) with the largest agent banking fleet, provides this service to almost all inhabited islands in the Maldives. BML cash agent service provides basic banking services to all inhabited islands using debit cards to withdraw cash through BML's POS terminals, which allow residents to withdraw up to MVR 2000a day along with depositservices.

The bankalso provides banking services especially to smaller islands via boats ("Dhoni banking") that visit each island once amonth. This again is a massive contribution by the state-owned bank in establishing their presence in the outer atolls ultimately leading to enhanced financial inclusion.

Mobile and Digital Banking Services

Figure 11



Source: MMA, FAS 2019

Throughout the financial sector, there is a widespread technological disruption over the past few years. Concepts such as digital banking are slowly becoming the norm, with service delivery over internet, mobile applications and other digital means threatening to make the more traditional methods of over-the-counter service delivery obsolete. The Maldives also has one of the highest mobile and internet penetration in South Asia. In 2019, the total mobile connections totaled up to 839,528 (CAM, 2019) users, representing approximately 166% of the total population. The nation-wide telecommunications network has made internet banking and mobile payments applications accessible throughout the country.

MMA has licensed Ooredoo Maldives Plc. and Dhiraagu Plc. to provide Mobile Payment Services in the Maldives. The telecom service provider's service allows customers to register for "Mobile Wallet" to deposit, pay and send money in the Maldives through mobile phones. Bank of Maldives Plc., also provides mobile payment service through the BML Mobile Pay, a mobile application.

There are multiple mobile money agents throughout the country. In 2019, mobile payment service providers expanded their distribution networks to a total of over 700 agents and merchants, covering more than 50% of all inhabited islands. Mobile money services are now available in over 70 islands that do not have a bank branch or automated teller machine (ATM), thus enhancing the access to financial services. In year 2019, the use of payments via mobile wallets has also shown significant growth compared to 2018, in terms of both value and volume of transactions conducted (MMA, 2019). This was mainly due to the payment service providers' effort to enhance their distribution network by acquiring agents, merchants and partners. To this end, there were 94 mobile money agents active per 1000 adults by 2019. This is an increase of 72% from the previous year. Similarly, it is also observed that number of mobile and internet banking transaction has increased significantly in the Maldives. Mobile & Internet transactions per 1000 adults has increased by 69 percent in 2019 (figure 11).

The most common paymentmodes used by Maldivians are though debit cards, credit cards, internet banking and through mobile phones. Majority of these payments are receipts of wages, government payments, domestic remittances made to an account and also retail transactions made through mobile phones and internet. In terms of domestic remittances majority of the transactions carried out were for online shopping (World Bank, 2019).

Financial inclusion initiatives

National Financial Inclusion Strategy

Although there are no formal strategies in place to promote national financial inclusion in the Maldives, there are several initiatives undertaken by government authorities together with financial institutions to promote financial inclusion across the country (see annex 3). To this end, as the guardian of the financial sector, MMA has taken the initiative to formulate a National Financial Inclusion Strategy in collaboration with the relevant stakeholders. This strategy is aimed to formulate sustainable strategies with national realistic measureable targets to facilitate coordinated financial inclusion in the Maldives. The formulation of this strategy is considered a priority in MMA's strategic plan (2018 – 2022).

Key priority areas are access to finance, consumer protection, financial literacy, fostering digital payments and SME development. This strategy is also aimed to facilitate the formulation of a national financial education and literacy strategy for the Maldives. One of the proposals is to incorporate financial education in school curriculum to achieve sustainable financial literacy goals.

National Payment System Development Project

MMA has also initiated a national payment system development project in 2018 with the aim of transforming the payments landscape of the Maldives and increase access to financial services by promoting electronic payments. The primary objective of the project is to ensure that users will be able to make and receive payments instantly irrespective of the island they live on or where they bank. This project will also facilitate the implementation of an Instant Payment System for the Maldivians facilitating innovative, convenient and affordable access to digital financial services. One of the most important components of the project also includes implementation of a Digital Bank which will act as a supporting infrastructure for the existing banks and potential payment service providers to enhance the access to digital payment services and accelerate financial inclusion

The project aims to increase financial inclusion and build a less, cash dependent economy through an innovative and inclusive payments infrastructure. The core of the infrastructure will comprise of an account-based, real-time payments system with the functionality of smart addressing. All banks in the Maldives will be directly linked to the system. It will also be capable to support introduction of integrated solutions seamlessly combining the payment process and value-added services to provide convenient, packaged solutions. The project would establish a level playing field for the banks and other potential payment service providers which would promote electronic payment services as well as access to financial services across the country through digital solutions.

Access to Finance for SMEs

As in most developing economies, access to finance has been singled out as the most difficult challenges by SMEs in Maldives as well, and thereby being largely financially excluded. The barrier in accessing credit for the SME sector is mainly attributed to high collateral requirements and cost of credit. The financial sector lending is largely collateral (real estate) backed lending, which hinders micro businesses that do not hold required assets to put up for collateral. This is notwithstanding that poor financial management and book keeping skills, lack of awareness of importance of credit history and limited use or difficulty in access to banking services for business operations (in outer regions) have hindered this sector from accessing credit from financial institutions.

Over the years, state interventions to alleviate this barrier, in the form of concessional loan schemes were the only accessible formal credit for the sector. In addition, limited SME focused financial products are offered by commercial banks as well leasing companies. The data on the uptake of the credit portfolio by the SME sector has been difficult to segregate, as there is no requirement for financial institutions to ensure whether the business falls under the official definition of SME. As per SME Act, SMEs are defined based on annual turnover and number of employees, where number of employees takes precedence. Neither the financial institution nor the tax authority strictly follows this definition. At present, there is no official accurate registry of number of registered active SMEs, further impeding clear picture the level of financial exclusion or the gap in the demand and supply side of the SME credit requirements.

SME Credit Guarantee Scheme

One of the initiatives to address the hindrance of access to finance for the SME sector is the establishment of SME Credit Guarantee Scheme by MMA in 2016. As part of broader objective of financial inclusion, the scheme was introduced to facilitate guaranteed loans to SMEs that do not have the capacity to offer adequate collateral to secure credit. With initial funding support from Government and subsequent fund injection from MMA, loans are issued with a guarantee cover of 90% of the principal loan amount. In order to facilitate better outreach, the scheme is offered by all retail banks/branches in the country. As at end of June 2020, 85 businesses have secured loans under the scheme. 78% of loans were availed by businesses established in outer regions of the country. 17% of loans were secured for women owned businesses.

SME Development Finance Corporation Ltd

The establishment of the SME Development Finance Corporation Ltd (SFDC) in 2019 has been a stepping-stone for the development and overall sustainability of the SME sector. SDFC, owned by the Government of Maldives with shares of 3 City Councils, was established as a specialized financial institution providing financial products and ancillary services to SMEs and entrepreneurial start-ups with the primary purpose of easing access to finance for SMEs. The specialized financial institution offers varied financing packages to identified priority economic sectors. The cost of finance charged is also seen to be considerably lower than commercial banks. As at end of June 2020, 231 businesses have availed financing facilities from SDFC.

Credit Information Bureau and Secured Transaction Registry

MMA has also established a Credit Information Bureau (CIB) in 2008 with the aim reducing transaction costs within the financial service provides and enhance financial inclusion in the Maldives.

Housed within MMA, the CIB provides a national Credit Information Registry that will aid the financial sector in making more informed credit decisions. The Credit Information Registry facilitates cash-flow based lending to borrowers that do not have collateral to offer, by helping them borrow using their credit history as reputational collateral, thus facilitating more access to finance for individuals as well as SMEs. By 2019, there a 93,874 individual customers with credit facilities and 2,644 commercial companies with credit facilities registered in the system.

To reduce dependence on real estate and expand the use of movable assets as collateral, establishment of an online and publicly accessible SecuredTransaction Registry (STR), along with a regulatory framework is also an initiative that is in progress in MMA, to better facilitate access to finance.

Housing finance

Long term mortgage financing is offered by most of the commercial banks in the country, in addition to the specialized financial institution (Housing Development Finance Corporation Plc) to cater to the demand of housing market. Nevertheless, the minimum equity requirement is considered high for the low to middle income earners. The lack of saving culture or the absence of saving instruments coupled with high cost of financing has rendered lower middle to income segment of the population as unfavorable pool to avail housing finance.

Collateralizing Pension Savings for Housing

To tackle the issue of meeting equity requirement for mortgage financing, the Pension Act was reformed in 2016 to allow for collateralization of pension savings.

Pursuant to the 3rd Amendment of Pension Act, members enrolled in retirement pension scheme were given the opportunity to collateralize pension savings towards the down payment of housing purchases. This scheme is administered in collaboration with mortgage finance providers. Under this scheme, members will be able to utilize the accumulated pension savings towards paying the down payment for home purchases. In 2019, funds were collateralized for 50 members.

Affordable Housing Loan Scheme

The Affordable Housing Loan Scheme regulation in 2017 mandated commercial banks to set aside 10% of their total lending portfolio to affordable housing loans at a significantly lower interest rate than the prevailing commercial mortgage rate. The scheme was introduced for those that are unable to secure loan from commercial banks for home ownership. The eligible criteria also define that borrower applying for the scheme, to be a first time homeowner and that property acquired to be used for personal dwelling.

The equity for loans issued under Phase I of the scheme (targeted for specific housing project) was guaranteed by MMA, allowing borrowers that do not have sufficient savings to secure loans for home ownership. Phase II of the scheme was opened for purchase of any non-luxury apartment/flat within a specified price range. The equity component was not guaranteed, hence borrowers have to put up equity from their personal saving or collateralize savings in pension fund. The scheme have essentially targeted the upper income segment, and with limited success. During the three-year tenor of the scheme, 138 housing loans were issued under the scheme

Policy Recommendations &Way Forward

1. At present, there is no formal unified National plan or strategy to promote financial inclusion across the Maldives. Over the past few years relevant government authorities and respective regulators have been carrying out development programs facilitating financial inclusion. Despite the multitudinous initiatives, desirable measurable financial inclusion goals have not yet been achieved. Similarly, as financial inclusion evolved from measuring financial access, a comprehensive national strategy with measurable goals are needed. Therefore in order to sustainably achieve financial inclusion objectives, the process of formulating the NFI strategy should be hastened.

2. As highlighted above, a reliable financial consumer protection framework is a key enabler for financial inclusion. It is recommended for the policy makers to addressimplement a comprehensive financial consumer protection framework in the Maldives. Hence, developing relevant regulations and establishing an independent dispute resolution mechanism for financial consumers is crucial, especially when promoting digital financial services. The regulatory frameworkshall allow, consumers have more insight and knowledge to take informed decisions as well as binding on the financial institutions; and operate in accordance with effective, transparent, and accountable procedures. Similarly this regulatory framework shall facilitate an avenue to foster a shared understanding of good practices and cost effective tools amongst financial service providers and regulators to promote financial inclusion policies at a national level.

3. Financial education policies have also been recognized as a tool to promote financial inclusion and inclusive growth. The more momentum it gains, the more impact it has on both the financial inclusion of the population and the stability of the financial system. In this regard, regulators and respective policy makers should seek effective ways in promoting and facilitating targetedfinancial education and literacy in the Maldives. To this effect, conducting a diagnostic study to assess the level of financial knowledge of the Maldivian society is of utmost importance.

Policy makers should also find effective strategies to bring in key regulatory changes to encourage this through the financial service providers. Similarly, special literacy initiatives are to be conducted to foster digital financial literacy in the Maldives. Furthermore, for sustainable financial education and literacy strategy, establishing a framework to incorporate financial education in school core curriculum is a key policy recommendation as it will reinforce MMA's continued effort to enhance the level of financial literacy in the Maldives.

4. Despite the absence of discriminatory laws, a significant gender gap prevails in the country. This warrants the need for policymakers to revisit the existing regulatory frameworks to eliminate the gender gap in financial inclusion and promote a more gender sensitive and inclusive policies in the country

5. To measure the level and progress of financial inclusion in the Maldives, reliable data are of utmost need. In this regards, it is recommended that regulatory bodies formulate comprehensive framework to collect, measure and disseminate financial inclusion data.

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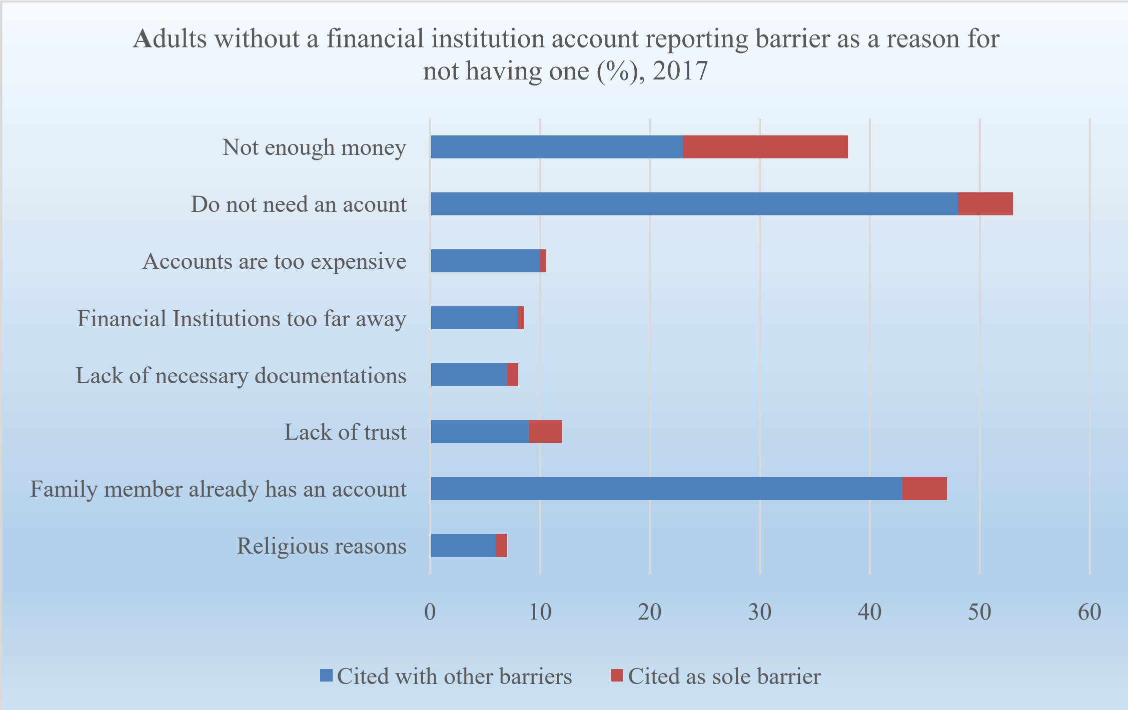
Key Financial Inclusion Indicators – Maldives (2011-2019)

Annex: 1

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Number of ATMs per 100,000 adults	16.31	19.04	19.86	22.92	23.16	25.47	29.61	31.81	35.27
Number of commercial bank branches per 100,000 adults	11.45	11.16	10.55	10.28	10.04	11.94	13.16	13.11	13.87
Number of deposit accounts with commercial banks per 1,000 adults	1,403.78	1,098.33	1,321.10	1,244.06	1,352.82	1,374.52	1,290.09	1,307.13	1,183.47
No of household sector deposit accounts with commercial banks per 1,000 adult	1,314.90	1,026.41	1,141.68	1,179.51	1,281.75	1,118.09	1,069.86	1,240.98	1,164.07
No of men-owned deposit acc of hh sector with commercial banks per 1,000 male adult					1,182.90	1,257.22	894.61	959.94	1,133.73
No of women-owned deposit acc of hh sector with commercial banks per 1,000 female adult					957	1,045.61	1,007.09	1,782.67	1,221.09
Depositors with commercial banks	309,306	305,635	319,033	407,158	350,063	371,181	373,341	400,148	419,345
Depositors with commercial banks: o/w household sector	289,466	288,543	282,307	389,981	336,427	352,650	354,618	381,893	411,873
Depositors with commercial banks: o/w household: o/w male					195,377	222,872	216,677	242,689	262,032
Depositors with commercial banks: o/w household: o/w female					106,868	117,811	138,116	139,030	149,841
Number of depositors with commercial banks per 1,000 adults	1,073.62	1,003.33	990.05	1,196.39	976.76	984.92	944.78	971.72	986.13
Number of household sector depositors with commercial banks per 1,000 adults	1,004.75	947.22	876.08	1,145.92	938.71	935.75	897.40	927.39	968.56
No of male depositors of hh sector with commercial banks per 1,000 male adults					881.10	935.89	850.66	899.77	931.56
No of female depositors of hh sector with commercial banks per 1,000 female adult					782.04	848.70	981.86	976.42	1038.94
Number of borrowers from commercial banks per 1,000 adults	135.81	131.13	103.04	115.79	115.76	129.92	147.72	145.29	134.60
Number of household sector borrowers from commercial banks per 1,000 adults	133.27	128.83	100.74	113.05	112.81	129.70	145.23	143.38	128.76
No of male borrowers of hh sector with commercial banks per 1,000 male adults				131.60	144.71	150.54	174.70	165.35	138.10
No of female borrowers of hh sector with commercial banks per 1,000 female adult				78.02	90.17	100.05	116.90	121.20	110.31
Number of loan accounts with commercial banks per 1,000 adults	139.19	135.43	108.63	127.89	149.83	143.75	161.99	161.91	166.10
No of household sector loan accounts with commercial banks per 1,000 adults	135.59	131.50	104.91	122.55	146.19	138.55	156.85	157.37	160.07
Mobile money transactions: number per 1,000 adults								240.49	564.78
Mobile and internet banking transactions: number (during the reference year) per 1,000 adults								22803.83	38478.52
Number of credit cards per 1,000 adults							58.14	65.21	74.07
Number of debit cards per 1,000 adults							970.27	1046.89	1038.37
Mobile and internet banking transactions: value (during the reference year) (% of GDP)								841.50	841.80
Outstanding loans from commercial banks	17,701.71	16,022.21	16,147.99	16,323.78	17,642.04	19,419.33	22,039.61	24,248.66	25,949.22
Outstanding loans from commercial banks: o/w household sector	3,163.21	3,117.37	3,539.89	4,484.06	4,996.53	6,296.08	8,154.71	9,623.04	10,691.78
Outstanding loans from OFIs					1,252.41	1,544.22	1,758.11	2,076.42	2,323.86
Outstanding deposits with commercial banks (% of GDP)	42.77	40.46	41.39	43.16	43.63	41.20	39.55	36.00	37.05
Outstanding deposits of household sector with commercial banks (% of GDP)	18.19	19.20	19.43	20.26	20.64	18.78	18.59	17.73	18.32
Outstanding loans from commercial banks (% of GDP)	43.70	36.13	31.89	28.71	27.94	28.85	30.24	29.57	29.45
Outstanding loans from commercial banks to household sector (% of GDP)	7.81	7.03	6.99	7.89	7.91	9.36	11.19	11.74	12.13
Number of customer accounts (OFIs)	875	1,373	1,624	3,596	5,548	7,557	8,329	9,598	10,468
Number of Borrowers (OFIs)	875	1,352	1,606	3,511	5,326	7,058	7,748	8,733	9,411
Number of loan accounts (OFIs)	875	1,373	1,624	3,596	5,548	7,557	7,850	8,896	9,535
Number of life insurance policies per 1,000 adults		0.23	0.28	0.29	1.98	2.01	2.05	2.23	2.08
Non-life insurance policies per 1,000 adults		185.26	163.05	174.96	254.08	288.76	295.66	361.14	426.08

Annex: 2



Source: Findex 2018 Survey

Annex: 3

Government Programs conducted to facilitate financial inclusion

1980-2016

Year	*Programs*
1980s	*Start of Atoll Development Projects funded by UNDP*
1990	*Development of Banking Cells (DBC) established within BML. DBC was set as separate entity to undertake various projects with funding from IFAD and UNDP*
1990-1996	*Atoll Credit and Development Banking Project (ACDBP) funded by GOM*
1996-2006	- *Second phase of ACDBP was initiated as the Southern Atolls Development Project (SADP), funded by IFAD, OPEC, UNDP, UNICEF, GoM and BML- to create and expand income generation and employment opportunities* - *The ministry of Women Affairs and Social Security started its own microcredit schemes with providing loans to women to establish microenterprises and self-employment opportunity.* - *Other government ministries also started their own credit programs such as agriculture revolving fund (for agriculture, tailoring etc.), credit to fisheries sector (for boats and fish processing) and even atoll electrification project in the smaller islands.* - *Post tsunami, multi donor projects were implemented to assist in tsunami rehabilitation activities.*
2009-2016	*First loan scheme of MED targeting SME implemented through 2009 to 2010 with a total fund size of MVR 18.8 million. Introduction of SME Act to provide continuous financial support to SMEs. This mandated that the government allocate MVR 50 million from central budget each year for financing SMEs. In 2016, SME credit guarantee scheme was introduced with 90% guarantee for collateral free loans.*

Source: MMA and Ministry of Economic Development

Annex-9

Financial Inclusion in Nepal

A Country Paper

<u>Presented to</u>

A SAARCFINANCE Webinar

Organized by

Nepal Rastra Bank

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Abstract

Financial inclusion is an essential process of including people from all segments of society in formal financial activities. The inclusion is essential for attaining inclusive growth and for reducing poverty and inequality. Therefore, financial inclusion is an important policy priority in most of the developing economies. This country paper aims to overview conceptual framework of financial inclusion, analyzes performance and status of financial inclusion in Nepal, review some regulatory frameworks, guidelines and strategy with reference to Nepal. In Nepal, Government, Central Bank and Banks and Financial Institutions have a joint effort in promoting financial inclusion. As a result, the degree and direction of financial inclusion is in satisfactory trajectory. This paper also emphasizes promoting financial literacy programs, formulating Financial Consumer Act, introducing financial inclusion policy and strategy, launching digital financial services and enhancing role of informal institutions in financial inclusion. This paper also presents challenges and some policy recommendations.

A. Context of Financial Inclusion :

According to the latest World Bank Global Findex Survey, 69 percent of adults around the world have an account in 2017 up from 62 percent in 2014. But there is widespread inequality in account ownership. While 72 percent of men have an account, only 65 percent of women. Similarly, among richest 60 percent of households within economies, 74 percent have an account. But among those in the poorest 40 percent, only 61 percent have account. Globally, 1.7 billion adults remain unbanked and Virtually all these unbanked adults live in the developing world. In Nepal, 45 percent of population having age 15 or over have bank account, with 50 percent of male and 42 percent female having accounts. Among Poor 40 percent of population 38 percent have accounts such account is 50 percent among richest 60 percent of population. So, there is a widespread gap between rich and poor countries, between men and women and between rich and poor individuals. Financial inclusion is a way to bridge this gap.

Access to finance, capability of consuming available financial services and quality of financial services are main attributes of financial inclusion. Moreover, competitive cost of finance also plays vital role in increasing financial inclusion. Financial inclusion includes supply of necessary financial services, financial awareness and literacy of financial consumers and financial consumer protection. Achieving goal of inclusive growth is necessary for economic development and thereby achieving economic prosperity. Katoroogo (2016) argues that financial self-efficacy, financial literacy, social networks and the interaction of the personal and societal capabilities significantly contribute financial inclusion. Financial literacy is one of the sources of self-efficacy. Self-efficacy helps to increase confidence and ability to take appropriate financial decision making.

B. Defining Financial Inclusion :

According to World Bank, "Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way."

Katoroogo (2016) opines that financial inclusion is multi-dimensional concept that contains access, usage and quality of financial services like savings, credit, insurance and remittances. Moreover, Soriano (2017) defines financial inclusion as a access to finance, affordable better quality financial services to unbanked people for reducing poverty and thereby achieve economic development. Attributes of financial inclusion are access, consumption, cost, quality of financial services. Financial inclusion refers to a process that ensures the ease of access, availability and usage of the formal financial system for all members of an economy (Pant, 2016).

Mandira Sharma (2008) opines that financial inclusion is a process that ensures the ease of access, availability, and usage of the formal financial system for all members of an economy.

Shrestha (2020) points out that excluded section of a larger population is necessary to include in financial mainstream. Financial inclusion is termed as an integrated approach of access to financial services, competitive cost and quality of finance and capability of financial consumers in consuming financial services.

C. Nepal at a glance:

Nepal is a landlocked country in south Asia. Nepal lies between China to the north and India to the rest. Total land area of Nepal is 147516 Square kilometers. Geographically, Nepal is divided as Himal or high mountain, Pahad or hills and Terai or plains. Nepal boasts 8 of the largest mountains of the world, including highest mountain in the world, Mount Everest. Similarly, in a span of 150-kilometer, Nepal's geography reaches from 60 meter in the south to the 8848 meters in the north. Nepal is a diverse country in terms of language and religion. According to population census, there are 125 caste/ethnic group in Nepal and 123 languages are spoken as mother tongue. According to the population projection of Central bureau of Statistics, projected population of Nepal is 29.99 million in 2020. Out of which 14.55 million is male population while 15.44 is female population. Out of total population, population having age of 15-49 year is 54.93 percent. According to population census 2011, literacy rate among age 5 and above is 65.9 percent. More than half of the population lived in Terai belt (50.2). Urban population is 6615881 which is 22.6 percent of total population. Of total population, 18.7 percent are below poverty line. Poverty is a widespread in rural areas. According to National Planning Commission of Nepal, Nepal Multidimensional poverty index, 28.6 percent of Nepalese are multidimensionally poor, with 7 percent of the urban population and 33 percent of rural population being multidimensionally poor. Contribution of primary, secondary and tertiary sector in theeconomy is estimated to stand 27.6 percent, 14.6 percent and 57.8 percent respectivelyin 2018/19. Per capita national income in 2018/19 is $1,047. After the promulgation of constitution of Nepal, 2015 Nepal is divided between 7 provinces. Each province has provincial government and local bodies of elected representatives. “Out of the total GDP (at the producers' price) of Nepal Rs.3464.31 billion, contribution of Province no. 3 is estimated to stand the highest with 41.4 percent, and that of Karnali Province is estimated to stand at the lowest with 3.4 percent in FY 2018/19.” (Government of Nepal, Ministry of Finance, Economic Survey, 2018/19)

D. Status of Financial Inclusion in Nepal :

1. Presence of BFIs in Nepal

Province	A	B	C	D	Total	Population	Population per Branch
1	687	165	45	682	1579	4944070	3131
2	514	69	31	790	1404	6256166	4456
Bagmati	1553	275	92	608	2528	6437788	2547
Gandaki	555	179	29	525	1288	2519139	1956
Lumbini	657	262	36	917	1872	5098262	2723
Karnali	177	17	4	186	384	1809783	4713
Sudurpaschim	293	62	6	349	710	2931269	4129
Total	**4436**	**1029**	**243**	**4057**	**9765**	**29996478**	**3072**

2. Number of Bank and Financial Institutions in Nepal is 154 up to mid-July 2020. The number was 171 in the previous year.

3. Total branches of Banks and Financial Institutions in mid-July 2020 is 9765 up from 8686 in mid-July 2019.The number of bank branches tripled in the past 5 years. In mid-july 2015, there were 3838 bank branches.

4. Average Population served by a bank branch has reached 3072 in mid-July 2020 from 3363 in mid-July 2019. In mid-July 2015 such ratio was 7206.

5. Out of 753 local bodies 747 local bodies have at least one commercial bank branch.

6. Number of Deposit Accounts in mid-July 2020 was 3,24,54,204. The number was 3,11,00,000 in mid-July 2019. In mid-July 2015 the number was 1,49,34,618.

7. Number of Credit account in mid-July 2020 was 15, 44,059. The number was 14, 98,000 in mid-July 2019. In mid-July 2015 the number was 10, 00,000. Assuming Nepal's population as 29.6 million in mid July 2019, the percentage of population having at least a saving account was 60.9 percent. This shows 60.9 percent of populations have access to finance.

8. Total Deposit to GDP has reached 104.43 percent in mid-July 2020. In mid-July 2015 such ratio was 83.40 percent. Similarly, Total Credit to GDP has reached 86.89 percent in mid-July 2020 from 64.07 percent in mid-July 2015.

9. According to 2009/10 living standard survey of Nepal, 40 percent household have access to commercial banks within 30 minutes distance. In Urban area 89 percent of household can reach Commercial Banks within 30 minutes which is 27 percent in rural area. Households who can access Commercial Banks within 1 hour is 75 percent in Terai, 45 percent in Hills and 17 percent in Mountain. Average time to reach Commercial Banks is 16 minutes in urban areas while it is 135 minutes in rural areas.

10. Only 20 percent of household have availed credit from BFIs

11. According to 2014 Finscope Survey, only 40 percent of Adult population has access to Banking. According to the survey 56 percent of urban population and 36 percent of rural population has such access

12. According to Global Findex Database, in the year 2017, average of 45 percent of Nepalese have bank account. (50 percent of male and 42 percent female)

13. Number of ATMs in Nepal 4183 in mid-July 2020. The number was 3316 in mid July 2019. In mid-July 2015 the number was 1721.

14. Number of Debit card in mid-July 2020 was 7328 thousand in mid July 2020. The number was 6708 thousand in mid-July 2019. The number was 4531 thousand in mid- July 2015. Similarly, Number of Credit card was 1231 thousand in mid-July 2020. The number was 1047 thousand in mid-July 2019. In mid-July 2015 the number was 438 thousand.

15. Number of mobile banking users in mid-July 2020 was 11306797. The number was 8347187. In mid-July 2016 the number was 1754566.

16. Number of Internet Banking user was 1031227 in mid-July 2020. The number was 917344. In mid-July 2016 the number was 515465.

17. Number of Branchless Banking was 1574 in mid-July 2020. The number was 1530 in mid-July 2019. In mid-July 2016 the number was 812. Similarly, users of BLB was 1,93,607 in mid-July 2020. The number was 1,68,307 in mid-July 2019. In mid-July 2016 the number was 20,13,084.

18. Bank and Financial Institutions have disbursed 12.63 percent of their loan outstanding in Agriculture in mid- July 2020. Similarly, BFis have disbursed 6.2 percent of total loan outstanding in Deprived Sector loan in mid-July 2020.

19. Payment System Indicators

S.N.	Particulars	Numbers
1.	Payment System Operators (PSO) *	9
2.	Payment Service Providers (PSP) *	14
3.	PSP Agents	8,442
4.	Wallet Users	6,483,964

E. Financial Inclusion Policies :

Financial inclusion has been a major thrust of the policies of Government of Nepal and Central Bank, given its importance for inclusive growth and reduction in inequalities. Directive principle of Constitution of Nepal enshrines that Nepal will be equitable society by abolishing all income inequality through equitable distribution of economic gains. Financial inclusion has been one of the objectives of Nepal Rastra Bank as stipulated in Nepal Rastra Bank Act in 2016. Financial inclusion is one of the monetary policy stances of Nepal. Major policy measures, adopted so far, to promote financial inclusion and access to finance are highlighted below.

1. Sustainable development Goals: Government Sustainable Development Goals 2016-30 has emphasized to improve access to finance for facilitating inclusive and sustainable development. Among 17 sustainable Development Goals, SDG number 8 has set the target for access to finance, including 36 commercial bank branches per 100,000 people doubling the current rate of prevalence; 80 percent of households to have access to community financial institutions such as cooperatives within 30 minutes of walking distance by 2030. Access to credit for small and marginal farmers is taken as a constraint and is considered as a focus area of intervention. The SDG number 10 focuses on raising access to finance to farm households from 24 % in 2014 to 40% in 2030.

2. **Five-year plan (2019/20- 2023/24):** Fifteenth five-year plan (2019/20-2023/24) has long term vision of graduating Nepal from least developed nation to developing country by 2022/23 and by achieving sustainable development goals become medium high-income country by 2030/31. Financial inclusion is one of essence of the strategies adopted and action plan focuses on policy initiatives such as:

   - enhancing effectiveness of financial services by financial literacy programs;
   - use of latest technology to expand financial services to remote and backward areas;
   - promoting safe, modern and efficient payment systems; encouraging Micro finance Institutions to provide services as per social banking concept;
   - expansion of financial services to all local authority levels through cooperatives and similar community-based institutions;
   - promoting savings by effective use of existing and new innovative saving instruments; Promoting credit to farmers and women through various schemes;
   - strengthening of agriculture produce and livestock insurance to support farmers;
   - promoting expansion of insurance branch in all local authority levels;
   - promoting literacy about insurance in local levels, implementing micro insurance targeting remote and backward areas and low-income people among others.

3. **Financial Sector Development Strategy:** Financial sector development strategy (2016/17 - 2020/21) has been adopted by the Government in 2017. In the strategy, financial access and financial inclusion is defined as one of the pillars of banking system. Strategy lays emphasis on some of the techniques for increasing financial outreach, which includes :a) augmenting availability of BFI services in rural and remote areas; b) developing proper policies for expanding financial access and inclusion; c) improving institutional arrangements for broadening financial access; d) building up the regulatory and supervisory framework for MFIs; e) arousing public awareness through

financial education; and f) promoting consumer protection with respect to utilization of financial services and products.

4. **Financial Inclusion Road map (2017-22):** Nepal has developed financial inclusion Road map. This roadmap is prepared after detailed examination of financial inclusion in Nepal and has a goal to "increase formal financial inclusion in Nepal from 60% to 75% by 2022, and reduce excluded from 18% to 3% so as to create economic empowerment". Based on examination of needs identified on the demand side and weaknesses on the supply side, six priority areas have been identified for policy intervention by the roadmap viz., promote financial inclusion by unlocking constrained credit and saving, improving payment system, bolstering risk mitigation capabilities, enhancing and leveraging locally based financial service providers, enhancing financial inclusion support in governance and strengthening government empowerment and protection.

5. **Nepal Financial Inclusion action plan**: NRB adopted Nepal Financial Inclusion action plan on 26 December 2017. Action Plan, developed subsequently to the National Financial Inclusion Roadmap, broadly outlines the short and long-term strategies, for each of priority areas identified by the financial inclusion roadmap, and also identifies specific activities that can be undertaken by responsible agencies, to achieve the priorities outlined in the Roadmap. Also, high level financial inclusion Road map committee has been constituted with the senior officials of Central Bank and Nepal Government to coordinate efforts of Government and other agencies towards effective implementation of financial inclusion road map and action plan.

6. **Nepal Rastra Bank Strategic Plan (2016-21):** Enhancing financial access and financial inclusion is incorporated as one of the objectives of "Core pillar Two: Financial Stability and Financial Sector Development "of the Strategic plan. Plan recognizes importance of promoting financial deepening/development through proper financial infrastructures for stable and well-functioning financial system. For fulfillment of the objectives of core pillars, action plans together with the performance indicators; verifiable indicators; deadlines for indicators and responsibility for the action has been clearly defined. Action plan for promoting financial inclusion is laid down as: a)Establish the National Taskforce to formulate and implement National Financial Inclusion Strategy; b) Formulate policies for increasing access to finance and inclusion ;c) Develop financial inclusion indicators; d) Encourage different modes of digital

financing; e) Update e-mapping mechanism; f) Undertake a geospatial mapping of financial services access points.

7. **Provisionof subsidized loans:** Nepal Government has introduced various schemes to provide non collateralized subsidized loans, through financial institutions, to small farmers, youth, women entrepreneurs, Dalits for indigenous skill development and small and medium enterprises for carrying out income generating activities. These loans are guaranteed by the Deposit and credit guarantee fund and are insured with insurance companies. Larger portion of loan guarantee fees, insurance premium and interest are reimbursed by government as subsidies, through NRB, on regular repayment of loans. NRB has mandated BFIs to disburse minimum number of such loans on both branch wise as well as overall basis. These Loans are also included for compliance with deprived sector loan requirements.

8. **Branch Opening Policies:** With the advent of federal structure, Nepal has adopted policy of establishing at least one commercial bank branch in each local authority level. Nepal Has 753 local authority and selected Commercial banks are mandated to open at least a branch in all 753 local authority levels. Cash Reserve and Statutory Liquidity requirements shall be exempted up to FY2020/21 for such a branch.

   To provide incentives to BFIs to extend their services in remote areas, they are allowed to open one branch in Kathmandu valley only upon opening of at least three branches outside Kathmandu valley, amongst which at least two branches should be located in municipality or village level. Similarly, BFIs are required to open provincial offices to improve access to finance and strengthen banking services.

   MFIs are allowed to open one branch in sub-metropolitan city or district headquarter only after opening one branch in the municipality and rural municipalities excluding the metropolitan, sub-metropolitan and district headquarters.

9. **Policies Related to Mobile Banking and limited banking outlets:** NRB has allowed Licensed A Class and national level B and C class financial institutions to provide financial services relating to deposits and remittance using moving vehicles with installed office in areas outside Kathmandu Valley. Such facility can be provided without prior permission of NRB, on compliance of stipulated requirements for safety and completeness of transactions.

Similarly, Licensed Institutions can also establish limited banking outlets, with employees assigned on full time or certain week days basis, to provide services relating to deposits, payments, credit and internal remittances, in underserved areas on compliance with the stipulated requirements. Prior permission of NRB is not required for opening such outlets.

10. **Policy on Branch less Banking**: Prior Permission of NRB is not required for operating Branch less Banking (BLB), through authorized agents using point of transaction machines and smart card/ magnetic cards, in areas other than metropolitan /sub metropolitan cities. Such Branchless banking can provide deposit and payments services, provide bank statements/balance certificates, disburse and collect loans after complying with stipulated requirement of safety and risk management. Whilst, Permission of NRB is required for discontinuing such services.

11. **Policy on Digital Banking:** Digital technology and fintech is considered key for financial inclusion, due to its capacity to deliver financial services with wider coverage in cost effective manner. NRB is committed to promoting safe, secure and efficient digital banking with strong legal and regulatory framework. For this NRB has issued directives to promote digital payments and working to make payment systems interoperable. Directives related to Payment service providers and payment system operators, Transaction limits, transaction fees, electronic cheque clearing, RTGS, Transaction security etc has been issued.

12. **Directives on Consumer Protection:** NRB has issued Directives to BFIs for financial consumer protection. BFIs are required to establish grievance redressal mechanisms like grievance redressal desks, online portal, and hotline system. NRB has recently issued financial consumer protection and grievance redressal procedure. Separate financial consumer protection unit is established in NRB to handle consumer grievances. high level committee under Senior Deputy Governor has been established to oversee effective reprisal of grievances and grievance hearing. Drafting of necessary laws and byelaws for consumer protection is underway. MFIs are required to create separate client protection fund for the institutional development and welfare of borrowers.

13. **Financial Literacy:** BFIs are required to conductFinancial literacy programs on mandatory basis. Financial literacy framework, 2020 has been developed for systematic, integrated and coordinated efforts for enhancing financial literacy. Various means of enhancing financial literacy, including audio visual, literary mediums, personal interactions etc. are widely promoted. NRB has

allowed BFIs to utilize corporate social responsibility fund towards conducting financial literacy programs.

14. **Promoting opening and usage of Bank Accounts**: Government of Nepal, via budget 2015/16, has initiated a campaign “one person one Bank Account”. NRB has supported governments initiative and has allowed BFIs to utilize amount reserved in Corporate Social responsibility fund to deposit Rs. 100 for each account opened for the campaign. For providing safety net to the small depositors, it is mandatory for BFis to guarantee savings and fixed deposits of up to 3 lacks of natural person with deposit and credit guarantee fund, which shall be gradually extended to cover deposits up to five lacs. Via Budget for 2016/17 Government to People transfer is mandated through bank account, including payment of social welfare schemes, which is expected to enhance use of formal financial services.

15. **Deprived sector Lending Requirements:** Deprived sector lending requirements has been one of the important tools for enhancing financial inclusion. BFIs are required to disburse minimum stipulated amount towards small loans for various income generating activities for low income and socially backward families to facilitate their social and economic upliftment. Currently, BFIs are required to provide 5 % of their credit portfolio towards deprived sector. These loans can be disbursed directly by BFIs to the beneficiaries or indirectly through loan to/ investment in Micro finance Institutions. MFIs can avail such loans at rates lower than the base rate of BFIs. Indirect lending has been a major source of low-cost funds for MFIs and have facilitated their growth and expansion to a great extent.

16. **Promotion of Small loans**: For loans provided by BFIs, up to Rs 15 lacs, in agriculture, business and enterprise, are allowed to charge only up to 2 percentage points above their base rate and no further service charges or prepayment fees can be charged on such loans. Similarly, for small and medium enterprises, occupational agriculture and income generating activities in earthquake prone areas, BFIs can provide loans up to 20 lacs. For such loans, as mentioned above, agricultural land without access to road can also be accepted as a collateral. Similarly, BFIs can provide loans up to Rs. 15 lacs for agriculture production like coffee, tea, oranges or livestock production or milk production, on the project evaluation, without any need for fixed assets as a collateral. Refinance of up to Rs. 15 lacs for small and medium enterprise is provided at concessional rate of 5 % p.a.

17. **Micro finance institutions (MFIs).** Micro Finance Institutions are considered as an important tool for financial inclusion, given their outreach and modus operandi, specifically designed to provide financial services to the poor and low-income families. These institutions provide small value non collateralized loans to facilitate income generating activities amongst poor on the basis of group solidarity mechanisms. NRB adopted policy of promoting MFIs in districts underserved by other types of financial institutions, which facilitated their growth and expansion. Non-government organizations engaged in micro finance activities were also upgraded to MFIs to ensure enhanced regulation and supervision. Currently, consolidation of MFIs through merger and acquisition is encouraged to strengthen their capital base, improve resilience and enhance capacity to provide financial services in improved and innovative manner. MFIs are also given permission to operate inward remittance services and purchase of Indian currency. To lower borrowing cost to consumers, Maximum Interest rate cap of 15 percent is implemented on the loans provided by MFIs. Refinance to MFIs is proposed by recently revised refinance procedures, which is expected to further reduce borrowing costs.

18. **Insurance:** Insurance companies are mandated by the Insurance Board for issue of micro insurance for at least 5 % of their total portfolio. Government is also providing subsidies for agriculture insurance. Insurance companies are allocated districts for agriculture insurance.

F. Challenges to Financial Inclusion in Nepal:

1. **Low income and economic activity** – Given its economic backwardness and poverty very low level of economic activities happen in most of the rural areas of Nepal. Thus, most of the Bank and financial institutions are centered in Urban areas leaving large population unbanked and under banked.

2. **Poor state of physical infrastructure** – because of its rugged terrain and resource constraint, it is very challenging to develop basic infrastructure such as road, electricity, security, information and communication technology that is conducive to supports financial inclusion. Most of the financial inclusion happens with physical presence of BFIs and it is very costly to provide such physical presence due to above mentioned circumstances.

3. **Distance to Bank Branches** - Although NRB has mandated commercial banks to open at least a branch in each local body, people find it costly to reach bank branches because of long distance travel. They don’t want to spend money and

time travelling to bank branches because is not cost effective to reach bank branches for financial services.

4. **Complex Product and services** – Most of the banks and financial institutions offer similar kind of product and services to urban and rural areas. This make offered products less attractive to rural population. For example, micro credit is lacking in rural area.

5. **Low level of literacy**- Because of low literacy, especially among rural population, people lack awareness of financial services and products available in the market. Low literacy also hinders ability of a person to select best financial product among competitive financial products. Illiterate persons are also tend to be unaware about the services provided to them from government and central bank. Low level of literacy makes people vulnerable on financial fraud and malpractices.

6. **Cultural Barriers**- Most of the people in rural areas follow strict cultural and religious practices. So instead of going to formal financial institutions they prefer local money lenders. Similarly, cultural factors force people to spend more than what they earn making them vulnerable to use loan in unproductive use.

7. **Lack of assets for collateral** – Formal banking institutions prefer strong collateral to offer loan products. In the rural area most of the household have agricultural land as a collateral. Banks don't prefer to lend against agricultural land because of poor marketability and low valuation of such land. It was found that 24% of Nepali adults had been refused loans due to lack of proof of sufficient income, while 19% were unable to provide collateral (Nepal Financial Inclusion Road Map)

8. **Lack of suitable financial technology** – Although, use of financial technology is gradually increasing in Nepal, most of the people, especially in rural area don't use such technology because it is not tailored to their need and high illiteracy. For example, most of the application that is used by this technology is in English and meant to serve urban customers. This further complicates the matter. People don't want to engage in technology that is hard to use.

G. Policy Recommendation and way forward:

Financial inclusion is a potent weapon to decrease poverty and inequality. To achieve the targeted results from financial inclusion, right policy and strategy is needed. Some of the recommendations to increase financial inclusion are:

1. **Use of Fintech in Financial Inclusion:**

The role of financial technology is important to increase financial inclusion. Technology helps rapid, quality and cheaper financial services to low income, marginalized and excluded segment of people. Soriano (2017) argues that digital technology like mobile phone, cloud computing, data analysis and block chain are influencing enablers of financial inclusion. Murthy, Vidal, Faz and Barreto (2019) argue that financial technologies are important for emerging markets in developing economies serving underserved, low income and marginalized people. Among technologies, use of mobile phone has a huge potential to revolutionize financial inclusion. Mobile telephone penetration in Nepal is 124 percent according to Nepal Telecommunication Authority Report. Similarly, broadband service subscription is 74 percent and out of total broadband service mobile broadband is 74 percent.

Despite high cost of digitization and expansion of digital banking transactions, banks and financial institutions over the years have made large amount of investments in digital banking infrastructure and resources, primarily driven by competition and growing demand for such services. All of the institutions have launched their mobile and internet banking services. Likewise, parallel development of the ecosystem mainly payment system infrastructure, digital wallets and interoperability between these digital services have pushed the uptake of digital banking services thus decreasing the cost of digital banking services to the end consumers.

2. **Formulation of Financial Consumer Protection Act and rules:**

It is necessary to empower consumers through establishing their financial rights and security through **Financial Consumer Protection Act and rules**. Similarly, financial literacy policy and strategies are needed in the different financial sectors such as insurance and cooperatives. Nepal Rastra Bank has formulated a Financial Literacy Framework, 2020 applicable for banks and financial institution.

3. **Unlocking constrained saving and credit market:**

According to Financial inclusion action plan of Nepal, to unlock the credit constraint non collateralized credit should be given priority. Similarly, customized product for low income group is necessary so that people who want to take risk but don't have necessary collateral can take loan. Long term saving products should be introduced.

Credit reporting service provider should be established for individual credit rating system. Proper care should be given so that multiple borrowing should be decreased to protect customers from over indebtedness.

4. **Risk mitigation:**

Financial transaction includes risks. Especially credit products can increase financial risks to customers. Therefore, customers should be made aware about the risk mitigation tools such as micro insurance. Similarly group lending should be prioritized through micro finance institutions so that a group bears the risk instead a single person.

5. **Coordination with Locally based Financial service providers:**

Financial action Action plan map suggests that remote financial service providers such as banks and financia institutions should cooperate with formal local financial service providers such as saving and credit cooperatives, micros finance institutions and informal service providers such as money lenders to use their local knowledge to develop localized need based products. These local service providers know the ground reality of the place where they are working and know what kind of product or services local people need.

6. **Mobilization of sub national governments:**

After the promulgation of constitution Nepal is divided among 7 provinces. Each province has provincial government and local bodies with elected representatives. Coordination and cooperation between these sub national governments is key to success of financial inclusion. Policies, strategies and programs of all level of government should be aligned to make financial inclusion a priority among all form of governance.

7. **Robust Database and Financial Inclusion Indicator:**

To monitor the progress of policy initiatives,every country needs robust data base and financial inclusionindicators. Sharma (2008) opines that financial inclusion indicators incorporate information on several aspects of financial inclusion preferably in one single number and can be used to compare the levels of financial inclusion across economies and across within economies. With such indicators a country can judge its progress in financial inclusion over a period of time.

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Annex-10

SAARC Finance*Webinar on Financial Inclusion*

organized by Nepal Rastra Bank (NRB)

December 2, 2020

Country Paper - Pakistan

Presented By

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Director Agricultural Credit and Microfinance Department

STATE BANK OF PAKISTAN

Contents:

1. Pakistan's Financial Sector Landscape

Pakistan is host to over 207 million people living in geographically diverse areas where the majority (63%) of the population resides in rural regions. Endowed with critical strategic potential, Pakistan is a pivotal south Asian economy with a vast market of diverse resources and economic potential.

Since the early 1990's, Pakistan's financial sector has undergone considerable reforms that have significantly strengthened its soundness, profitability, efficiency and diversity. Until that time, it had been dominated by a handful of nationalized banks that suffered from poor performance and asset quality. By June 2020, the sector comprised of 32 commercial banks; 11 regulated Microfinance Banks (MFBs); 17 microfinance institutions (MFIs) licensed by SECP; 327 nonbank finance corporations NBFIs excluding MFIs; 50 insurance companies of which, 39 non-life insurers, 10 life insurers and 1 non-life reinsurer; and 1 stock exchanges. Banks and MFBs are also involved in branchless banking in partnership with mobile network operators (MNOs).

GENERAL COUNTRY INFO	
Size	796,095 Sq. km.
Capital:	Islamabad
Currency Rate	$1US = PKR160
Population(FY-2017):	207 million
Literacy rate (FY-19):	60%
Population growth rate:	2%
GDP growth rate (2019):	0.989%
GDP (2019):	US$ 278.2 Billion
GDP Per Capita (2019):	US$ 1,284

The banking sector dominates financial services, representing approximately 90% of total financial sector assets. The banking sector is generally sound (Capital Adequacy Ratio of 18.7%) and profitable (after-tax return on assets and equity of 1.1% and 14.6% respectively, as of June 2020).

Ensuring access to a well-functioning financial system is key to empowering individuals, especially vulnerable segments, integrate them within the economy, improve their livelihoods and provide better protection against economic shocks. Enhanced access to financial services leads to inclusive economic growth by encouraging entrepreneurship and creating jobs within the economy. Therefore, creation and expansion of financial services targeted towards poor and low-income population is a key policy priority for Pakistan to promote inclusive economic growth.

Pakistan has seen an accelerated transformation and turnaround in the banking industry as a result of the banking sector reforms which were supported by market-oriented policies. Pakistan's focus on increasing financial inclusion under National Financial Inclusion Strategy (NFIS) has started to payoff gradually as the number of people with access to financial services has risen to 73 million unique deposit accounts, out of which 18.5 million are female (as of June 2020). Even though the needle is moving in the right direction, much remains to be achieved in terms of broadening access to finance and increasing usage. There are number of reasons for the high incidence of financial exclusion in Pakistan which may be classified into four reasons: (a) geographical exclusion, (b) high cost, (c) non-price barriers, and (d) behavioral aspects. These reasons clearly show that financial inclusion would not be achieved automatically with financial sector growth, and instead require policymakers and stakeholders to make enabling policies for catalyzing innovations, developing market infrastructures, and tackle demand side barriers to promote financial inclusion.

2. SBP' journey of Financial Inclusion

State Bank has been driving 'financial inclusion' in the country through sound policy advocacy, market & infrastructure development, and proportionate regulatory frameworks. SBP being the apex policy and regulatory body is pursuing financial inclusion as one of its strategic objectives, to promote inclusive economic growth in the country. The stated vision for financial inclusion in Pakistan is to improve the access and usage of quality financial services amongst individuals and firms, with dignity and fairness. In pursuit of this objective, SBP has been driving financial Inclusion as a strategic goal in the country through sound policy advocacy, market & infrastructure development, and proportionate regulatory frameworks.

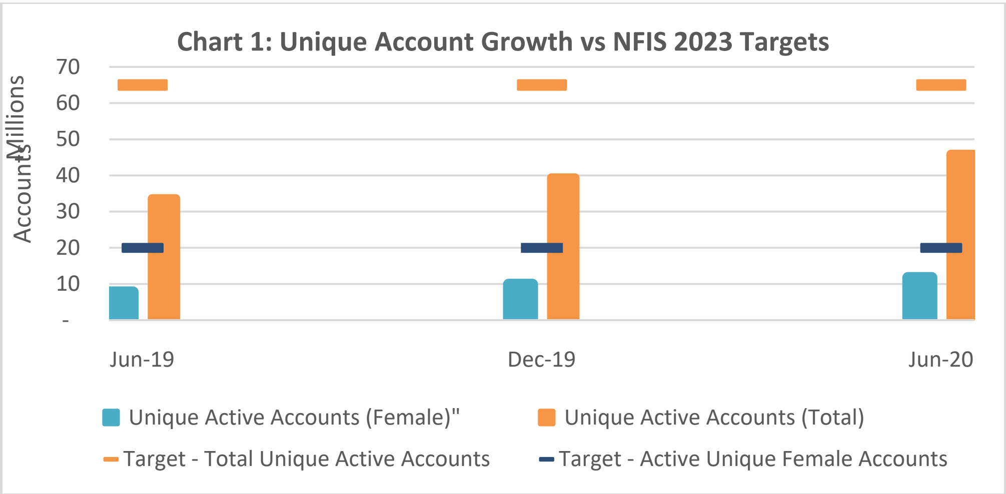
Financial inclusion is a core component of SBP's financial sector development strategy. It envisages transforming the financial market into an equitable system with efficient market-based financial services to the otherwise excluded poor and marginalized population including women and young people. Considerable reforms and initiatives have been taken to significantly strengthen its soundness, profitability, efficiency and diversity which include:

- The creation of a regulatory framework for Microfinance Banks in 2001;

- The expansion and modernization of online credit information bureau (e-CIB) in 2005;
- A series of measures to strengthen the safety and efficiency of payments, including the establishment of the Pakistan Interbank Settlement System (PRISM) in 2008 and the development of inter-operable inter-bank card payments platforms;
- Adoption of Branchless Banking Regulations to allow a tiered approach for now-your-customer (KYC) requirements in 2008;
- Launch of Financial Inclusion Program with DFID support which includes risk sharing initiatives, smart grant facilities for capacity development, innovation and market infrastructure development, 2008;
- The establishment of a specialized microfinance credit information bureau (m-CIB) in 2009; and
- The launch of a nationwide Financial Literacy Program in 2012;
- Launch of Asaan Account- low risk bank accounts with simplified due diligence for banks & MFBs, with tiered approach to know-your-customer (KYC) requirements , 2015;
- Rationalization of NADRA verification cost to reduce account opening costs, 2016;
- Financial Literacy initiativeswhich have reached 924,000 individuals till date, launched in 2017;
- Launch of National Financial Inclusion Strategy in 2015 and enhancement in 2018;
- Launch of Innovation Challenge Facility (ICF) for digital financial services to develop new or expand on existing digital financial products, services and delivery platforms that would increase financial access for people living at the bottom of the pyramid, 2018;
- Launch of Asaan Mobile Account (AMA) scheme for interoperability of all type of accounts providing choice and easy access over a single unified platform. (piloted March 2020);
- Development of a Banking on Equality policy to reduce the gender gap in financial inclusion in Pakistan by introducing a gender lens within the financial sector and encourage women friendly business practices, (developed in 2019, to be launched soon);

- Allowed non-banking entities to directly issue e-money, through the Regulations for Electronic Money Institutions (EMIs), to enable further innovation in digital finance, 2019.

Due to these initiatives and many more, financial inclusion is on the rise in Pakistan, and international development agencies and media havehighlighted Pakistan for its market and institutional environment for branchless banking. As of June 2020, the number of people with access to financial services has risen to 73 million unique deposit accounts, out of which 18.5 million are female. Furthermore, Global Microscope 2019 in its report recognizes that Pakistan's new financial inclusion strategy (NFIS 2023) launched in 2018 is a step in the right direction that will increase women's financial literacy and account uptake while increasing accountability through headline targets. [1]



3. SBP's approach towards financial inclusion

State Bank of Pakistan has, and continues to, pursue a multi-pronged approach to tackle the challenge of financial exclusion through the following ways:

- Building a conducive regulatory environment: Firstly, SBP has played a leading role in the development of enabling regulatory environment that is conducive for financial inclusion. In this regard, the most important role has been played by the microfinance sector, which was developed and grown through prudent policies and regulations, as an alternative to conventional banking to serve to the bottom of the pyramid. The regulatory framework to enable commercial microfinance in Pakistan is well-developed. Pakistan's microfinance regulations have been consistently ranked high by the Economist Intelligence Unit (EIU) of the Economist Magazine in its reports since 2010.

[1] https://content.centerforfinancialinclusion.org/wp-content/uploads/sites/2/2019/10/EIU_Microscope_2019.pdf

Also, the SBP's Branch Licensing Policy requires banks to open at least 20 percent branches in the under-served regions. The most recent regulatory innovation includes the introduction of the bank-led model for branchless banking.

- Dedicated departments with focused commitment: Secondly, SBP's commitment is reflected by the in-house Development Finance Group, dedicated to increasing access to financial services. The Development Finance Group consists of departments that focus on key areas of financial inclusion including, microfinance, small and medium enterprise finance, housing finance, agricultural finance, Islamic finance, women financing and promotion of digital financial services.
- Partnerships for Programs and Initiatives: Thirdly, SBP has built partnerships with international development organizations such as DFID, World Bank, Asian Development Bank, and DFID to launch programs and interventions to tackle financial exclusion among poor and marginalized groups head-on through a variety of supply-side funds and facilities. These include:

▪ Facility Financial inclusion program with DFID (GBP 50 Million)

▪ Financial Inclusion Support Framework (FISF) with World Bank (USD 2.79 M)

▪ Microfinance Social Development Fund (MSDF) with ADB (USD 40 M)

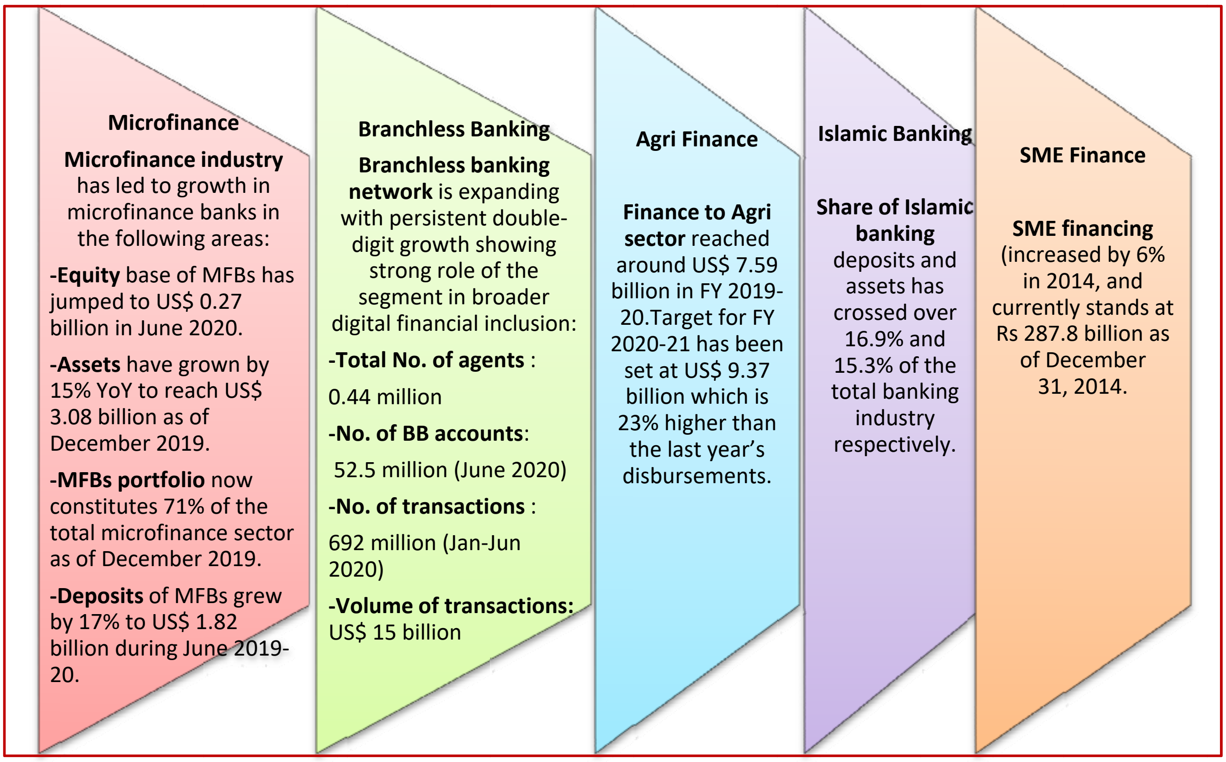
Through these, SBP has received support to a number of initiatives to enhance supply of and access to finance for SMEs, agriculture, Branchless banking and microfinance sectors. The interventions have largely focused on addressing market failures and industry bottlenecks, while addressing issues of fair treatment of clients and consumer protection.

- Incentive Schemes to encourage market- Fourthly, a number of incentive schemes initiatives have been taken to promote access to finance in the SMEs, agriculture, housing and microfinance sectors that largely focus on creating an enabling environment by addressing regulatory barriers, market failures and industry bottlenecks, and ensuring consumer protection.
- Demand side interventions- Fourthly, in line with the evidence (Access to Finance (A2F) Survey of 2008) that the lack of financial literacy is a major constraint in advancing financial inclusion, SBP has launched the first-ever Nationwide Financial Literacy Program (NLFP) in January 2012 to tackle this

issue. The program focuses on different themes such as savings, budgeting, debt management, investment, consumer protection and branchless banking to impart awareness and understanding of basic financial concepts to the low-income and unbanked population.

This approach has facilitated growth in those financial sectors such as Microfinance, Branchless Banking Agricultural finance an Islamic Finance which cater to the financially excluded demographics.

Figure 1: Headline Progress in Sectors



4. National Financial Inclusion Strategy

While SBP has remained very proactive in promoting an inclusive financial sector, progress towards a more inclusive financial system stayed slow because of limited commitment and weak coordination between several government and private sector stakeholders. Gaps in the basic financial sector infrastructure and the legal and judicial framework discouraged lending, particularly to those perceived as riskier borrowers. Lack of capacity in both financial institutions and clients was also a constraint to greater financial inclusion. Most financial institutions focused on the upper end of the business and retail markets had nor developed the skills, techniques and products required to serve other market segments profitably. The persistence of financial exclusion in the face of long-standing efforts to promote inclusion pointed to the need to develop a comprehensive National Financial Inclusion Strategy (NFIS). The strategy came at a particularly opportune moment as new technology and the rapid expansion of branchless banking offered unprecedented opportunities to transform financial inclusion in Pakistan.

The strategy, launched in 2015 after extensive consultations with stakeholders, was championed by SBP, with shared leadership from the Ministry of Finance (MoF) and the Securities and Exchange Commission of Pakistan (SECP). The objectives were fully consistent with the Government of Pakistan's Vision 2025, which called for enhancing access to credit for SMEs and focusing on financial inclusion and deepening. The NFIS 2020 created the foundation for SBP, the Government and private sector to implement a comprehensive set of coherent and sequential reforms needed to make a meaningful impact on financial inclusion in Pakistan. It set clear targets of increasing adult population's access of formal financial accounts from 16% to 50% by 2020. Moreover, it aimed to increase bank account ownership of adult women from 11% to 25% by 2020, while gender was a cross cutting theme for all sectors adopted under NFIS. The NFIS covered priority areas such as Branchless Banking (BB), Digital Payment Systems, Agri. & MSME Finance, Housing Finance, Islamic Finance, Consumer Protection and Financial Literacy, Insurance and Pensions etc. Besides others, promotion of digital financial services and payment systems was one of the priority areas under NFIS.

A number of initiatives were introduced under NFIS 2020 to improve the access, usage and quality of formal financial services:

- Development of Asaan Mobile Account Scheme to improve access & usage of digital financial services.
- Rationalization of NADRA's verification cost
- Exemption of withholding tax on cash withdrawals by BB agents in Finance Bill 2017.
- Enablement of NADRA's Biometric Verification System (BVS) for Micro Insurers.
- Creation of Innovation Challenge Facility (ICF) for promotion of Digital Financial services - Innovative and client centric Product and Services.
- Secured Transactions Registry (STR) under the Financial Institutions (Secured Transactions) Act, 2016, promulgated in 2020, which will allow charge on security/collateral offered by un-incorporated entities including sole proprietorships and partnerships, thereby enhancing their access to finance.

5. NFIS 2023

NFIS 2020 made significant developments in terms of creating an enabling legal and regulatory environment for financial inclusion, introducing innovative products & services and initiating capacity building & awareness programs in the country with the purpose of improving financial inclusion. However The NFIS headline targets were reached before the deadline whereby by 2018, 50% of adults had a bank account and adult women's account ownership increased to 27%. Therefore, as the headline target of account ownership had been achieved, an enhanced strategy was launched by the Government of Pakistan which set new headline targets for improving activity in accounts. In 2018, the scope of NFIS was extended to achieve inclusive economic growth through enhanced access and use of finance, improved deposit base, promotion of small & medium enterprises, easy & affordable access to finance to farmers, facilitation in low cost housing finance and provision of Shariah compliant banking solutions. In this connection, NFIS 2023 was launched by the Government of Pakistan, which sets the following headline targets to be achieved by 2023:

1. Enhance usage of Digital Payments (65 million active digital transaction accounts, with gender segregation of 20 million accounts by Women)
2. Enhance Deposit Base (Deposit to GDP ratio to 55%)
3. Promote SME Finance (Extend finance to 700,000 SMEs; 17% of the private sector credit)
4. Increase Agricultural Finance (Serve 6 million farmers through digitalized solutions; enhance annual disbursement to Rs.1.8 trillion)
5. Enhance share of Islamic Banking (25 percent of the banking industry; increase branches of Islamic banks to 30 percent of the banking industry)

The plan was developed after comprehensive industry wide consultation and analysis, while specific timelines and responsibilities have been allocated against each target.

In terms of progress made under NFIS so far, the recent trends in key financial inclusion and digitization are as below:

- Number of unique active accounts stood at 45.9 million as of June 2020, which represents 70.6% of the target of 65 million unique active accounts.
- As envisaged to have 20 million women accounts, we have achieved 11.7 million unique women active accounts as of June 2020, representing 58.7% of the targeted figure.

- There has been an increase in access points i.e. branches, Points of Sale (POS) and ATMs. Since 2015, the number of branches has increased by 34.6%, the number of ATMs witnessed an increase of 62.7%, while number of POS increased by only 19.1% till June 2020.
- In general, there is a behavioral change in terms of digitization. The number of internet banking transactions have increased by 253.8% i.e. from around 16 million to 56.6 million from the year 2015 to 2020. It has also resulted in substantial increase in Branchless Banking (BB) accounts during the said time periodfrom 10.8 million to 52.5 million, indicating an increase of 386%. Similarly, the volume of BB transactions also increased from 99.5 million quarterly transactions in Apr-Jun, 2015 to 396.7 million quarterly transaction in Apr-Jun, 2020 which shows an increase of 298.7%.
- Usage of mobile phones for making banking transactions has also increased during the last few years. As compared to the year 2015, number of mobile banking transactions have increased from 6.1 million to 82.8 million (1257.4%). Consequently, the value of such transactions has also increased substantially from Rs. 107 billion to Rs. 1,763.6 billion (1,548.2%).
- Initiatives taken under NFIS has also made impact on other areas. While reviewing the figures of Microfinance Banks (MFBs) since 2015, their Gross Loan Portfolio has increased from Rs. 45.6 billion to Rs. 218.2 billion witnessing growth of 378.5%. Similarly, number of outstanding borrowers of MFBs have also increased from 1.29 million to 3.54 million (174%).

- As far as Agricultural finance is concerned, there has been an increase in amount of Agri Credit Disbursement from Rs. 515.9 billion in 2015 to Rs. 1,215 billion as of June 2020, thus indicating an increase of 136%. Likewise, number of outstanding borrowers has increased from 2.18 million to 3.74 million during the said period.
- The measures taken under NFIS also had positive impact in terms of SME finance. While comparing the figures from FY15 to June 2020, we have witnessed an increase in amount of outstanding SME financing from Rs. 260.7 billion to Rs. 401.1 billion (53.8% change). Similarly, the number of outstanding borrowers has also increased from 152,495 to 188,804.
- Islamic banking industry has also benefited from the measures taken under NFIS. In this regard, it is pertinent to mention that share of Islamic banking in terms of deposits has increased from 12.8% in June 2015 to 16.9% in June

2020. Similarly, share of Islamic banking assets in comparison with the overall banking industry stood at 15.3% in June 2020, as compared to 11.3% in June 2015.

SBP's Sector Specific Policies and Strategies:

State Bank of Pakistan has developed diverse and thorough sector specific strategies to implement policies and special initiatives to advance financial inclusion. In addition to strategic policy support, SBP is managing a number of programs funded by GoP and other donors including DFID, ADB, and World Bank to promote financial inclusion in Pakistan. These programs are playing a pivotal role in the development of financial markets to serve the unbanked low income segments, especially the poor and women through sustainable models.

Sector specific highlights and initiatives are as follows:

A. Microfinance:

❖ ***Policy support***: To promote access to financial services for livelihood activities and microenterprise development, the Government of Pakistan and SBP created a separate legal and regulatory framework for microfinance, considered an effective tool for financial inclusion and poverty alleviation. The Microfinance Institutions Ordinance 2001 and prudential regulations for microfinance banks (MFBs) specifically deal with incorporation, regulation and supervision of MFBs in Pakistan. These regulations have been strengthened over time to facilitate savings mobilization, increase minimum capital requirements for institutional strengthening, and promote transparency & consumer protection. The Microfinance sector has continued its positive long-term growth as a result of greater private investment, supportive policy environment, vibrant market infrastructure, increased use of innovative technologies, and improved operational performance.

❖ ***Key special initiatives***: In addition to the policy support, SBP has been implementing a number of special initiatives to improve microfinance environment and fundamentals. Some key initiatives are as follows:

o **Line of Credit for Microfinance Institutions**

Under FIIP, SBP established Line of Credit (LOC) of USD 75 million to provide access to MFBs and NBFCs to long term market based funding for onward lending to microfinance borrowers including microenterprises. The LOC is focused towards:

- Development of products and services catering to microenterprises and micro housing sector
- Availability of financial services to women micro entrepreneurs
- Lending to end borrowers on market-based pricing
- Maintaining gender dimension with a target of extension of 60 percent loans to women and women-owned microenterprises

  SBP extended Rs.9,07.486 million (USD 75 million) under LOC by June 2019 to seven participating financial institutions (i.e. MFBs and NBFCs). These institutions extended 213,000 loans as of June 2020, with approx. 70 percent loans disbursed to female borrowers.

- **Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) for MFBs** were further aligned with the Financial Action Task Force (FATF) recommendations. The revisions are aimed at adding clarity besides strengthening the framework to preserve the integrity, soundness and safety of the financial system and deter against possible use of MFB channel for money laundering, terrorist financing, proliferation financing and other illicit activities.

  - Amendments to align AML/CFT Regulations for MFBs with the Financial Action Task Force (FATF) recommendations[2].
  - Compliance of AML/CFT Regime for MFBs, that require time bound biometric verification of accounts.[3]

- The scope **of SBP's AML/CFT Guidelines on Risk Based Approach (RBA)** has been broadened to include MFBs. These guidelines emphasize on (i) identifying and assessing the ML/TF risks in line with nature, scale, diversity and complexity of business, (ii) ensuring that internal policies, procedures etc. are compliant with applicable AML/ CFT laws and regulation and (iii) implementing adequate, reliable, efficient automated systems and technologies proportionate to ML/ TF/ PF risks.
- **SBP has enhanced the lending limits under 'Housing Finance' for MFBs** by increasing the maximum loan size from Rs. 500,000 to Rs. 1,000,000. Moreover, the restriction to maintain 60% of housing portfolio within the loan limit of Rs. 250,000/- has also been removed. MFBs have been advised to

[2] AC&MFD Circular No. 03 of 2019
[3] AC&MFD Circular No. 04 of 2019

develop related institutional capacity and appropriate mechanisms for monitoring the housing finance exposure.

- **Regulation G-2 'Remuneration to Directors'** has been revised to enhance remuneration ceiling and provide detailed guidance to ensure transparency and disclosure[4]. The revision is expected to enable MFBs to hire and retain experts on their BoD for a better strategic direction and long-term growth.

- **Measures to dampen the adverse effects of COVID-19 for MFBs/microfinance borrowers:** In order to dampen the adverse effects of COVID-19 for microfinance borrowers and to enable the Microfinance Banks to continue to fulfill their role in funding the real economy, following significant decisions had been taken by State Bank of Pakistan.

  - **Payment of principal on loan obligations will be deferred by Microfinance Banks (MFBs).**

    Microfinance Banks will defer the payment of principal loan amount by one year. To avail this relaxation, borrowers should submit a written request to the MFBs before June 30, 2020. They will, however, continue to service the mark-up amount as per agreed terms and conditions. The deferment of principal will not affect borrower's credit history and such facilities will also not be reported as restructured in the credit bureau's data. As COVID-19 pandemic prevails, the relief period has been extended up to September 30, 2020.

  - **Regulatory criteria for restructuring/rescheduling of loans have been temporarily relaxed till 31st March 2021 for MFBs.**

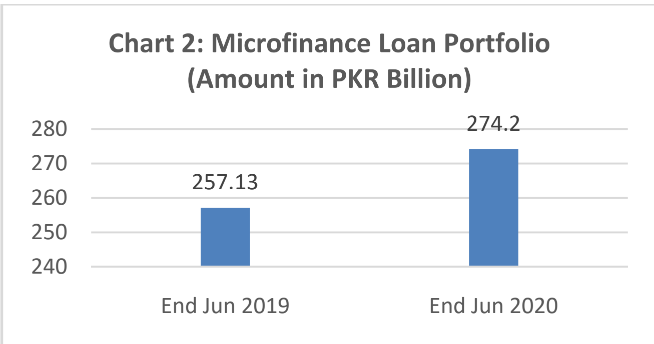
    For borrowers, who are not able to service the mark-up amount and their financial conditions require extension exceeding one year, SBP has relaxed the regulatory criteria for restructuring/rescheduling of loans. The loans that are re-scheduled/restructured within 90 days from the due date of payment will not be treated as defaults and such facilities not be reported as restructured in the credit bureau's data. By the end of June 2020, around 1,018,204 microfinance banks' borrowers have applied for afore-stated relief and over Rs. 64 billion has been restructured or rescheduled by the microfinance banks for the period up to one year to ease the financial burden on low-income households from the impact of COVID-19.

❖ ***Microfinance Industry's performance during FY 2019-20:*** Current performance of microfinance is marked by growth in key areas including

[4] AC&MFD Circular No. 01 of 2019

outreach, loan portfolio, deposit base, profitability except for equity growth which saw a decline due to Covid-19 related economic downturn.

- The microfinance sector (MFBs and MFIs) witnessed a 6.6 percent growth in its aggregate loan portfolio which grew by Rs 17 billion to Rs 274.20 billion as at end June 2020 from Rs 257.13 billionin the corresponding period last year.
- The number of microfinance industry borrowers also registered an annual growth of 0.6 percent, increasing to around 5.81 million at June 2020.
- The microfinance sector saw its branch/service centre network increase 3,055 as of June, 2020 from 2,822 branches in corresponding period. (Tables 1,2,4*)*
- Overall equity base of MFBs reduced to Rs 43.44 billion as of June 2020, experiencing 8 percent YoY decline from Rs 47.17 billion in June 2019 primarily due to economic downturn due to Covid-19 resulting in NPL rising to 4.6% from 4.4%.
- The gross loan portfolio (GLP) of MFBs has increased by Rs 10.85 billion (5.2 percent) during FY19-20 to reach at Rs 218.18 billion.
- Deposits of MFBs have also shown a healthy growth of 17.3 percent during the year to reach Rs 292 billion as of June 2020 compared to Rs 248.8 billion in the preceding year. Similarly, per latest figures the number of MFBs' depositors had reached 49.36 million at end June 2020 registering a staggering growth of 43.82 percent from 34.32 million depositors last year.
- MFBs assets have also shown a growth of 14.3 percent compared to last year and reached at Rs 400.41 billion at end of June 2020.
- The portfolio quality of MFBs remained deteriorated further as NPLs increased to 4.6 percent from 4.4 percent compared to last year primarily due to Covid-19 related economic downturn.



B. Branchless Banking:

❖ **Policy Support:** Pakistan witnessed successful emergence of various branchless banking (BB) models through the promulgation of the Branchless banking Regulations in 2008. In the year 2009, SBP licensed the first BB model namely 'EasyPaisa' by Tameer MFB and now there are many branchless banking providers operating in the country. The market is still growing and new banks are keen to become part of this innovative banking either through bank led partnerships or through establishing their own BB model. SBP in partnership with UKAid has also facilitated the early adoption of Branchless Banking in Pakistan by supporting a number of technology-driven innovative projects as well as knowledge sharing events to showcase the opportunities to the market. In addition to promote easy account opening, lower biometric verification costs have been negotiated with the National Database and Registration Authority (NADRA). Financial services providers are also being pushed to mobile wallet-level interoperability agreements for which the regulatory space already exists. Lastly in order to provide customers ease of access and usage, Asaan Mobile Account (AMA) scheme pilot has been launched.

❖ ***Key initiatives:*** Some key initiatives to enhance access and usage of branchless banking services are as follows:

- Government of Pakistan became a **member of the Better than Cash Alliance** global initiative. The contribution of branchless banking is significant when it comes to the channelizing Government-to-Person payments. Currently, the G2P payments to millions of beneficiaries of Benazir Income Support Program, Internally Displaced Persons of Waziristan, Watan Card and Bait-ul-maal are being instantly channelized though branchless banking deployments. The Government is keen to gradually transform the remaining space of government payments/receipts through branchless banking models. Going forward, digitizing payments for pensions, salaries, and tax will provide a great impetus to digitizing the overall payment landscape in Pakistan.

- **Digital Financial Services (DFS) – Innovation Challenge Facility (ICF).** In 2018, SBP, with support of DFID, launched an innovation challenge facility to support financial service providers, financial technology providers and institutions to develop new or expand on existing digital financial products, services and delivery platforms that would increase financial access for people living at the bottom of the pyramid. The facility has provided grants to support to Fintechs to iimprove digital financial inclusion of small, rural entrepreneurs and end-users such as farmers, distributers and retailers through digitizing the supply chain, and scale up an online affordable tax filing portal for SMEs.

- **Capacity Building of BB Agents on nationwide scale**

  SBP initiated capacity building of BB agents on nationwide scale. In phase-I of the project, 73 bank officials were trained as trainers. Now, SBP has launched Phase-II of this project, under which the trained bank officials would further impart training to 10,000 unique BB agents during FY20. This project is expected to enhance the capacity of BB agents through classroom trainings. As of December 2019, 4,140 BB agents were trained across 15 major cities.

- **Branchless Banking Regulations for Financial Institutions:** In order to enhance the outreach of Branchless Banking (BB) operations for achieving the objective of financial inclusion and strengthening the controls related to Money Laundering (ML)/ Terrorist Financing (TF) risks, SBP issued revised Branchless Banking (BB) Regulations for Financial Institutions vide BPRD Circular No. 10 of 2019 dated December 30, 2019. It may be noted SBP introduced BB in 2008 which is updated from time to time based on technological developments and market assessment/demand. The BB Framework of 2019 emphasized the prerequisites of Simplified Due Diligence of BB Operations in light of Financial Action Task Force (FATF)'s recommendations. Other key highlights of BB Framework of 2019 include:
  - Gradually phasing out of Person-to-Person (P2P) transfer by June 30, 2020
  - Biometric verification is made mandatory for all Level 1 account
  - Complete Biometric verification of all legacy BB accounts
  - Enhance monthly limit of BB level 1 account to Rs. 200,000/- per month

- **Measures to dampen the adverse effects of COVID-19:** SBP prescribed following measures (vide BPRD Circular Letter No. 10 dated March 26, 2020) to minimize the risks of the pandemic;
  - Extended timelines for Biometric verification of legacy BB Level - 1 accounts since March 2020 till September 30, 2020 enabling customers to open and use BB platform for financial services.
  - Encouraged AFIs to introduce Biometric verification through smart phone applications after complying with NADRA's security standards

and also use digital channels for BB agents on-boarding with an objective of increasing financial services access points.

- Directed AFIs to ensure safety and hygiene measures, including the availability of liquid Soap/ Sanitizers, at all biometric touch-points.

❖ ***Branchless Banking performance in FY 2019-20:***

- In line with the impressive growth in microfinance banking, the coverage of the branchless banking network is also expanding significantly with persistent double-digit growth and presence across most of the country's districts. With presence of eight BB players, the BB industry has been adding vast, easy-to-access alternative distributional channels in the sector.
- The number of agents as of June 2020 was 445,181 (Table 3).
- With more than 692 million Branchless banking transactions, the total value of transactions is around Rs 2.5 trillion during the period Jan-Jun 2020.
- The number of BB accounts stands at around 52.5 million with Rs 36.6 billion deposits, showing strong role of the segment in broader digital financial inclusion as of June 2020.
- Average size of branchless banking transactions is Rs. 3,458 (US$21) which has shown a decreasing trend over time.

Table 1: Branchless Banking Key Indicators as of end June, 2020

Indicators	Q1 2020	Q2 2020	Quarterly Growth
Number of Agents	408,980	445,181	9%
Number of Accounts	51,809,393	52,522,222	1%
Deposits as of date (Rs. in millions)	30,263	36,660	21%
Number of transactions during the quarter (No. in '000)	296,010	396,687	34%
Value of transactions during the quarter (Rs. in millions)	1,012,248	1,504,934	49%
Average Size of Transaction (in Rs.)	3,420	3,794	11%
Average number of transaction per day	3,288,996	4,407,635	34%

C. Agricultural Finance:

❖ ***Policy support***: SBP has taken numerous initiatives in collaboration with stakeholders to address market bottlenecks that restrict access to financial services in the rural areas. Some of these programs include a) Credit Guarantee Scheme for Small & Marginalized Farmers, b) Crop & livestock insurance Scheme for borrowers, c) Warehouse Receipt financing (e) Capacity Building and farmers' awareness programs, etc.

❖ ***Key Initiatives:***

- **Regulatory space for innovative financing**

  State Bank of Pakistan has issued amendments in Prudential Regulations of Agri. financing, SME Financing, and Corporate & Commercial Banking to provide enabling regulatory framework for channelizing financing against storage of agri. commodities. The amendment in Prudential Regulations will allow Electronic Warehouse Receipt (EWR) as acceptable collateral for bank financing. Further, the maximum tenure for agricultural development loans have been increased 10 years, to encourage development and mechanization for efficiency, resource conservation and yield enhancement.

Loan repayment relief to dampen the effects of COVID-19

Banks have been instructed to allow deferment of loan principal to agri. borrowers, for one-year, upon their request. Regulatory space is also provided to facilitate banks in rescheduling/restructuring of loans for borrowers who cannot service markup or need deferment exceeding one year.

Regulatory space for innovative financing

Relevant Prudential Regulations have been amended to allow Electronic Warehouse Receipt (EWR) as acceptable collateral for bank financing. Further, the maximum tenure for agricultural development loans has been increased from 5 to 10 years to encourage development and mechanization for efficiency, resource conservation and yield enhancement. Additionally, Indicative Credit Limits and Eligible Items for Agri. Financing have also been revised to allow banks to provide loans to farmers as per their internal policies. This will also facilitate provincial planning departments in estimating the total financial and credit requirements of provinces/regions for agriculture sector

Crop Loan Insurance Scheme (CLIS) & Livestock Insurance Scheme for Borrowers (LISB)

CLIS has enabled financial access for farmers, with premium for small farmers being borne by the government. During the period July 2008 to June 2019, banks have submitted premium claims of Rs. 8.2 billion against 6.1 million beneficiaries. Insurance premium for small livestock farmers, availing bank financing, continues to benefit farmers as claims of Rs.2.3 billion against 0.6 million beneficiaries have been received during period July 2014 – June 2019.

Adoption of Automation of Land Record for Agri. Financing

SBP is working in collaboration with provincial governments and financial institutions for implementing and mainstreaming electronic land verification records and charge creation for availing bank loans. In Punjab, 32 out of 35 banks doing agriculture financing have signed MOU with Punjab Land Revenue Authority (PLRA) for availing these services. Out of these, 20 banks are already using the portal for issuing loans to farmers, while other banks are in process of integrating their banking system with the PLRA portal.

Relief in Taxation Regime

Relief in taxation was provided by the Federal Government in line with SBP's proposal vide Second Supplementary Finance Bill FY19. As per the announcement, effective from July 01, 2019 a reduced rate of taxation at 20 percent (instead of 35 percent) would be applied on interest income of Banking Companies from additional advances to micro, SMEs, low cost housing finance and farm credits for four years (from tax year 2020 to 2023) subject to fulfilment of related conditions. This would further encourage MFBs to extend credit to priority sectors.

Development of Electronic Warehouse Receipt (WHR) financing mechanism

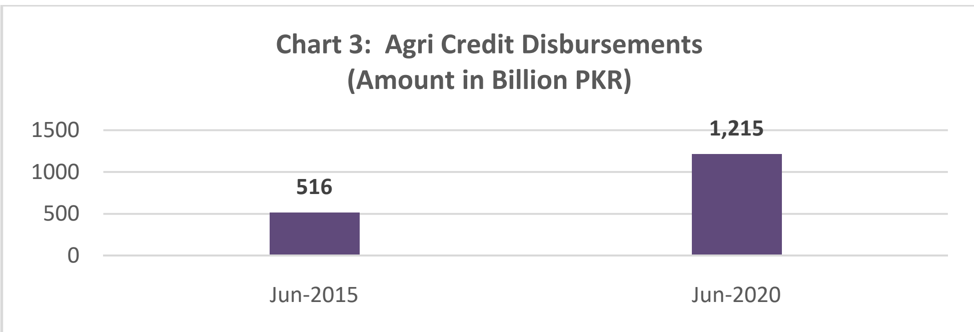
The mechanism is being developed to enhance farm credit and reduce post-harvest losses. The Securities & Exchange Commission of Pakistan (SECP) in collaboration with SBP has issued the Collateral Management Companies (CMC) Regulations on July 31, 2019, under the Companies Act 2017. Further, in line with CMC Regulations 2019, SBP has issued the necessary amendments in Prudential Regulations for Agri. Financing, SME Financing, and Corporate & Commercial Banking to facilitate banks to provide financing against WHR.

❖ ***Performance during FY 2019-20:***

SBP has been continuously promoting access of formal financial services in the rural and remote areas by adopting multiple strategies. To ensure sufficient flow of financial resources to agriculture sector, SBP sets indicative targets for annual credit disbursement.

- For the year 2019-20, banks disbursed Rs. 1215 billion against agricultural credit disbursement target of Rs 1,350 billion achieving 90% of the assigned target. The failure to achieve disbursement targets by banks was primarily due to COVID-19 pandemic, despite SBP's efforts for providing loan restructuring relief to agri-borrowers by allowing deferment of loan principal for one-year, upon their request. Regulatory space was also provided to facilitate banks in rescheduling/restructuring of loans for borrowers who cannot service mark-up or need deferment exceeding one year.

- For the year FY 2019-20, Rs 1500 billion target has been assigned for agri-disbursement which is 23% higher than the actual disbursement (Rs. 1215 billion) last year.



D. SME Finance:

- ***Policy support***: State Bank of Pakistan has been endeavoring for the improvement of development finance in the country with special focus towards SMEs. An increased flow of finance in SME sector coupled with enhanced credit exposure is a driving theme for the regulators to achieve the targeted inclusive growth. SBP has taken numerous initiatives in collaboration with stakeholders to address supply side issues in the SME sector, with a particular focus to catalyze "small" businesses through an enabling policy environment and government facilitated schemes.

- ***Key Initiatives:***

  - **Credit Guarantee Scheme (CGS)**- for Small and Rural Enterprise Guarantee Fund (£13m) aims to enhance credit to small and rural enterprises through commercial banks. Under CGS, the participating banks have sanctioned loans of Rs 6,328 million (£37.90m)

  - **Prime Minister Youth Business Loans Scheme** Prime Minister Youth Business Loans (PMYBL) Scheme was launched by the Prime Minister on December 7, 2013 for promoting youth entrepreneurship in the country.

  - **Mark up Subsidy and Guarantee Facility for the Rice Husking Mills.** The objective of the Mark up Subsidy and Guarantee Facility for the Rice Husking Mills in Sindh is to help the sponsors of rice husking mills of Sindh to undertake projects increasing efficiency of their mills. Under this Scheme, SBP and Sindh Enterprise Development Fund (SEDF) provide,mark up subsidy of 6.25% and credit risk sharing facility of up-to 30% against the long term loans extended to rice husking mills of Sindh under the SBP Refinancing Scheme for modernization of SMEs.

  - **Credit Guarantee Scheme for Small & Rural Enterprises**

    SBP launched Credit Guarantee Scheme (CGS) for Small and Rural Enterprises in March 2010 in collaboration with Department for International Development (DFID) of United Kingdom. The scheme aims to encourage lending towards fresh and collateral deficient borrowers. Under the scheme, risk coverage of up to 60 percent is provided for credit losses of PFIs on their financing to small, micro and rural enterprises, particularly women borrowers, start-up businesses and small rural and micro enterprises operating in the under-served areas of the country.

- **Refinance Facility for Modernization of SMEs**

  Under this facility, financing is available against local purchase/ import of new machinery for BMR at 6 percent out of which 2 percent is SBP refinance rate and 4 percent is bank's spread. Maximum financing tenor under the scheme is 10 years. Under the scheme, cumulative disbursement of Rs. 1,111 million has been made by June 30, 2020.

- **Province-wise outstanding SME Finance Targets**

  SBP assigned province-wise outstanding SME finance annual targets to banks/ DFIs from CY 2018 onwards to improve SME financing in underserved areas of Pakistan. This would not only help in diversifying SME portfolio but also trigger inclusive growth in the underserved areas.

- **Introduction of Gender wise and Category wise Targets**

  For the first time in CY 2019, SBP assigned gender and category wise SME finance targets to banks/ DFIs. For CY 2019, SBP targeted 6 percent of total SME financing for female borrowers. Similarly, banks/ DFIs have been allocated a target to extend financing of 40 percent to small enterprises and 60 percent to medium enterprises.

- **Introduction of Non-Financial Advisory Services to SMEs**

  To provide complete solution to SMEs, SBP instructed banks to provide Non-Financial Advisory Services (NFAS) to SMEs. These services would enable the SMEs to effectively and professionally manage different aspects of their businesses. Majority of the banks are already providing NFAS to existing and new customers. Further, National Institute of Banking & Finance (NIBAF), a training arm of SBP also conducts programs on NFAS.

- **Refinance and Credit Guarantee Scheme for Women Entrepreneurs**

  To promote access to finance for women entrepreneurs across the country, Refinance and Credit Guarantee Scheme for Women Entrepreneurs has been launched by SBP. Under this scheme, SBP's refinance rate has been kept at zero percent and PFIs provide finance to end users at 5 percent per annum. Moreover, 60 percent risk coverage is also available to PFIs. The scheme has been extended to all districts of the country through IH&SMEFD Circular Letter No. 1 of 2019. Further, as per IH&SMEFD Circular Letter No. 25 dated August 18, 2020, the financing limit under this scheme has increased to Rs 5 million from Rs 1.5million.

The scheme has an outstanding portfolio of Rs 393.6 million as of June 30, 2020 with cumulative disbursement of Rs 462.1 million since inception.

- **Small Enterprise Financing and Credit Guarantee Scheme for Special Persons**

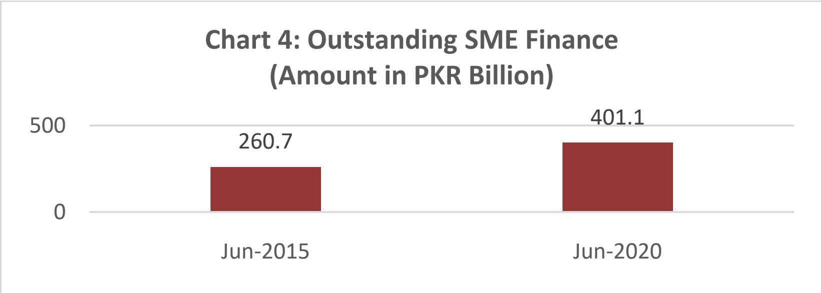
  In order to improve socio-economic life of the special persons, SBP launched a refinance scheme i.e. "Small Enterprise (SE) Financing and Credit Guarantee Scheme for Special Persons" in March 2019. Under the scheme, banks are required to provide financing facilities to special persons to meet credit needs for setting up of new business enterprises or expansion of existing ones. SBP's refinance rate has been kept at zero percent and PFIs would provide finance to end users at 5 percent. Moreover, 60 percent risk coverage is also available to PFIs. The limit of Rs. 560 million has been assigned to 17 PFIs in March 2020.

- **Prime Minister's KamyabJawan Youth Entrepreneurship Scheme**

  In order to provide self-employment opportunities for youth, Government of Pakistan launched Prime Minister KamyabJawan Youth Entrepreneurship Scheme (YES) in October 2019. The scheme offers youth opportunities of affordable financing for starting up new business or strengthening their existing business. SBP has advised all commercial banks including Islamic banks to participate as executing agencies under the scheme. As per SBP instructions, 21 banks have agreed to participate in YES phase 2 and are gearing up their systems including reinforcing people, processes and products for financing under the scheme. The scheme envisages extension of small business loans in three tiers. Under tier-1 (T1), loan limit is from Rs 100,000 to Rs 1 million. Under tier-2 (T2), loan limit is from above Rs 1 million to Rs 10 million. Under tier-3 (T3), loan limit is from above Rs 10 million to Rs 25 million. End user rate for T1, T2 and T3 is 3 percent, 4 percent and 5 percent respectively. The maximum loan tenor is upto 8 years including grace period of one year. The rate of return for lending banks is KIBOR (one year offer) + 400 bps for all three tiers.

- **Establishment and incorporation of Pakistan Credit Guarantee Company**

  SBP launched Credit Guarantee Scheme (CGS) for Small and Rural Enterprises in March 2010 in collaboration with Department for International Development (DFID) of United Kingdom. The scheme aims to encourage lending towards fresh and collateral deficient borrowers. Under the scheme, risk coverage of up to 60 percent is provided for credit losses of PFIs on their financing to small, micro and rural enterprises, particularly women borrowers, start-up businesses and small rural and micro enterprises operating in the under-served areas of the country. In order to continue credit guarantee schemes in the long run, an alternate mechanism/ model for providing guarantees for SMEs financing is required. A separate institution for providing such guarantees is amongst the various credit guarantee models being followed by different countries.



E. Islamic Finance

SBP is continuously refining and improving the regulatory framework to meet the evolving industry dynamics. Recent measures taken by the central bank include (i) the downward revision of paid up capital requirement for Islamic banking subsidiaries from Rs 10 billion to Rs 6 billion to encourage investors (ii) the conclusion of the very first OMO for Islamicbanking industry to provide level playing field for liquidity management (iii) issuance of Shariah Governance Framework for strengthening of Shariah compliance on part of Islamic banking institutions and (iv) the Strategic Plan for Islamic Banking Industry (2014-18). The plan focuses on initiatives necessary for improving public perception of Islamic banking and promoting it as a distinct and viable system to address the financial services need of the public and improve access of financial services for those which are unbanked due to faith sensitivity.

❖ ***<u>Policy support:</u>***

- SBP issued dedicated policies for laying sound foundations for Islamic banking industry including licensing requirements, guidelines on Shariah compliance and other operational matters of IBIs. Under this approach, SBP allowed three types of IBIs to operate in the country i.e. (i) Full-fledged Islamic banks, (ii) Islamic banking subsidiary of conventional banks and (iii) Standalone Islamic banking branches (IBBs) of conventional banks. Moreover, conventional banks having IBBs are allowed to have Islamic banking windows in their conventional branches and specific regulations for Islamic banking windows have been issued. SBP has also issued guidelines for conversion of conventional banking branches into Islamic banking branches and conversion of an existing conventional bank into an Islamic bank.

- ***Initiatives:***

  - **Rationalization of Minimum Capital Requirements (MCR) for Islamic Banking Subsidiaries:** With the objective of encouraging banks to move towards a subsidiary based model, SBP has revised the initial Minimum Capital Requirement (MCR) for establishment of Islamic banking subsidiary from Rs 10 billion to Rs 6 billion in October, 2014.

  - **Islamic Finance – A Component of Financial Inclusion:** Pakistan has been leading an effective strategy towards enhancing financial inclusion for over a decade under the committed leadership of SBP. Increasing financial inclusion by providing enabling environment and promoting Islamic banking in the country has been made an explicit component of SBP's Strategic Plan 2016-2020. Further, Islamic Banking & Finance has been made an integral part of National Financial Inclusion Strategy (NFIS) of Government of Pakistan to serve those who prefer Islamic products or who are voluntarily excluded or underserved due to their religious belief.

  - **Islamic Long Term Financing Facility:** In order to provide Shariah compliant alternative of conventional Long Term Financing Facility to meet demand of faith sensitive exporters, SBP has issued Islamic Long Term Financing Facility (ILTFF) on thebasis of Mudarabah. ILTFF allows exporters an opportunity to avail long-term refinance facility of State Bank of Pakistan for purchase of imported and locally manufactured new plant and machinery from the eligible IBIs. The facility is available to the export oriented projects if their annual export is at least equivalent to US$ five million or if at least fifty percent of their sales constitute exports, whichever is lower.

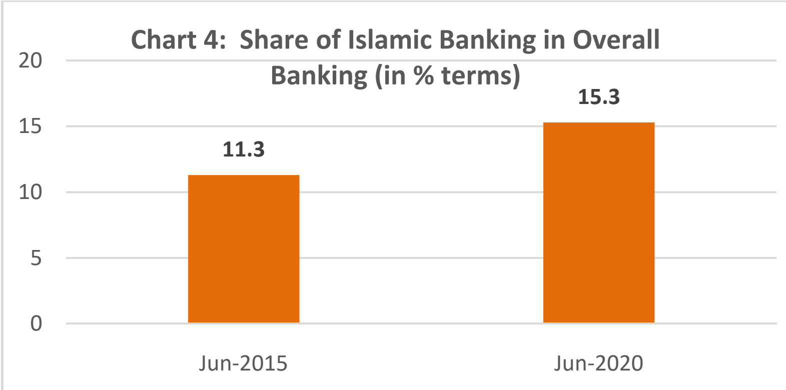
  - **Islamic Microfinance Operations:** For encouraging Islamic microfinance, SBP has also allowed establishment of full-fledged Islamic microfinance banks, Islamic microfinance divisions of conventional microfinance banks, Islamic microfinance services by full-fledged Islamic banks and Islamic microfinance services by conventional banks. NRSP microfinance bank and MCB-Islamic Bank are currently offering Shariah compliant microfinance services.

  - **Collaboration between SBP and Securities and Exchange Commission of Pakistan (SECP):** To promote Islamic finance in the country, SBP is collaborating with SECP, the capital market regulator. Both regulators are working on developing proposals for facilitating development of an Islamic capital market. SECP has also created a dedicated Islamic Finance Department and has started taking initiatives for building necessary infrastructure for development of Islamic capital market.

- **Global Recognition** In recognition of its efforts, SBP has been awarded as **"Best Central Bank of the Year 2020"** by Global Islamic Finance Awards (GIFA). SBP has also been voted as the Best Central Bank for 2018 in promoting Islamic finance by a poll conducted by Islamic Finance News (IFN), an arm of REDmoney Group, Malaysia. SBP has also won this award in 2017, and 2015.
- **Awareness Creation** SBP is actively involved in conducting targeted seminars, conferences, and workshops across the country along with extending support and collaboration to many local and international organizations for such programs. Islamic banking industry, under the patronage of SBP, has also launched a nationwide media campaign to improve Islamic finance literacy. Further, to strengthen the consultative mechanism at the grass roots level, Islamic banking focus groups are being managed through offices of SBP-Banking Services Corporation (BSC) all across the country. These groups have proven to be instrumental in making awareness creation efforts successful besides being a good platform for collecting feedback on SBP initiatives for Islamic finance. Orientation sessions for local chambers of commerce, trade and industrial associations, agriculture communities, banking industry (both conventional and Islamic) are also arranged.
- **Centers of Excellence:**Three Centres of Excellence in Islamic Finance Education (CEIFEs); (i) CEIFE-IBA, (ii) CEIFE-LUMS and iii) CEIFE-IMSciences were established with the support of SBP and DFID. The centres are fully operational with the objective of conducting research, raising awareness and improving human resource capacity levels for the industry and other stakeholders

❖ ***Progress*:**

Islamic banking's market share in terms of assets has increased to 15.3 percent by end June 2020 from 14.4 percent by end June 2019 whereas, its market share in terms of deposits increased to 16.9 percent by end June 2020 from 15.9 percent by end June 2019. The network of Islamic banking industry consists of 22 Islamic banking institutions (5 full-fledged Islamic banks and 17 conventional banks having standalone Islamic banking branches) with a network of 3,274 branches spread across 122 districts of the country. In addition to branches, 1,394 Islamic banking windows were providing Shariah compliant Islamic banking services by end June 2020.



F. Consumer empowerment and protection

❖ *Policy support*:

Financial inclusion and financial consumer protection are complementary: a strong consumer protection regime is key to achieving financial inclusion in a responsible and sustainable manner that benefits consumers. As new consumers enter into the formal financial sector, they need to be able to make informed choices and be protected from harmful business practices. Taking lead, State Bank of Pakistan has taken initiatives to empower the consumer through having a dedicated Consumer Protection Department (CPD) at State Bank of Pakistan, to promote the culture of social responsibility in banks/Development Finance Institutions/Microfinance Banks for amicably resolving disputes, thereby protecting the rights of the financial consumers. In addition, since Pakistan's majority population has low levels of financial literacy, SBP has taken initiatives for MFP's to be transparent in their pricing and uphold rights of the customers as well as to make the consumer more aware and empowered.

❖ Initiatives:

- **Nationwide Financial Literacy Program (NFLP)**: SBP is implementing various Financial Literacy initiatives aimed to promote financial inclusion through financial education for inclusive economic growth and stability across the country. These initiatives targeted to provide financial literacy to unbanked/ under-banked segments and low income to middle income youth, households and professionals.National

Financial Literacy Program (NFLP) is SBP's flagship program, launched in 2017, focused on imparting basic financial education to unbanked/ underserved segments of population especially the women & youth. Keeping in view the diversity & literacy level of target audience, the NFLP program has been segmented into two components i.e. National Financial Literacy Program for Adults and National Financial Literacy Program for Youth. As of June 2020, more than 924,000 individuals have benefited from these programs.

- **Fair Treatment of Consumer (FTC) Regime by State Bank of Pakistan :**

  Financial Consumer Protection (FCP) has always been at the heart of State Bank of Pakistan's (SBP) regulatory agendas. However, with changing local and international landscape, FCP has evolved with initially being focused on consumer complaint handling to advancement towards the Fair Treatment of Consumer (FTC) regime. From 2014, focus on FTC has deepened with re branding of FCP and creation of Conduct regulatory corridor. Under this a Conduct Assessment Framework has been launched, which is a self-assessment conduct monitoring tool that also serves as a supervisory tool for SBP . This also has the potential to be used as a risk based tool.

- **Consumer empowerment:**

  In addition to the general financial literacy, SBP focuses on the remedial and proactive approach towards consumer engagement and empowerment to sustain the financial inclusion. For the purpose, SBP has issued KYRR and other materials. It engages with different strata of consumers. More importantly, it requires banks to undertake consumer empowerment initiatives driven through their own conduct/FTC cycles.

6. SBP and Focus on Women

Financial inclusion demands that men and women get equal opportunities to access and use formal financial services. However, currently women are disproportionately under-served by the country's financial system. This disparity impedes Pakistan's national economic development. Cognizant of this, SBP has prepared a policy specifically focused to close the gender gap in finance. The policy titled, Banking Equality Policy, prepared by the State Bank of Pakistan, in consultation with relevant stakeholders, is based on the premise that gender-neutral policies in the financial sector have been insufficient to reduce the gender gap in the financial sector and there is a pressing need to view financial sector policies through a gender lens. The proposed policy identifies five key pillars under which actions are targeted towards improving institutional readiness, product diversification and development capability, customer acquisition and facilitation approaches towards women segments, robust collection of gender disaggregated data, and prioritizing gender focus in SBP's policies. The policy recommendations will be applicable on Commercial Banks, Islamic Banks, Microfinance Banks, DFI's and EMIs. The key features of the policy are as follows:

- **Improving gender diversity:** A financial institution cannot adequately address the female market segment without addressing its internal gender imbalance. Currently only 13% of the staff of banks and 1% of branchless banking agents are women. More women working in leadership positions at financial institutions can also aid the development of policies and practices for improving gender balance across the financial sector as well as developing women friendly policies. Presence of female representatives at financial institutions' access points, such as bank branches and branchless banking agents can aid women's adoption of conventional and digital financial services. Therefore, Financial Institutions shall develop and submit a Policy to Reduce the Gender Gap, with a commitment and roadmap to improve their institution's overall gender diversity amongst Bank Staff. The policy should aim at having at least 20% of their work force and at least 10% of BB agents as women by 2022. Further, group heads shall be responsible for implementation of the policy.
- **Development and marketing of women centric products and services:** To shift from gender neutral to gender inclusive product design, it is imperative that a dedicated team is working on gender-segmented product designing and creating a business case, while understanding the existing social norms, and marketing products effectively. Therefore, FI's may create a specialized banking department/division/unit, dedicated to development and offering of

Women's products and services, keeping in view various use cases within women demographics of all ages and life cycle stages. They may also collaborate with the incubation centers in providing awareness/marketing about their digital financial products & services. Within 6 months of its creation, the Women Financial Services Department/Division/Unit shall develop and offer at least 5 products for women that are well researched and backed by demand side insights. Moreover, Banks, MFBs, DFIs, EMIs will be required to pace up delivery of financial literacy programs specifically for women. Moreover, all FI websites and apps may have a tab/section for "Women's Financial Services" to direct potential customers towards availing products catered to their needs.

- **Improved facilitation for women customers:** Women's financial inclusion cannot be improved without understanding their needs with careful attention. However, women customers especially entrepreneurs, feel intimated to visit a bank branch and are not facilitated effectively. Therefore, to enable banks to improve facilitation of women customers and entrepreneurs, specialized Women's Desks shall be established at all bank branches. The women's desk will also serve as a main contact point for non-financial advisory services, and complaint redressal. The desks will be staffed with human resources that have undergone gender sensitivity training, and are well versed with the bank's products and government/SBP's schemes for women entrepreneurs. The women desks, will be established in all bank branches within the next 18 months, and managed by trained staff; however, FIs must ensure that female staff members head at least 50% of desks within the next 3 years.
- **Robust collection of Gender-disaggregated data and target setting:** The absence of data and targets can dilute FI's focus on the gender in finance, and impede development of informed policies and associated actions for closing the gender gap. Therefore, under the policy, FIs will be instructed to collect and report gender disaggregated data to SBP, related to gender disaggregated outreach of products and services. The data collection will also help FIs to recognize the opportunities and challenges in women's financial inclusion, and help them in developing internal policies to comply with SBP's gender policy and targets. Furthermore, SBP will also strengthen its own research and analysis on gender.
- **Policy Forum on Gender:** To discuss opportunities and challenges in women's financial inclusion, internalize gender mainstreaming within organizations, and review the existing legal and policy framework for

identification of bottlenecks in women's financial inclusion, a Policy Forum on Gender and Finance will be established at SBP. The forum will also create space for innovations that support greater women's financial inclusion. Going forward, under the Forum, SBP will host annual conferences for knowledge sharing, plenary discussions on Gender and Finance, and awards will be given to those banks that have made significant efforts to close the gender gap in finance.

7. Annexures

Table 1: List of Microfinance Banks

Licensed MFBs in Pakistan				
No.	**MFBs**	**Year**	**Status**	**Key Sponsors**
1.	**Khushhali Bank Ltd.**	2000	Country-wide	United Bank Limited led consortium/Commercial Banks
2.	**The First Microfinance Bank**	2002	Country-wide	Agha Khan Agency for Microfinance/ International Finance Corporation (IFC)
3.	**U Microfinance Bank**	2004	Country-wide	Pakistan Tele communication Company Ltd (PTCL)
4.	**Apna Microfinance Bank**	2004	Country-wide	Auriga/ United Insurance Group
5.	**Telenor Microfinance Bank**	2005	Country-wide, scheduled Bank	Telenor, Ant Financial (Alipay)
6.	**Pak Oman Microfinance Bank**	2006	Country-wide	Pak Oman Investment Company/Sultanate of Oman
7.	**FINCA Microfinance Bank**	2008	Country-wide	IFC/Foundation for International Community Assistance (FINCA International) /Kashf Holding
8.	**NRSP Microfinance Bank**	2009	Country-wide	National Rural Support Program, Acumen Funds, IFC & KFW Development Bank
9.	**Mobilink Microfinance Bank**	2011	Country-wide	Pakistan Mobile Communications Limited (M/s Orascom)
10.	**Advans Pakistan Microfinance Bank Ltd.**	2012	Province-wide	Advans SA & FMO
11.	**Sindh Microfinance Limited**	2015	Province-wide	Sindh Bank Limited

Table 2: Performance indicators of Microfinance Banks in Pakistan, as of end June 2020

(Amt. in Rs. million)

MFBs	Branches	Borrowers	Advances	Deposits	Depositors	Assets	Equity	Borrowings
Khushhali	187	880,152	57,387	73,244	2,318,355	91,119	9,673	833
First MFB	163	512,388	34,751	41,764	1,296,879	52,871	6,357	1,859
Telenor	111	528,925	18,543	35,070	20,293,584	49,371	3,385	0
NRSP	154	361,452	29,590	33,327	1,200,779	46,598	5,079	3,969
FINCA	130	225,554	21,229	25,484	1,393,350	38,430	4,500	4,913
Pak Oman	30	56,095	1,854	7	16,575	4,400	2,207	1,982
APNA	116	113,539	9,851	21,755	418,440	24,062	2,054	5
U MFB	201	321,949	25,129	27,806	1,024,287	47,911	3,974	9,872
Sindh	17	44,281	633	19	78,563	1,775	920	750
Advans	13	10,132	1,172	1,001	32,831	1,949	511	225
Mobilink	74	484,365	18,042	32,760	21,286,515	41,931	4,786	0
Total	**1,196**	**3,538,832**	**218,181**	**292,237**	**49,360,158**	**400,417**	**43,446**	**24,408**

Table 3: Microfinance Industry Indicators as of end June, 2020

Indicators	June-20			June-19		
	MFBs	MFIs	Total	MFBs	MFIs	Total
Number of MFPs	11	17	**28**	11	17	**28**
Number of Branches	1,196	1,859	**3,055**	1131	1,691	**2,822**
Total No. of Borrowers	3,538,832	2,273,860	**5,812,692**	3,483,934	2,290,064	**5,773,998**
Gross loan portfolio (Rs. in millions)	218,181	56,025	**274,206**	207,332	49,798	**257,130**
Average Loan Balance (Rs.)	61,653	24,639	**86,292**	59,511	21,745	**81,256**
Total No. of Depositors	49,360,158	-	**49,360,158**	34,327,968	-	**34,327,968**
Deposits (Rs. in Million)	292,237	-	**292,237**	248,809	-	**248,809**

Annex-11

Closing Remarks

To be delivered by Mr. Chinta Mani Siwakoti, Deputy Governor, Nepal Rastra Bank
At SAARCFINANCE Webinar entitled "Financial Inclusion"
December 2, 2020, 13.40 – 13.45

Organized by: Nepal Rastra Bank

Governor of Nepal Rastra Bank, Honorable Mr. Maha Prasad Adhikari

Governor of Bangladesh Bank Excellency Mr. FazleKabir,

Secretary General of SAARC His Excellency Mr. EsalaRuwanWeerakoon

Fellow Deputy Governor of Maldives Monetary Authority, Mr. Ahmed Imad

Session chairs, Session panelists from IMF and UNCDF, paper presenter from AFI, commentatorsand Webinar participants for SAARCFINANCE Central Bank Members,

Good afternoon.

As we are approaching the close of the webinar I would share my pleasure at how productive interaction has been using this virtual mode. However I feel that this would be furtherenhancedwith physical interaction. I would thus concur with the expression of Governor Mr. Adhikarihis confidence that the current situation will soon return to some semblance of normality and Nepal Rastra Bank thus looks forward to the opportunity to welcoming you in the near future physically to experience the diverse scenic beauty and warm hospitality in Nepal.

On a formal note, as the webinar is winding down I have been assigned for delivering the closing remarks. In general, I feel that the inaugural session had augured a productive webinar and have observed from the discussion at the webinar that this has been actualized. However, as sunrise is followed by sunset, all things that have started, also must come to an end, and so closing of the webinar is part of the natural process.

I would first like to thank Governor Mr. Maha Prasad Adhikari for delivering his welcome remarks at the inaugural session for commencing the webinar. Governor Mr. Adhikari had highlighted the activities of SAARCFINANCE in Financial Inclusion to support SAARC inclusive growth, with this being the most recent activity. I thus join Governor Mr. Adhikari is expressing our honor that NRB has given the responsibility of organizing this important program.

I would like to thank the speaker Secretary General of SAARC His Excellency Mr. EsalaRuwanWeerakoon for delivering the remarks and providing us a regional perspective of road map to economic and monetary integration, and had also highlighted the role of financial inclusion to support this process. I thank Secretary General His Excellency Mr. Weerakoon for deliberating on taking this forward in a cooperative manner.

I would express gratitude on behalf of the Webinar to Governor of Bangladesh Bank Excellency Mr. FazleKabirfor delivering the Key note address as well as gracing this final seminar. We wereenrich with overview of global and regional level situation regarding Financial Inclusion and also appreciated the activities being done in Bangladesh in this regard. I concur with your distinction of conventional/innovative or traditional/non-traditional approach to Financial Inclusion. I also agree with your concluding message we should not be surprised athaving challenges, but it is more important how we address those – it is thus an inspiring quote to us that the COVID-19 shock is natural however and it is thus important how we address it.

Ladies and Gentlemen,

I observe from all the three session in the business session that there was lively interaction and cross sharing of experiences.

- The first session gave a flavor of international experiences of Financial Inclusion, which was given feedback from three commentatorsfrom DAB, SBP and CBSL. All commentator highlighted on the current situation being a catalyst in digital transformation for financial inclusion. Also they had focused on gender issues.
- The second session had given respective country programs for achieving Financial Inclusion and also shared how they addressed COVID-19. I am happy to note that discussion re-confirms our view that while the importance and concept of Financial Inclusion has been more or less constant, however the modality of implementing it has been **dynamic** reflecting respective state situation, and it also suggests that those have not different greatly. *(From above first session: This situation also seems toconsistent when viewing international experiences that the modality of implementing financial*

inclusion differs only in the details). This can be described as unknowingly being synchronized with each other.

- In the final session, we benefitted from the interaction of panelists on the question does financial inclusion support or detract from financial stability.

Given this we have highlighted the commonality it is therefore safe to conclude that we have all benefitted from this Webinar. I would thus like to thank all the Session Chairs, Panelists, Paper presenter and Webinar participants for giving their active effort in making this Webinar a success and helping us extend our knowledge frontier.

Ladies and Gentlemen,

I would also share that the webinar is being recorded with presentation being compiled as ane-proceeding, which will be place on NRB home page hopefully by the end of this month.

Let me now wrap-upmyclosing remarks by once again expressing my pleasureto you all for participating in this wonderful event.

Thank you for your patience.

Annex-12

Governor of Bangladesh Bank Excellency Mr. Fazle Kabir
Secretary General of SAARC Excellency Mr. Esala Ruwan Weerakoon
Session chairs, Session panelists, paper presenters and participants from member Central Banks,

Esteemed guests,

1. The SAARCFINANCE Webinar on "Financial Inclusion" has completed and I have the privilege to deliver the vote of thanks at the event closing.
2. I would first like to thank the Honorable Governor Mr. Maha Prasad Adhikari, Nepal Rastra Bank for delivering welcome remarks. We are very encouraged and inspired by his welcome remarks.
4. I would like to extend cordial thank to His Excellency Mr. Esala Ruwan Weekaroon, SAARC Secretary General for making time despite his busy schedule for delivering his special address. This indeed strengthens our coordination within SAARC Region.
5. I would extend special thanks to the distinguished keynote speaker His Excellency Governor Mr. Fazle Kabir for allocating his precious time to deliver keynote speech. We are grateful for the shared knowledge that was very appropriate economies like ours.
5. I would also thank respected Deputy Governor of Nepal Rastra Bank Mr. Chinta Mani Siwakoti for delivering his closing remarks.
6. I would like to thank all the session chairs Mr. Ahmed Imad, Deputy Governor, Maldives Monetary Authority; Sri Anil K. Sharma, Executive Director in Charge of Financial Inclusion and Development Department, Reserve Bank of India; and Ms. Nangsi Dema, head of the Financial Inclusion Secretariat, Royal Monetary Authority of Bhutan for chairing their sessions in a disciplined manner.
7 I would like to extend thanks to Mr. Robin Newnham, Head of Policy Analysis, Alliance for Financial inclusion for delivering his valuable insights and thoughts as a paper presenter.
8. I would like to give special thanks to Mr Luis E. Breuer, IMF Senior Resident Representative; Ms. Maria Permodo, UNCDF, Regional Manager; and Dr. Prakash Kumar Shrestha, Executive Director of Nepal Rastra Bank (who is currently deputed as advisor to the MoF) for delivering their thoughts as panelists and contributing to enrich the discussion.
9. I would like to extend sincere thanks to all the commentators, participants and observers, who have contributed their valuable presence and also for attending this event. I feel that your participation will contribute to enhance financial inclusion through developing, updating and also amending financial inclusion policies, strategies, frameworks, guidelines among others in future.
10. Lastly I would like to extend thanks to the SAARCFINANCE Webinar Secretariat led by Executive Director Dr. Nephil Matangi Maskay, with special appreciation to Assistant Director Mr. Roshan Dahal who supported as the **backbone** to the Secretariat as Member-Secretary, for accomplishing the Webinar in a well-managed manner. I would express my appreciation to Deputy Director and SAARCFINANCE Alternate Coordinator Mr. Dambar Subedi who played an appreciable role of MC in the Webinar.
11. Finally, I would like to thank all of you for your active participation in the webinar.

Annex-13

SAARC

SAARCFINANCE Webinar on

"Financial Inclusion"

2 December 2020 | Kathmandu, Nepal

Organized by:

Nepal Rastra Bank

INTRODUCTION

SAARCFINANCE is a permanent network of Central Bank Governors and Finance Secretaries of the SAARC Region. The key objective of which is to facilitate exchange of ideas and experiences related to macroeconomic policies in South Asia. It was established on 9 September 1998 as agreed by the respective Head of States of the SAARC Region during the 10th SAARC Summit held in Colombo on 29 July 1998, which was later formally recognized as a permanent body during the 11th SAARC Summit held in Kathmandu on 4-6 January 2002. SAARCFINANCE was initially established with seven members (Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka) and was expanded to include Afghanistan during the 14th SAARC Summit held in New Delhi on 3-4 April 2007. The SAARCFINANCE Group Meetings are held twice a year, one of which is held in the SAARC Region while the other is held at the sideline of the International Monetary Fund /World Bank Annual Meetings. At the 39th SAARCFINANCE Group Meeting held on October 17, 2019 in Washington DC, it was decided to accept the proposal by Nepal Rastra Bank to conduct the seminar on Financial Inclusion. Given the global impact of COVID 19, which have restricted in person meetings and easy commercial travel across borders, this had prompted to organize the seminar in virtual platform as Webinar. This is also reflective of the changing modality of implementing financial inclusion. In this regard, NRB has the pleasure of organizing this SAARCFINANCE Webinar on “Financial Inclusion” for Member Central Banks.

Nepal Rastra Bank

Nepal Rastra Bank (NRB), the Central Bank of Nepal, was established in 1956 under the Nepal Rastra Bank Act, 1955, to discharge the central banking responsibilities including guiding the development of the embryonic domestic financial sector. Since inception, there has been significant growth in both the number and the activities of the domestic financial institutions and to reflect this dynamic environment, the objectives of the Bank have been recast by the Nepal Rastra Bank Act, 2058 (2002) one of which is “To increase the access of the financial service and increase the public confidence towards the banking and financial system by maintaining stability of the banking and financial sectors”. In this regard, the NRB has produced a Financial Literacy Framework with Vision, Mission, and Goals, they are:

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

SAARCFINANCE Webinar on “Financial Inclusion”

(Program Schedule)

December 2, 2020 (Wednesday)

Inaugural Session

09:15 am	Registration of delegates
09:30 am-09.35 am	Welcome Remarks by Mr. Maha Prasad Adhikari, Governor, Nepal Rastra Bank
09.35 am – 09.40 am	Remarks by H.E. Mr. Esala Ruwan Weerakoon, SAARC Secretary General
09:40–09:55 am	Keynote speech by Excellency Mr. Fazle Kabir, Governor, Bangladesh Bank

Session 1: Paper Presentation (10.00 – 11.00)

Session 1: *Financial Inclusion in the new normal (COVID 19)*

Chair by:	Ms. Nangsi Dema, Head Financial Inclusion Secretariat, Royal Monetary Authority of Bhutan
Presenter:	Mr. Robin Newnham, Head of Policy Analysis, Alliance for Financial Inclusion
Commentator:	Mr. Matiullah Stanikzai, Payment Analyst, Da Afghansitan Bank
Commentator:	Dr. M. Farooq Arby, Director Research Department/ SAARCFINANCE Coordinator, State Bank of Pakistan
Commentator:	Dr. Chandranath Amarasekara, Director, Economic Research Department, Central Bank of Sri Lanka

Session 2: Country Presentations(11:00 – 12:30)

Chair by: Mr. Ahmed Imad, Deputy Governor, Maldives Monetary Authority

(10 Minutes for each presentation)

1. Da Afghanistan Bank
2. Bangladesh Bank
3. Royal Monetary Authority of Bhutan
4. Reserve Bank of India
5. Maldives Monetary Authority
6. Nepal Rastra Bank
7. State Bank of Pakistan
8. Central Bank of Sri Lanka

Session 3: Panel Discussion (12:30 – 13:40)

" Are objectives of Financial Inclusion and Financial stability- Complementary or Substitutes?"

Chair: Shri Anil K. Sharma, Executive Director in-Charge of Financial Inclusion and Development Department, Reserve Bank of India

There has been general conclusion on the relationship between the objectives of financial inclusion (i.e. promoting financial inclusion through greater access to and usage of formal financial products and services for low-income individuals and business firms) and financial stability (i.e. to maintain the resilience of the financial system to play its intermediation role in the face of a variety of shocks). However, in the situation of COVID–19 economic impact, a new normal, these conclusions will have likely changed. In this regard, some issues for discussion are:

1) What is the relationship between financial stability and financial inclusion positive, neutral, or negative? How has this changed in the new normal?
2) Are objectives of Financial Inclusion and Financial Stability - Complements or Substitutes to each other? How has this changed in the new normal?
3) How do countries at different levels of financial sector development, balance the trade-off between Financial Inclusion and Financial stability?
4) What is the role of central bank for financial inclusion? How has this changed in the new normal?

The panel session will be conducted in Davos Style with the Session Chair moderating and each panelist making comments of approximately 10 minutes followed by a moderated discussion. No PowerPoint presentation or formal speeches will be used, to foster an open discussion.

Panelist: Mr. Luis E. Breuer, Senior Resident Representative International Monetary Fund

Panelist: Dr. Prakash Kumar Shrestha, Economic Advisor, Ministry of Finance, Government of Nepal and Executive Director Nepal Rastra Bank

Panelist: Ms. Maria Perdomo, Regional Manager UNCDF

Closing Session (13:40 – 13:45)

Closing Remarks by Mr. Chinta Mani Siwakoti, Deputy Governor, Nepal Rastra Bank

Vote of Thanks by Mr. Narayan Prasad Pokhrel, SAARCFINANCE Coordinator & Director (Act.), Nepal Rastra Bank

LIST OF DELEGATES ATTENDING SAARCFINANCE WEBINAR

S.N.	Central Bank/ Monetary Authority	Name of Delegates	Position
1	Da Afghanistan Bank	Mr. Mohammad Dawood Niazi	Regional Economic Analyst and coordinator /Coordinator
		Mr. Matiullah Stanikzai	Payment Analyst
		Ms. Sudaba Zahidi	Consumer Production Analyst
2	Bangladesh Bank	Dr. Sayera Younus	General Manager/Coordinator
		Mr. Gazi Md. Mahfuzul Islam	Deputy General Manager
		Ms. Prajna Paramita Saha	Joint Director
3	Royal Monetary Authority of Bhutan	Mr. Sonam Tobgye	Chief Research Officer/ Coordinator
		Mr. Tshering D. Dorji	FIL Program Coordinator
		Mr. Uttam Ghalley	Trainee Officer
4	Reserve Bank of India	Mrs. Sushmita Phukan	General Manager
		Mr. Abhishek Kumar	Assistant General Manager
		Mr. Ajesh Palayi	Research Officer / Alternate Coordinator
5	Maldives Monetary Authority	Ms Mariyam Rashfa	Executive Director (Alternate Coordinator)
		Ms Asna Hamdi	Senior Manager
		Ms Fathimath Sadiq	Credit Analyst
6	Nepal Rastra Bank	Mr. Ram Prasad Gautam	Director
		Mr. Nischal Adhikari	Director
		Mrs. Meena Pandey	Director
7	State Bank of Pakistan	Mr. Noor Ahmed	Director
		Dr. M. Farooq Arby	Director/ Coordinator
8	Central Bank of Sri Lanka	Mrs S D N Chamindani	SO III
		Dr. M M J D Maheepala	SO III/Alternate Coordinator
		Mr A S Fernando	SO II

SPEAKER/CHAIR PROFILES

INAUGURAL SESSION

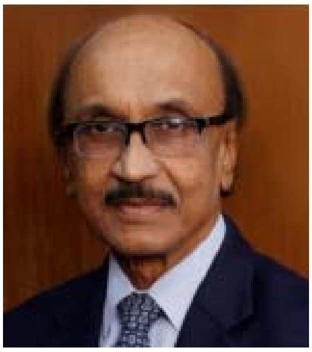
1. WELCOME REMARKS

Governor Mr. Maha Prasad Adhikari was appointed on April 2020 as the 17th Governor of the Central Bank of Nepal, Nepal Rastra Bank (NRB). Prior to his appointment as the Governor of NRB, he served as Chief Executive Officer at the Investment Board Nepal (IBN), Government of Nepal. Preceding his tenure at the IBN, Mr. Adhikari was Deputy Governor of NRB for the five-year period starting from December 2010.

During his three-decade long career in NRB, Governor Mr. Adhikari gained expertise in a wide-range of central banking operations. After his appointment as Governor, he is leading the Bank in managing the economic impact of COVID 19 on the domestic financial system. In addition to his many responsibilities, Governor Mr. Adhikari is a board director of Alliance for Financial Inclusion (2019 – 2021).

Governor Mr. Adhikari is a Chartered Accountant and fellow member of the Institute of Chartered Accountants of Nepal.

2. KEY NOTE SPEAKER



Mr. Fazle Kabir has been serving as the Governor of the Bangladesh Bank since March 20, 2016. Before joining the central bank, he had a long and distinguished career in the civil service. He started his professional career in the Bangladesh Civil Service in 1980, subsequently serving in key policymaking capacities in several ministries, including as the Director General of the National Academy for Planning and Development and the Rector of the BCS Administration Academy and Secretary in the Ministry of Railways. During 2012-2014, as Finance Secretary he negotiated Bangladesh's Extended Credit Facility program with the IMF. He also served as a Director in the Board of Bangladesh Bank. Prior to joining as Governor, he was holding the position of Chairman of the Board of Directors of Sonali Bank Limited, the largest State-owned commercial bank in Bangladesh. Governor Kabir holds a Masters degree in Economics from Chittagong University, Bangladesh.

3. REMARKS

Esala Ruwan Weerakoon of Sri Lanka assumed office of the Secretary General of the South Asian Association for Regional Cooperation (SAARC) on 01 March 2020. SAARC comprises the eight countries of South Asia, namely, Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka. Its Secretariat is based in Kathmandu, Nepal.

Prior to assuming the post of Secretary General, Weerakoon served as the Senior Additional Secretary to the President of Sri Lanka. Previously, he had served as Sri Lanka's High Commissioner to India and Ambassador to Norway.

During his diplomatic career spanning over 35 years, Weerakoon served as Sri Lanka's Acting High Commissioner to Seychelles; Deputy High Commissioner to Australia; and Deputy Chief of Mission in Washington DC. His foreign positions also included assignments in different capacities in Sri Lanka's Missions in the United Kingdom, Japan, Malaysia and France. He joined the Sri Lanka Foreign Service as a probationer in 1988.

Apart from working in different Divisions in the Ministry of Foreign Affairs of Sri Lanka, Weerakoon served as Additional Secretary to the Ministry of Economic Development and the Ministry of Housing and Samurdhi.

Weerakoon was educated at Royal College, Colombo. He studied economics at the University of Kelaniya and undertook post-graduate studies at the London School of Economics.

His areas of interest include Humanitarian Issues and Conflict Resolution Issues.

Besides Sinhala and English, Weerakoon speaks French. He likes to play Table Tennis and Tennis.

BUSINESS SESSION

SESSION 1 CHAIR: Ms. Nangsi Dema, Head, Financial Inclusion Secretariat, Governor's Office, RMAB

Qualification:

- Master of Science degree in Public Policy and Program Management from University of Bradford, UK
- Post-graduation in Financial Management and B.Com (Honors) Degree in Bhutan.

Job experience:

- Head of Financial Inclusion Secretariat, Royal Monetary Authority, the Central Bank of Bhutan (current 5 years).

- Deputy Commissioner, Department of Revenue and Customs, Ministry of Finance, Bhutan ((13 years)

Financial Inclusion key contribution

- Spearheaded the formulation of the National Financial Inclusion Strategy (NFIS) and the Financial Literacy Strategy (NFLS) 2018-2023;
- Spearheaded the development and implementation of the Financial Inclusion National Action Plan (FINAP) 2019-2023;
- Spearheaded the formulation of the Financial Consumer Protection Regulation 2018;
- Development of the 21st Century Financial Inclusion Roadmap;
- Development of the Inclusive Green finance Roadmap;
- Spearheaded in integrating the Financial Literacy curriculum into the mainstream formal education, Non-formal learning and vocational institute;
- Initiated on introducing programs on Youth Ethics (YE) Banking, Student Business Seedling (SBS) and Little CEOs;
- Initiated on introducing Jabchor platform for equity financing (angel investor platform) for access to finance for youth projects;
- Financial Inclusion and literacy related knowledge product development –State of Financial Inclusion Report, e-finlit newsletter and publication on educational curriculum integration in Bhutan;
- Spearheaded on the Alliance for Financial inclusion (AFI) international publication on 'integrating IGF into NFIS' and 'member series document for Bhutan'; and
- Spearheading the Demand Side Surveys and development of financial literacy capability measurement tools.

SESSION 1 PAPER PRESENTER: Robin Newnham, Head of Policy Analysis at the Alliance for Financial Inclusion

Robin Newnham is Head of Policy Analysis at the Alliance for Financial Inclusion, a global network of policymakers and regulators working towards inclusive finance for all. His work includes developing policy insights on emerging financial inclusion trends, including the opportunities and risks arising from technological innovation as well as policy solutions for disadvantaged groups. Robin also represents AFI in the G20 Global Partnership for Financial Inclusion, and with global standard setting bodies such as the Financial Action Task Force and the Financial Stability Board. Prior to joining AFI, Robin spent seven years working for the United Kingdom Treasury.

SESSION 2 CHAIR: Mr. Ahmed Imad, Deputy Governor, Maldives Monetary Authority

Mr Ahmed Imad was appointed as the Deputy Governor and a board member of the Maldives Monetary Authority (MMA) on 9th September 2020. Prior to his appointment, he was the Deputy Head of the Monetary Policy, Research and Statistics Area of the MMA. During his career spanning 20 years, he held important positions in the Banking Supervision Division and Financial Sector Development Unit of the MMA.

Among his external representations, he served as a central bank representative on the board of the Capital Market Development Authority (CMDA) of the Maldives and was also the SAARCFINANCE Alternate Coordinator for the Maldives.

SESSION 3 CHAIR: Anil Kumar Sharma, Executive Director, RBI

Anil Kumar Sharma is the Executive Director, Reserve Bank of India. Before taking over as ED, he was headed the Enforcement Department of Reserve Bank of India as Chief General Manager.

He has done his Masters in Economics from Doaba College Jalandhar, Punjab and was UGC Fellow at Gokhale Institute of Politics and Economics, Pune before joining RBI in 1986. He holds a Diploma in Treasury and Risk Management and is a Certified Associate of Indian Institute of Bankers.

His experience in the Bank lies in the area of management of currency and banking, rural credit, and supervision. He also worked as member of faculty in RBI College of Agricultural Banking, Pune.

PANELIST 1: Luis E. Breuer, SRR, IMF to India, Nepal and Bhutan

Luis E. Breuer is the senior resident representative of the International Monetary Fund to India, Nepal, and Bhutan. Prior to this, he held a number of posts in both the Asia and Pacific and the Western Hemisphere departments of the IMF, including head of the South East Asia and Caribbean divisions, mission chief to Indonesia, Philippines, Thailand, and Jamaica, and resident representative in Nicaragua and Peru. He has also worked in the Monetary and Capital Markets Department of the IMF, advising central banks on their operations. Before joining the IMF, Mr. Breuer was member of the Board of Director of the central bank of Paraguay. A citizen of Paraguay, Mr. Breuer holds a Ph.D. in economics from the University of Illinois at Urbana-Champaign.

PANELIST 2: Prakash Kumar Shrestha, PhD, Economic Advisor, Ministry of Finance, Government of Nepal

Dr. Shrestha is recently appointed as Economic Advisor at Ministry of Finance, Government of Nepal on deputation from Nepal Rastra Bank in October 2020. Prior to that, he was Executive Director of Microfinance Institution Supervision Department of the Bank. He joined the Bank in 1997 and worked at the Research Department for a long time. He was SAARCFINANCE Coordinator of NRB for the period of 2015 to 2017. He also served as Vice Chairman of Province Planning Commission of Lumbini Province during 2018-19. He obtained M.A. in Economics from Tribhuwan University, Nepal in 1996, Master in Economics and Finance from Curtin University, Australia in 2004 and PhD in Economics from New School for Social Research, USA in 2012. He has specialization in macroeconomics, monetary and financial economics. He has published several research articles in international and national journals and contributed book chapters.

PANELIST 3: Maria PERDOMO, Regional Manager for Asia, Inclusive Digital Economies, UNCDF

Maria has spent the past 15 years focused on removing market constraints to advance financial inclusion in Least Developed Countries and Emerging Markets. As Regional Manager of UNCDF's Regional Digital Hub for Asia, Maria provides strategic vision and technical support to develop inclusive digital economies that can unlock private finance for all and support the achievement of the SDGs in the region. In her previous role as Youth Finance Lead, Maria brought access to financial services to close to 1,000,000 youth of which 60% are young women and girls. Her portfolio grew from 8 to 13 countries and from USD 12 to USD 20 million from 2015 to 2020. She enjoys building and leading innovative strategies and partnerships to reduce the gender gap and to address the obstacles to achieve young women and girls economic empowerment. She has worked with policy makers, banks, mobile money operators, Fintechs, developers of digital solutions, youth serving organizations and NGOs' across Africa, Asia and Latin America. She has a masters degree in International Affairs and Economic Development from Columbia University, and a Bachelors Degree from Externado de Colombia University and l'Institut de Sciences Politiques de Paris (Sciences-Po). She is originally from Colombia and the mother of three wonderful kids.

CLOSING REMARKS

Deputy Governor **Mr. Chinta Mani Siwakoti** was appointed on March 2, 2016, as the Senior Deputy Governor of the Central Bank of Nepal, Nepal Rastra Bank (NRB). Currently, he is also Board member of Social Security Fund of Nepal.

Prior to his appointment as the Deputy Governor, he served as Executive Director of NRB, heading Microfinance Promotion and Supervision Department and then Currency Management Departments. During his career of more than three decades, he worked as National Manager of UNDP and UNCDF funded project on "Enhancing Access to Financial Services", which was designed to enhance financial access and inclusion. Mr. Siwakoti was also Board member of Deposit and Credit Guarantee Fund, Madhya Pashimanchal Grameen Bikash Bank and member of the Recruitment Committee of Sana Kisan Bikas Bank Ltd.

Deputy Governor Mr. Siwakoti holds dual MBA degrees from Tribhuvan University, Nepal and Southern New Hampshire University, USA.

7. Financial Access and Indicators of SAARC Countries

Among the eight SAARC states except Sri Lanka, Bhutan has the highest number of commercial bank branches per 100,000 adults (19.31) in 2019 followed by Nepal (17.79) whereas Afghanistan holds the least ratio (1.87) in the region. Similarly, number of ATMs per 100,000 adults in 2019 is highest for Bhutan (48.09) followed by Nepal (17.79) and India (14.58) where least in the region is for Afghanistan (1.64). Outstanding loans from commercial bank (% of GDP) in 2019 are highest for Bhutan (92.22) followed by Nepal (72.18) and India (48.55) respectively.

**Source: IMF Financial Access Survey (FAS). Data has not been available for Sri Lanka.*

About Nepal

Wedged between two countries, the People's Republic of China to north and the Republic of India in the remaining directions, Nepal is the birthplace of Lord Gautam Buddha, the "Light of Asia". The highest peak in the world – which is 8848 m – is also situated in Nepal. Following are some Macroeconomic Surveillance Indicators and some Financial Access Indicators.

Macroeconomic Surveillance Indicators (mid-March 2020):

S.N.	Core Indicators	2017/18	2018/19	2019/20*
1	CA as a percentage of GDP	-8.1	-7.7	-5.1
2	Reserve as percentage of Merchandise and Service Import (in months)	9.4	7.8	9.7
3	National debt as percentage of GDP	30.1	30.3	30.3
	a. External debt as percentage of GDP	17.3	17.2	18.6
	b. Domestic Debt as percentage of GDP	12.8	13.1	11.9
4	Domestic credit as percentage of GDP	90.5	96.7	106.9
5	Budget deficit as percentage of GDP#	10.41	9.73	5.70
6	Inflation (12 months average)	4.2	4.6	6.5

* As the GDP compilation in Nepal is on fiscal year, the above indicators are based on data till Mid-March 2020 (8 months of fiscal year 2019/2020)

\# Budget deficit as percentage of GDP of Central Government

Source: Economic Survey 2076/77, Ministry of Finance

Financial Inclusion Indicators* (Year end, Mid July 2020)

1	No. of institutions	69
2	No. of Branches	5,708
3	No. of Deposit Accounts	32,454,204
4	No. of Loan Accounts	1,544,059
5	No. of Branchless Banking Centers	1,574
6	No. of Branchless Banking Customers	193,607
7	No. of Mobile Banking Customers	11,306,797
8	No. of Internet Banking Customers	1,031,227
9	No. of ATMs	4,106
10	No. of Debit Cards	7,329,202
11	No. of Credit Cards	160,297
12	No. of Prepaid Cards	63,775

*Source: NRB

8. Technical Guidelines for Webinar

The Webinar will be held virtually by ZOOM from 09.15 AM to 01.45 PM Nepal Standard Time (NPT) on December 2, 2020. The attached document provides information on the technical arrangements for the virtual meeting.

NRB PROGRAM MANAGEMENT COMMITTEE AND WEBINAR SECRETARIAT

From Left to Right:

Mr. Amarendra Kumar Saroj, Mr. Shiva Ram Dawadi, Dr. Nephil Matangi Maskay, Mr. Narayan Prasad Pokhrel, Mr. Damber Subedi, Mr. Ganesh Man Maharjan, Mr. Roshan Dahal,

Name	Designation	
Dr. Nephil Matangi Maskay	Executive Director	Coordinator
Mr. Shiva Ram Dawadi	Director	Member
Mr. Narayan Prasad Pokhrel	SAARCFINANCE Coordinator & Director (Act.)	Member
Mr. Damber Subedi	SAARCFINANCE Alternate Coordinator & Deputy Director	Member
Mr. Roshan Dahal	Assistant Director	Member-Secretary
Mr. Ganesh Man Maharjan	Deputy Director	Member (Invitee)
Mr. Amarendra Kumar Saroj	Assistant (IT)	Member (Invitee)

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Glimpses of the Webinar