Financial Literacy for Increasing Sustainable Access to Finance in Nepal*

Ramesh Prasad Chaulagain[1]

Abstract

Recent policies and practices of Nepali financial sector are focused to establish financial institutions to increase people's 'access to finance'. As a result, the numbers of financial institutions licensed both by Nepal Rastra Bank and Government of Nepal are growing rapidly. All the institutions are doing the similar functions in the same market. The financial institutions licensed by Nepal Rastra Bank are classified into commercial banks, development banks, finance companies and micro finance development banks, whereas the Government of Nepal licenses to the saving and credit cooperative socieites (SACCOS). Despite the supply sided endeavors, the demand side considerations in financial sector is more silent. This creates a concern about the capability of people in consuming financial services. As a result, quality and sustainable access to finance are in question. Furthermore, the expansions of such institutions are also concentrated in urban, semi-urban and priviledged areas causing unequal distribution of institutions and limited access to finance. This situation has given rise to unhealthy competition among the actors focusing on earning rather than empowering the financial consumers. This paper explores how far the expansion of Banks and Financial Institutions including cooperatives assures the access to finance and its sustainability. The secondary data shows a significant growth of financial sector and an increment of number of people involved in financial transactions in the banking industry. However, the primary data of the study shows that such expansion is necessary but not sufficient condition to assure a sustainable access to finance. The study also explores the worth of financial literacy among the people both in urban and rural areas as one of the means to enhance people's access to finance and its sustainability. The paper is based more on the discussion and analytical approach with a mix of secondary and primary sources of data.

Key Words: Financial literacy, Financial sustainability, Access to finance

JEL Classification: G21, G29

The earlier version of this paper is available at www.nrb.org.np under NRB Working Paper series, NRB-WP-31, 2015.

* *The paper is a revised version of the conference paper. The conference was organized by Nepal Rastra Bank, Kathmandu (14-16 February 2015)*

1 Assistant Director, Nepal Rastra Bank. Also a Ph.D. Student, Kathmandu University School of Education, e-mail: chaulagainramesh@gmail.com

I. INTRODUCTION

Background

Access to finance is a growing concern around the world, particularly in underdeveloped and developing countries. It is a concept of easy, frequent and sustainable reach of individuals in formal financial institutions for regular financial activities. The access is sustainable when the people are satisfied, convinced and well-facilitated as their financial needs are met. Therefore, access to finance is a process of retention of financial service users in the financial institutions rather than a single time and occasional availability of such services. From this perspective, access to finance influences the financial well-being of people with low income as well. Access to finance is strongly associated with poverty reduction worldwide (World Bank, 2008). Similarly, Nepal Rastra Bank (2011) in its project report mentioned that providing access of financial services to the poor, marginalized and excluded segment of people would help their livelihood be better-off. Similarly, Kendal, Mylenko and Ponce (2010) have labeled the rise of financial inclusion as an important policy goal backed by mounting evidence that access to financial products can make a positive difference in the lives of the poor. The study has a finding of a positive relationship between and among the financial literacy as a supply side consideration, financial inclusion and financial access. The study helped to explore the issue of financial literacy in terms of access to finance.

This study is useful in three-folds, i.e. for policy makers and regulators, service providers of financial businesses and the consumers of the financial services, i.e. depositors and borrowers of the financial market. The minimization of regulation and supervision cost is possible through financially literate consumers. The service suppliers could minimize their counseling efforts, thereby reducing operating cost. Decrease in debts and defaults are also highly likely for financially literate people. Similarly, the consumers would be well aware of financial services which would involve them in sustainable and consistent use of financial services. From a quantitative perspective, the data shows a significant growth of financial service providers and amount of transactions to claim an increasing pace of access to finance. But from a qualitative perspective, there are other aspects that might affect the sustainable access to finance as well. Access to finance, in this sense, can also be addressed by empowering the consumers and considering the demand side factors.

The Context

The number of BFIs in Nepal has been increasing the 1990s, as the Nepalese economy stepped towards liberalization. Nepal Rastra Bank (2014) states that one of the reasons behind the quantitative growth of banking and financial institution in Nepal was the financial liberalization. Such expansion of financial market assured the supply of financial services to the people. Within the expansion of the financial system, the banking system has a significant stake. The structure of the Nepalese financial system is presented in *Annexure II*.

The proliferation of financial institutions has resulted to an increasing number of people receiving better and more financial services from the BFIs. In this connection, access to finance, primarily, is the issue of ease of availability of banking services to the people. And many policy level decisions have been taken till date for the pre-mentioned cause. One of the basic objectives of the Nepal Rastra Bank Act of 2002 is to expand banking services to the people. According to Nepal Rastra Bank (1996), the first phase of the effort made to increase banking and financial services for the people in the country was the were establishment of Nepal Bank Limited in 1937, Ratriya Banijya Bank in 1966, and Agricultural Development Bank in 1968. The same document mentions the period between the 70s and 90s as the second phase, as expansion of some joint venture commercial banks and some branches of existing banks occurred. After financial liberation in 1990s, the third phase of the expansion happened. New banks, financial institutions, cooperative societies and some financial NGOs were established. And now the Nepalese financial sector has entered a new phase of consolidation of existing financial intermediaries to strengthen the financial market.

This provides a vague picture of the efforts taken to increase financial access to the people, but it is quite difficult to assume how successful these efforts have been. Similarly, when policies and practices to increase number of financial institutions were being emphasized, the demand sided empowerment of the financial consumers was missing. The concept of expanding financial market was basically guided by a supply sided approach in the beginning phase. Additionally, empowerment of people for consuming supplied financial services is yet to be prioritized. Until and unless, the financial consumers are made financially literate, at least in basic financial matters, the consumption of the supplied services is at question. In this connection, there is a gap between supply sided financial services and demand sided empowerment or literacy approach of financial services.

The financial market of Nepal is found to have developed gradually. The process was speeded up more after 1990s. Paudel (2005) opined that the financial sector was liberalized from the beginning of 1990s, as a result new banks and financial institutions were established, from which the efforts of enhancing access of people to financial services entered into third phase. The ongoing phase concerns about controlling/minimizing the quantitative growth of the financial institutions in urban areas and promoting the financial services in rural areas and areas with conflict victims, low income families, marginalized and excluded people.

The distribution of financial service growth is heterogeneous in the country. The Nepalese economy comprises of rural and urban areas. Basically, the rural economy stands dominant in the agriculture sector whereas the urban areas are mainly occupied by the small and medium size industries and tertiary business sector. Relatively, the urban sector economy has more financial activities. Hence, most of the banks and financial intermediaries are seen interested in establishing their branches in relatively accessible, developed and urban areas. The picture of the regional distribution and establishment of banks and financial institutions are dense in the urban cities and areas with infrastructural accessibility. There is a wider difference between the financial market of Karnali and Bagmati zone as shown in *Annexure III*.

In this connection, the Nepal Rastra Bank (2010) halted the process of providing new license to the purely commercial financial intermediaries, i.e. class A, B, and C since its monetary policy for the fiscal year 2010/11. NRB is now working to downsize the number of financial intermediaries on one side, while applying promotional strategies for the promotion and establishment of D class micro financial institutions in districts where the access to finance is found relatively poor. The common objectives of these policies are to increase the access to finance of the widespread people regardless of income, sex, ethnicity and other variables. Relatively, these people also are exploited in the informal financial market as well.

Some Indicators of Measuring Access to Finance

Consultative Group to Assist the Poor (2009) has summarized three major categories of measuring access to finance in its survey report, i.e. savings and payments, credit and outreach or the coverage of delivering financial services such as Banks and Financial Institution branches, automated tailoring machine (ATM). The survey was conducted in 144 countries including OECD countries. In the report, the deposit and credit values are compared with GDP values whereas the physical expansions of the services are presented in numbers in terms of rural and urban areas. Suarez (2010) categorizes two broader indicators to measure access to finance in her background paper through OECD development centre, i.e. deposit and credit to deposit ratio, and physical expansion of financial service providers (BFIs) such as branches and their ATMs.

Kendal, Mylenko and Ponce (2010) in a World Bank Study, have highlighted the indicators of access to finance in terms of number of bank accounts (saving, credit), outreach (ATM, number of branches per hundred thousand people, adult population and BFI branches ratio, number of branches per sq. K.M area), saving and credit to GDP ratio. From these references, it can be summarized that the common indicators to measure the access to finance are growth of saving, credit, remittance, investments and expansion of branches of financial intermediaries, its ATM machines etc. The 2006 Access to Financial Services Survey done by Ferrari, Jaffrin and Shrestha (2007) has mentioned the measuring indicators of access to finance are based on number of people receiving financial service per branch, such as access to deposit, credit and payment services, opening bank account, increment in loan, increment in savings, increment in BFIs assets, monthly average saving, average credit outstanding, growth in number of BFIs. There are similarities among the indicators of access to finance in these references.

Problems

As 2.5 billion people worldwide still lack access to formal banking services, credit facilities, or savings instruments, bringing this largely ignored missing market into the formal financial system would enrich and strengthen the global economy (Nepal Rastra Bank, 2014, p19). The same report also mentions that ninety to hundred percent of the working age people in rural areas do not have access to formal financial system in Nepal. Atkinson and Messy (2013) mentioned in an OECD working paper that about 2.3 Billion people of working age are excluded from financial inclusiveness. Low level income, illiteracy, poverty and deprivation might the possible reasons for that. This shows the poor situation of expenditure management, borrowing, saving, and investing from formal financial system, while it also shows the possibility of exploitation of people by informal and shadow banking practices to the people. A significant number of people are found to be out of access of formal financing, and one of the reasons behind such affiliation and exploitation is low level of financial literacy.

Government of Nepal (2015) highlights that in spite of physical expansion of financial service providers in the country, around 60 percent of people are out of formal financial access (p98). To solve this, coordinated efforts of central bank and the government through fiscal and monetary policy are necessary. Efforts to formulate policies and various action plans have taken place, but the effectiveness of these plans is still in question. The report does not only discuss the inadequate expansion of physical expansion of financial intermediaries, but also explores the unequal distribution of such the expansion within the country, for example, some districts within the northern areas of the country do not have necessary expansions. Remote areas remain very poorly-served by formal financial institutions compared with the urban areas (p22).

Ferrari, Jaffrin, and Shrestha (2007) mentioned in the World Bank survey report on access to finance that the concentration of financial intermediation in privileged areas has given rise to unequal distribution of supply of financial intermediaries. They have argued that only increasing number of financial intermediation does not assure the qualitative financial access, its sustainability and satisfaction of service consumers. They also conclude that access to bank accounts and use of payment services is worse in rural Nepal than in rural India (p16). One of the possible reasons behind this is that the authority seems unable to make the financial market accountable to people.

In the same line, the Consultative Group to Assist the Poor (2009) stated that about three billion people in the world are not getting formal access to financial services due to which they are unable to achieve their financial welfare. The survey report said that the lack of access to financial services prevents the poor and low-income people from making everyday decisions that most people take for granted (p1). From these references, it can be argued that merely expanding BFIs branches are inadequate. Although such expansion is more concentrated in urban areas, people should be empowered and enabled to consume such supply sided services. Making the people financially aware would be the first step, and making the profit centric financial market accountable towards the people would be the next step for empowering the low income and marginalized people.

II. REVIEW OF LITERATURE

In this section, some relevant literatures are reviewed and critically analyzed. It includes two parts in major, first about financial literacy, its dimensions and its linkages with access to finance; and the second part is about the efforts made in Nepal to increase access to finance. Such efforts are found to revolve around the financial literacy.

Financial Literacy and its linkages with Access to Finance

Financial literacy is a part of behavioral finance, whereas the behavioral finance is all about how an individual behaves/should behave with money and income. A wise application of personal financial resources is a major scope of personal finance. In this connection, it is strongly argued that behavioral finance is also synonymously expressed as behavioral economics, a branch of micro economics. Behavioral finance is an extension of behavioral economics, which uses psychological insights to inform economic theory (Benartzi, 2010). In general, financial literacy has five dimensions; financial knowledge, skill, attitude, behavior and well-being.

Financial literacy could increase the financial knowledge, consciousness and financial skill or confidence of individuals, other things remaining the same, by which they could select better and appropriate financial services from the competitive market. The Australian Securities and Investments Commission (2014) defines financial literacy as a combination of knowledge, skill, attitude and behavior on usual financial matters. Program for International Student Assessment (2012) has added the concept of financial risk, financial motivation and confidence of financial matters and decision making in the definition of financial literacy. Similarly, Organization for Economic Cooperation and Development (2005), a pioneer research institution in the world, has broadly defined financial literacy in terms of skill development and enhancing access to financial services on the basis of informed choices among financial alternatives. It also has connected the financial literacy with financial well-being of individuals. There are several other definitions, explanations and explorations of financial literacy, whereas the core elements of financial literacy are the financial awareness, ability and confidence, perceptions and actions regarding the personal financial matters. Therefore, there is a rationale expectation that financial literacy is a key remedial aspect of the people to enhance access to financial services.

The strategic plan of Nepal Rastra Bank (2012), a milestone financial document to achieve financial stability, growth and justice has documented that a larger segment of the Nepalese population have poor access to formal financing. The same document has also highlighted the importance of financial literacy for marginalized and poor segment of the population. The document also states that financial literacy will be enhanced focusing specially on women, victims of conflict, ethnic minorities, deprived and marginalized section of population (Nepal Rastra Bank, 2012, p31). It shows a close and positive linkage of financial literacy of people to increase their access to finance. Similarly, Government of Nepal (2014), in its economic survey has mentioned about the weaker access to finance and inadequate financial inclusion in the country. The review report prioritizes increasing financial literacy of the people to increase such access and achieve such inclusion. It also shows that financial literacy is a tool to enhance *access to finance*.

Nepal Rastra Bank (2014) mentions in its monetary policy that every step the central bank takes is to achieve financial inclusion and access to finance; and this can be linked with financial literacy and financial consciousness of rural people. It also indicates that the financial knowledge, consciousness and skill of the individuals are the bases for financial inclusion and access. According to the same policy, the central bank is preparing a financial literacy strategy to increase financial access to the people and also enhancing their capability for use of financial instruments. However, a clear cut action plan is required about how the people are to be made financially aware and why.

The Financial Stability Report of Nepal Rastra Bank (2014) has also explained that there is a close relationship of access to finance, financial education and financial literacy. In other words, to increase outreach of the financial services of the deprived, marginalized and excluded segment of people, financial literacy and debt counseling are significant. Financial literacy is critical for promoting access to finance by creating incentives and environments that promote desired financial behaviors such as saving, budgeting, or using credit wisely (The World Bank, 2009). The report says that financially literate consumers can better select the appropriate financial services at competitive cost, and thereby the access to finance would be consistent and sustainable.

In the same line, Wachira (2012) has opined that household financial matters are the factors that affect accessing financial services and said that in order to understand the link between household financial decisions and financial literacy, there is need to better understand the households effective numeracy strength, as well as the connection between financial literacy and access to credit services (p2). His study found that financial literacy is positively related to access of financial services. He further argued that knowledge and skills on financial matters helps to select useful financial services with the lowest possible cost that helps for sustainable use of such services.

Nepal Rastra Bank (2011) in its project report 'Enhancing Access to Financial Services' has mentioned that promoting financial literacy among poor, women, minorities, disabled and dalits is a good way to achieve access to financial services for them. Similarly, Atkinson and Messy (2013) have also clearly mentioned in their OECD working paper that the target of financial literacy is to achieve financial inclusion and enhance access of the people in financial services. They have also argued that the financial illiteracy is a supply side barrier for both poor financial access and inclusion.

The above mentioned studies and other discussed documents conclude similarly, that there is a close relationship between financial literacy of a person and his/her consistent access to particular financial service behavior. But it is quite difficult to say by how much the access to those financial services are affected by financial knowledge and skills. Financial literacy and access to finance are relative concepts whereas their interrelationship is difficult to quantify. It is also not that easy to say which modality of financial literacy intervention is useful to enhance access to finance in a particular segment of people. It means that there is not a *one-size-fits-all* solution to make the people financially literate. It is so a contextual, relative and ever changing issue of personal financial knowledge, skill and behavior.

Some efforts to increase access to finance and financial literacy in Nepal

Nepal Rastra Bank has played a leading role in increasing the expansion of banking services and building public confidence in financial system from the beginning. There are several policies, efforts and reforms developed in this regards. Most of the financial plans, policy, and strategies are directed towards facilitating the people in financial service with various ways. But it is quite clear that the socio-economic condition of the country is largely diversified, and that requires a multi-angled effort to solve the problems of financial inaccessibility. It also means that, one-size-fits-all strategy will not work

(Consultative Group of Assist the Poor, 2009, p4) in this regard. Contextual, time specific, and capacity specific remedies are useful to enhance qualitative and quantitative access to finance.

In this reference, the Nepal Rastra Bank Act, 2002 has mentioned its fifth objective as to increase people's confidence towards the financial system. It means that people should have the eligibility, accessibility and capability to consume the available services. The NRB has various roles to play to achieve this objective. Strengthening the resilience of the banking system and promoting public confidence are major concerns of the central bank (Nepal Rastra Bank, 2012).

Nepal Rastra Bank (2012) has mentioned in its five years strategic plan about how to achieve access to finance. The growth of banks and financial institutions in the last two decades has been primarily urban centered. Thus a large segment of rural households does not have access to formal financing (p30). However, it is anticipated that by mid-July 2016, about two-third population will have access to formal financing (p31).

Government of Nepal (2013) has also focused to enhance the access to finance through banking services, in its three year of comprehensive development plan. Similarly, Government of Nepal (2010) had also focused in its twelfth three years comprehensive development plan to increase financial access. The document stresses that the financial access of the rural population is very poor (p40).

Nepal Rastra Bank (2014) has issued some directives to provide concessional deprived sector credit to Dalit, freed Kamaiya, Badi, Haliya, victims of conflict, single women, disabled and old aged citizens (p32). The districts having poor access to finance are Manang, Humla, Dolpa, Kalikot, Mugu, Jajarkot, Bajhang, Bajura, Darchula (p33). This indicates the efforts by NRB to increase access to finance in rural areas. "D" class institutions are receiving new license on a selective basis as microfinance institutions can be an effective means for financial inclusion and poverty elimination in rural areas (Nepal Rastra Bank, 2014, p103). Indirectly, such practice to control new licensing for financial Institutions (Class A, B and C) affects the access to finance adversely. But the efforts to include the rural sector, women, marginalized, minorities and excluded segment of people are expected to include them in financial mainstream with the efforts of D class financial intermediaries. To enhance financial inclusion and access to finance, a provision of granting interest free loan of up to Rs. 2 million has been made for Micro Finance Institutions, who have opened branches in 22 remote districts where presence of micro finance service is minimal. Such facility can be enjoyed for up to two branches established within first six months of this fiscal year (Nepal Rastra Bank, 2014, p109). This could encourage urban financial intermediaries to open and establish branches in the rural areas to increase their financial access.

A New policy of establishment of a Micro Finance Authority and a National Micro Finance Fund has been proposed by monetary policy of fiscal year 2014/15. Integration of Five rural development banks into one, revision of micro finance development bank directives, revision of directives to NRB licensed cooperative societies, upgrading directives for financial non-governmental organizations, formulation of a national financial literacy policy, conducting some public awareness programs for providing financial awareness, priority to set up a separate credit information agency for micro finance institutions are some additional initiation in the policy (p 109, 110). The major objectives of these policy initiations are making the low income and marginalized people financially aware and increasing their access in financial services as well.

Nepal Rastra Bank (2014) emphasizes that financial literacy is a promotional tool for increasing access to finance for which, it is necessary to formulate financial literacy policy and strategy. It has two implications, i.e. effective role of financial literacy to increase the access of people and ongoing effort to increase access to financial services. In the later years, the nervousness of policy makers has not been limited to expansion of financial services but also to empowering the consumers through financial literacy as well. Nepal Rastra Bank (2015) has also emphasized the triangular relationship among financial access, financial literacy and financial inclusion. The monetary policy also focuses to promote financial literacy to ensure financial inclusion of deprived, poor and low income people and to increase their access to finance. Such realization and policy emphasis creates a positive atmosphere to increase inclusive growth. But the policy is silent about the responsibility of making people financially literate.

III. STUDY METHODOLOGY

This paper primarily aims to establish a linkage of financial literacy and access of people in financial services. Furthermore, the paper also aims to discuss the quantitative expansion of financial service centers, outlets and growth volumes of financial transactions could ensure sufficient conditions to maintain financial inclusion and thereby enhance access to finance or not.

The paper is based on descriptive cum analytical design including both quantitative and qualitative data. To collect primary data, some interviews with structured questions were conducted. Under this paradigm of research, researchers ‘make sense of (or interpret) the meanings others have about the world’ (Creswell, 2009). For the interviews, two persons, one as a financial sector regulator and one as a financial sector role player are selected purposively. In the same line, Teddlie and Tashakori (2009) have explained a limited number of sample sizes, i.e. below 30, in qualitative study, selected on the basis of personal judgment of researcher. It means that the sample size in the qualitative study is limited and the number is out rightly determined with the researcher’s subjective judgment. The list of interview participants including date and venue, institutions of interviewee is presented in *annexure I*. Some of the secondary sources are used to present the numerical data in the paper.

IV. DATA AND ANALYSIS

The first part of this section presents some of the secondary data about expansion of financial service providers and financial services. The second part presents the interview data collected from different sources. Both the data are analyzed from different perspectives. The discussion concludes with an argument that quantitative expansion of financial services and service providers do not necessarily ensure the access to finance.

Similarly, on the basis of previous studies and papers, there is also a rational linkage between financial literacy and access to finance. In other words, financial literacy is one of the primary tools used to increase the access of people in financial services, and it is also helpful to sustain the involvement of people in financial services by providing them with the necessary financial knowledge, skill and trust.

The table in *annexure IV* shows a consistent growth of financial institutions including saving and credit cooperative societies (SACCOs) during the seven years period between 2008 and 2015. The growth of class D financial institutions and SACCOs are more consistent rather than the others. The table only shows the number of institutions licensed, not their branches. The table in *annexure V* shows the branches of these financial intermediaries. The table also shows a consistent growth of branches of class A, B and C Banks and Financial Institution (BFI), but growth of branches of class D during the period was low. While talking about the access to finance, the density of branches of BFIs are also important as it shows the concentration of these services geographically. Top ten districts having most financial access and bottom ten districts having least financial access are presented in the table as shown in *annexure VI*. The table and data are based on the total branches of banks and financial institutions, i.e. A, B, C, and D. The total population of Nepal is 26494504 according to the census report 2011. According to the table, financial access in Bajura is low as there are very less branches of BFIs compared to the population there whereas financial access in Mustang is very high, contributed by the low population. One of the reasons behind this unequal distribution of BFI branches is unequal density of population in these districts too.

Similarly, the table in *annexure VII* shows some additional indicators of access to finance during seven years period in the country. The data shows an expanded but concentrated supply of financial institutions in some of the areas. The table shows a consistent growth of deposit, credit and assets of banks and financial institutions, which help to generalize the access coverage of people in financial services, is in increasing order in these years. Almost all the amounts of saving, credit and assets of banks and financial institutions (excluding SACCOS) is found consistently increased during the review period. It is clear that the stake of total deposits in GDP is reached to 78.84 percent and per capita deposit has been reached to NPR 57 thousand and above.

Similarly, there are other indicators to show the access of people in financial services as the table in *annexure VIII*. In the table, we can see the number of deposit accounts has reached more than half of the total population. But, Consultative Group to Assist the Poor (2006) estimates that about one third of total deposit accounts of the developing countries are multiplied (p6). With this reference, the financial services are centered to a limited number of people, although volumes of transactions are seen to be increased.

With similar ground of increasing supply sided financial services, the interview participants commonly argued that only increasing the service providers, increment amount of saving and credit, do not necessarily ensure the sustainable access to finance. The reason behind this argument, according to them, are of two folds; there is still a limitation of how the service providers are making the consumers capable enough with available services for the long run and also that the supply sided expansion is more concentrated in urban and relatively developed areas of the country. Supply siders have limited efforts to make the consumers financially conscious and skilled, but rather they 'chase the profit'. The data, views and arguments derived from the participants are discussed and analyzed broadly as follow:

Conceptually, Access to finance is a process of increasing vertical and horizontal expansion of financial services and service providers according to need of people. The services are, normally, saving, credit and remittances. Efforts of enhancing access to finance are being practiced in the country, but still larger segments of the people are still out of reach of such services. That is why; new modified action plans are required. On the other hand, the financial literacy is financial knowledge and know-how to empower the existing clients and potential clients for sustainable use of financial services from formal financial institutions. Financial literacy is fundamental to save the people from financial fraudulences and exploitations; and this also helps to decrease cost of financing and risk, to control multiple financing and to promote fair financial competitiveness as well. They argue that the financial literacy helps to seek and preserve the clients.

Regarding the linkage between financial access and financial literacy, the participants have a unanimous opinion that there is causal relationship of financial literacy with access to finance. They argue that there is strong, positive and effective relationship between these two domains. Financial literacy is one of the ways to make the people more conscious, capable and motivated for taking better financial decisions. It is one of the ways of making people more capable to select the appropriate financial tools and sustainable use of it. Financially literate people also claim their financial right as economic citizen. There are two usual questions while exploring access to finance and financial literacy; why the people need the reach of financial services and what is the role of financial literacy for this. Tseng (2011) argued in his PhD thesis that capability is a good and valuable wealth of an individual than financial and non-financial wealth. It means that making financial and non-financial aids and privileges to people are less effective than making them capable to do something on their own. Similarly, Welch (2002) explained that disability and poverty are double razed; one promotes the next and vice-versa. It means that to reduce the burden of poverty, it is necessary to enhance some capabilities. Making a person better capable to understand, evaluate and behave rationally helps those better use financial activities in their regular lives. It makes them independent, capable and sustainable; as Sen (n.d.) described quality of human life is a basic issue of capability approach.

Some of the ways forward in regards of access to finance, according to the participants are; promoting financial literacy, increase the knowledge and skill of financial role players, conducting market research to identify potential financial service clients, continuing the credit plus activities in rural area, developing financial and non-financial infrastructures and providing some incentives to motivate the service providers. These methods are useful qualitative and quantitative tools to enhance access to finance. They emphasize to empower both, the existing and potential financial consumers by not only supplying the financial services but also by making them financially aware and literate.

The common views of the participants are in favor of both of qualitative and quantitative growth of financial services in the country. The quantitative growth concerns about increment of BFIs and SACCOs whereas the qualitative growth considers how more people are to motivate towards using the financial services and using these services in sustainable ways. Present efforts of access to finance seem less effective because the people are assumed to be less financially literate. The people with poor financial litetacy are unable to express their demand, unable to make their financial plan and are less conscious about financial service in more extent.

V. CONCLUSIONS

There is an increasing level of quantitative growth of financial services and institutions which normally show the positive trend of increment in access to finance. However, there is still a doubtful situation of multiple financing (Nepal Rastra Bank, 2014) and duplication of deposit accounts (CGAP, 2006). Still, a significant numbers of people are excluded from financial mainstream. The distribution of the financial institutions is unequal in the country, i.e. more concentration in urban areas than the rural areas of the country. "Despite rapid growth in the number of banks and financial institutions, a large proportion of rural population does not still have access to formal financing. During the plan period, policies will be designed to promote inclusive banking and increase the financial outreach to two-third of the total population" (Nepal Rastra Bank, 2012, p4). My study finds that financial literacy and access to finance are closely related each other. Similarly, supply sided endeavors are siginifcantly increased with compared to empowering the people to consume financial services. I recommend that the finacial services and finacial literacy are to promote simulataneously. For this, a clear-cut roles and responsbility is necessary to divide between regulator and role players.

Nepal Rastra Bank (2011) has raised a question on mere quantitative growth of financial services and service providers, and has also asked about the quality or demand side satisfaction, the consistent involvement of consumers, the sustainability of these services, and the positive impact of these so called increased accesses to finance? There is a need to assess the impact of these services to make the people capable enough in consuming, utilizing and sustaining the available financial services. Access is not about just having a bank account, but it is also about the convenience and safety of the account and whether these services are fairly priced, meet the needs of customers, and are offered by a solid institution that will be around over the long haul to help its customers manage their financial lives (CGAP, 2006). Financial literacy of individuals increases the likelihood of access to sustainable finance for identifying and consuming appropriate finacial services competitively. The consumption of financial services is sustainable when the consumers are financially aware, skilled and capable enough. The policy makers, therefore, should be aware of formulating the necessary financial literacy policy, strategy and similarly devising an action plan for promoting it. Although, financial literacy is *necessary but not sufficient condition* for enhancing access to finance, neither it is a panacea for all the financial problems of the individuals.

REFERENCES

Atkinson, A. & F. Messy. 2013. "*Promoting financial inclusion through financial education: OECD/INFE Evidence, Policies and Practice*." Organization for Economic Cooperation and Development Working Papers on Finance, Insurance and Private Pensions, No. 34, OECD Publishing.

Australian Securities and Investments Commission [ASIC]. 2014. *National Financial Literacy Strategy*: ASIC.

Benartzi, S. 2010. Behavioral Finance in Action. Center for Behavioral Finance.

Consultative Group to Assist the Poor [CGAP]. 2009. *Financial Access; Measuring Access to Financial Services around the World*. Washington, USA: CGAP.

Consultative Group to Assist the Poor [CGAP]. 2006. *Access for All: Building Inclusive Financial System*. Washington, USA: CGAP.

Creswell, J. W. 2009. *Research Design; Qualitative, Quantitative and Mixed Methods Approaches*. New Delhi, India. Sage Publications Inc.

Ferrari, A, Jaffrin, G. & S.R. Shrestha. 2007. *Access to Financial Services in Nepal*. Washington D.C., the World Bank.

GoN. 2011. *Census Report*. Government of Nepal.

_____. 2013. *Approach Paper for the Development Plan for the fiscal year 2013/14 to 2016/17*. National Planning Commission. Kathmandu, Nepal.

_____. 2015. *The Economic Survey of Fiscal Year 2014/15*. Government of Nepal.

Kendal, J., Mylenko, N., & A. Ponce. 2010. *Measuring Financial Access around the World*. Policy research working paper. World Bank.

NRB. 1996. *Forty Years of the Nepal Rastra Bank*. Nepal Rastra Bank.

_____. 2010. *Monetary Policy for the fiscal Year 2010/11*. Nepal Rastra Bank.

_____. 2011. *Enhancing Access to Financial Services. A project overview report*. Nepal Rastra Bank.

_____. 2012. *Strategic Plan (2012-16)*. Nepal Rastra Bank.

_____. 2014. *Banking and Financial Report*. Nepal Rastra Bank.

_____. 2014. *Financial Stability Report*. Nepal Rastra Bank.

_____. 2014. *Monetary Policy for the fiscal year 2014/15*. Nepal Rastra Bank.

_____. 2015. *Banking and Financial Statistics*. Nepal Rastra Bank.

_____. 2015. *Monetary Policy for the fiscal year 2015/16*. Nepal Rastra Bank.

Organization for Economic Cooperation and Development [OECD]. 2005. *Improving Financial Literacy: Analysis of Issues and Policies*: OECD.

Paudel, D. P. 2005. "*Financial Sector Development*." Nepal Rastra Bank in Fifty Years: Occasional Paper. Kathmandu Nepal. 157-166.

Program for International Student Assessment [PISA]. 2012. *Financial Literacy Assessment Framework*: PISA.

Sen, A. (n.d.). *Development as Capability Expansion*. Harvard University. 41-58.

Suarez, L.R. 2010. *Access to Financial Services in Emerging Powers; Facts, Obstacles and policy implications.*

Tseng, C. 2011. *Microfinance and Amartya Sen's Capability Approach: An unpublished PhD thesis*. University of Birmingham.

Wachira, M.I. & Kihiu, E.N. 2012. "Impact of Financial Literacy on Access to Financial Services in Kenya." *International Journal of Business and Social Science*. *Vol 3(19)*. 42-50.

Welch, P. 2002. *Disability and poverty have double razed; one promotes next and vice-versa. Disability is 'capacity deprivation'*. A conference Preceding; George Warren Brown School of Social Work; Washington University.

World Bank [WB]. 2008. *Finance for All? Policies and Pitfalls in Expanding Access*. World Bank Policy Research Report: WB.

World Bank [WB]. 2009. *The Case for Financial Literacy in Developing Countries; Promoting Access to Finance by Empowering Consumers*. The international Bank for Reconstruction and Development. Washington, USA: WB.

Annexure I
List of interview participants and plan

S.N.	Name of Participants	Designation	Institutions	Interview Date
1	Mr Chintamani Siwakoti	Act. Executive Director	Nepal Rastra Bank	2015/01/09
2	Mr BhojRaj Basyal	Deputy General Manager	Nirdhan MF Bank	2015/01/14

Annexure II
Structure of Nepalese financial system

S.N.	Nature of Institutions	Number
1	Commercial Banks	30
2	Development Banks	82
3	Finance Companies	51
4	Micro Finance Development Banks	34
5	Savings and Credit Cooperatives*	13,378
6	NRB Licensed FINGOs	28
7	Insurance Companies	25
8	Employees Provident Fund	1
9	Citizen Investment Trust	1
10	Postal Saving Bank	1

Source: Nepal Rastra Bank, Banking and Financial Statistics, Oct-2014
*Source: *=Department of Cooperatives*

Annexure III
Regional Distribution of Financial Intermediaries

S.N.	Zones and Regions	Class A	Class B	Class C	Class D	Total	Population
1	Mechi	81	30	8	71	190	
2	Koshi	151	67	14	105	337	
3	Sagarmatha	72	12	4	68	156	
	Eastern Development Region	**304**	**109**	**26**	**244**	**683**	**58,11,555**
4	Janakpur	83	37	4	82	206	
5	Narayani	162	114	21	117	414	
6	Bagmati	567	166	111	89	933	
	Central Development Region	**812**	**317**	**136**	**288**	**1553**	**96,56,985**
7	Gandaki	111	125	32	65	333	
8	Lumbini	135	138	29	94	396	
9	Dhawalagiri	38	29	5	21	93	
	Western Development Region	**284**	**292**	**66**	**180**	**822**	**49,26,765**
10	Rapti	55	36	5	41	137	
11	Karnali	14	0	0	5	19	
12	Bheri	77	40	4	42	163	
	Mid-western Development Region	**146**	**76**	**9**	**88**	**319**	**35,46,682**
13	Seti	55	15	2	39	111	
14	Mahakali	37	13	0	22	72	
	Far-western Development Region	**92**	**28**	**2**	**61**	**183**	**25,52,517**
	Grand Total	**1638**	**822**	**239**	**861**	**3560**	**2,64,94,504**

Source: Banking and financial statistics, Oct 2014: Nepal Rastra Bank

Annexure IV
No of Banks and Financial Institutions

S.N.	MP year	Class A	Class B	Class C	Class D	SACCOS	Total
1	2015/16	30	79	50	36	13,413	13,608
2	2014/15	30	84	53	37	12,983	13,187
3	2013/14	31	86	59	31	12,614	12,821
4	2012/13	32	88	70	23	11,392	11,605
5	2011/12	31	87	80	21	10,558	10,777
6	2010/11	27	79	79	18	8,000	8,203
7	2009/10	26	63	77	15	NA	181
8	2008/09	25	63	78	12	NA	178

Source: Monetary policy (from 2008 to 2015), Nepal Rastra Bank: data compiled by author
NA: data not available

Annexure V
No of Branches of Banks, Financial Institutions except SACCOS

S.N.	MP year	BA	BB	BC	BD	Total
1	2014/15	1547	818	239	826	3430
2	2013/14	1486	764	242	634	3126
3	2012/13	1369	686	331	550	2936
4	2011/12	1098	495	281	425	2299
5	2010/11	966	NA	NA	NA	966
6	2009/10	681	NA	NA	NA	681
7	2008/09	178	NA	NA	NA	178

Source: Monetary policy (from 2008 to 2014), Nepal Rastra Bank, compiled by the author
BA, BB, BC and BD are denoted as branches of class A, B, C and D financial institutions respectively
NA=data not available

Annexure VI
The districts having most and least financial access in Nepal

S.N.	Districts	Total population per branch	S.N.	Districts	Total population per branch
1	Bajura	72,026	1	Mustang	1,810
2	Bajhang	69,043	2	Manang	2,154
3	Kalikot	48,962	3	Kaski	3,419
4	Jajarkot	45,840	4	Kathmandu	3,654
5	Achham	45,183	5	Chitwan	4,478
6	Rautahat	41,946	6	Lalitpur	4,671
7	Rolpa	38,473	7	Myagdi	5,129
8	Salyan	36,562	8	Rupandehi	5,694
9	Mahottari	34,960	9	Bhaktpur	6,529
10	Dailekh	34,720	10	Tanahu	7,261

Source: Nepal Rastra Bank (Banking and Financial Statistics, 2015 August)

Annexure VII
Some financial access indicators (Rupees in Millions)

SN	Indicators	07/2008	07/2009	07/2010	07/2011	07/2012	07/2013	10/2014
1	Amount of total deposits	5,08,90,5	6,74,58,4	7,88,08,3	8,73,48,8	10,76,62,9	15,57,27,8	15,20,42,5
2	Amount of total credits	3,91,53,7	5,11,75,2	6,20,83,7	7,18,67,4	8,07,57,9	9,79,12,1	11,80,75,2
3	Total assets of BFIs	7,06,32,4	9,88,87,8	10,26,59,5	11,66,21,4	13,80,97,1	16,20,69,5	19,13,85,0
4	Nominal GDP	8,18,40,1	9,60,01,1	11,70,99,3	13,45,76,7	15,58,17,4	17,01,19,1	19,28,51,7
5	Total Deposits/GDP	62.18	70.27	67.30	64.91	69.10	91.54	78.84
6	Total Credit/GDP	47.84	53.31	53.02	53.40	51.83	57.56	61.92
7	Total assets of BFIs/GDP	86.31	103.01	87.67	86.66	88.63	95.27	99.23
8	Per capita deposit (Rs)	21,982	29,138	34,040	32,969	40,636	58,777	57,386

Source: Banking and financial statistics, October 2014, Nepal Rastra Bank

Annexure VIII
Some other indicators of access to finance

S.N.	Indicators	Situation
1	Density of BFI branches*	7,288
2	No of deposit accounts	1,43,34,000
3	No of credit accounts	10,08,000
4	No of people using debit cards	43,60,000
5	No of people using credit cards	59,352
6	No of ATM machines*	1,721
7	Deprived sector credit/total credits	5.16

Source: Nepal Rastra Bank, (2015). Monetary Policy for the Fiscal Year 2015/16
*Source: * Banking and financial statistics, August 2015, Nepal Rastra Bank*