

market and equal rights is a cause for concern indeed. It is thus imperative to make proper amendments relating to equitable redistribution of wealth, lest the burgeoning sociopolitical movement should obstruct the growth of not merely America but other economies as well.

Guest Article

A Report on Financial Access in Nepal

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1. Introduction

Access to finance enables individuals and enterprises to do what they desire. Financial access is the availability of financial services like credit, savings, deposit, ATM services, payments, insurance and other risk management services. According to World Bank, access to financial, physical and social infrastructure are necessary to complement the efforts of the poor people for living better lives and coping with risks. It is considered as one of the means to attain Millennium Development Goals (MDGs). Well- functioning financial markets are pre-requisites for the economic development of this region.

In recent years, delivery of financial services to the poor has increased worldwide. The numbers of public and private commercial banks, state-owned rural development banks,

cooperative banks and informal institutions- such as self-help groups, and savings and credit associations that provide financial services to the poor have grown. Delivery approaches have varied based on population densities, type of clients, growth of financial institutions and in some countries, the history of community and self-help initiatives. This growth has led to introduction of innovative products that have improved the means of livelihood for the poor, by building their assets and increasing their earnings (WDR 2009).

Lessons learned from other countries have shown that formal financing system is essential for economic development process as it helps in mobilizing and allocating funds towards productive investments, reducing information costs, providing better access to markets through their intermediation process. Financial sectors are a major element of any developed economy. The opposite is the indomitable truth for all the developing nations. According to the World Savings Banks (2004), only 20%- 30% of the population in most developing economies has access to formal financial services. The adverse impact of limited access to financial markets is not only suffered by the poor but also by the non- poor. It's not only the problem of developing countries but also of the developed ones. Sometimes, it may be worse in a developed nation due to existence of a complicated financial system.

In a typical developing economy like Nepal, the formal financial system at best serves no more than three fourths of the population. It is because most of the population lives below the poverty line and they cannot afford to participate in the elegant formal financial system. Though some of these people are not able to use formal or semi formal financial services, at the same time, they may have access to finance via informal financial services. It is imperative that the development of each and every country is based on its geographical,

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political, socio- cultural and demographical dimensions. Geographically landlocked, social-culturally diverse, politically unstable and demographically dispersed are the major factors for the downward trend of financial activities in the context of Nepal. Though the country seems to have remarkable improvement in access to physical and social infrastructure, access to financial markets still remains limited and declining.

2. Financial Market in Nepal

2.1 Growth of financial institutions in Nepal:

Over the years, though the number of financial institutions is increasing in Nepal yet access to finance is limited. Financial access in Nepal is guided by the provision of deprived sector lending requirements for banks and financial institutions in the annual monetary policy, Microfinance Policy 2008, Bank and Finance Institutions Act 2006, Act for NGOs involved in Financial Intermediation 1999 and Co-operative Act 1992. Within this provision, financial institutions engaged to promote financial inclusion are Commercial Banks (CBs), Development Banks (DBs), Finance Companies (FCs), Microfinance Development Banks (MDBs), Financial Intermediary NGOs (FI-NGOs) and financial cooperatives. There are networks of financial service providers namely Nepal Federation of Savings and Credit Cooperatives Union Nepal, Grameen Nepal Network, Centre for Microfinance, Microfinance Association of Nepal, Institutional Network of Alternative Financial Institutions, Nepal Micro Bankers Association, Nepal Bankers Association and Association of the Development Bankers and four wholesale microfinance service providers such as RMDC, SKBB, CBs/DBs/FCs and Rural Self Reliance Fund that are directly engaged on promoting financial access to the unassisted. Further, large number of national and international NGOs are also engaged on

promoting community based financial services for the poor and disadvantaged groups.

The table below shows the growth rate of 3 decades of financial institutes in Nepal.

Growth of Financial Institution in Nepal

Types of Financial Institutions	Mid – July				Mid-Jan
	1980	2000	2005	2010	2011
Commercial Banks	2	13	17	27	30
Development Banks	2	7	26	79	87
Finance companies		45	60	79	79
Micro- finance Development Banks		7	11	18	21
Saving and credit Cooperatives limited banking Activities		19	20	15	15
NGOs (Financial Intermediaries)		7	47	45	45
Total	4	98	181	263	277

Source: Nepal Rastra Bank

Before 1980 there were only two commercial banks and two development banks providing banking services to the firms and individuals. As of May 2011, there are 31 commercial banks, 89 Development banks, 87 finance companies, 21 micro finance and development banks, 15 cooperatives, 45 NGOs financial intermediates and over 8,000 financial cooperatives and over 230 small farmers cooperatives limited (SFCLs). The table above shows that the banking sector

underwent tremendous improvement in year 2000 as the number of banking institutions increased by 84 percent. Similarly, the banking institutions significantly grew by 55 percent in 2005. Coming to year 2009, the growth rate declined to 2.98 and again increased by 7.984 in 2010. Despite the government's effort in enhancing poor peoples' access to financial markets, the capital market in Nepal is still at developing stage. Only 26 percent of the households have a bank account and 45 percent of the households prefer to save at home while 53 percent prefer to borrow from the informal sector.

2.2 Indicators of Banks in Nepal:

With the increasing trend in GDP of the economy, the number of the bank branches in the economy has also increased significantly which has definitely mounted the amount of monetary transaction. Since 2001 when the population per bank branch used to be 53.84, it has now decreased to 26.58 which suggest that financial access has certainly increased.

The commercial banks have extended their services all over Nepal, 1,063 bank branches are spread over different parts of Nepal. This allowssmall businesses and low-income households outside Kathmandu valley to have easy access to financial services and other economic benefits. The banking services are concentrated in Kathmandu valley where 290 bank branches are present. The other branches are not enough to serve the population living outside the Kathmandu Valley. Because of the limited number branches in rural parts of Nepal, there are problems of saving, credit and investment among poor people. Access to banking infrastructure measured in terms of number of population per bank branch has decreased considerably over the years. Though the total amount of deposit, loans and advances and investment seem to increase over the years, the number of bank deposits and loan accounts per 1000 people has decreased over

the years. This indicates declining access to financial services.

2.3 Household access to financial service:

Despite repaid expansion of formal financial sector, informal system is still popular in Nepal. Current supply of finance for the poor and disadvantaged groups is estimated to be around Rs. 20,000 – Rs. 24,000 million (casual discussion with financial experts). Potential of thousands of informal savings and credit groups (PAF and other) and financial cooperatives that exist throughout the country are inadequately utilized and almost forgotten.

Household Borrowing and Access to the Bank Credit

Description	1995 /96	2003 /04	20 10
Household borrowing loan	61.3	68.8	65
Borrowing from bank	16.2	15.1	20
Borrowing from relatives & friends	40.8	54.5	51 .1
Proportion of poorest quintile having access to bank borrowing	8.2	8.3	9. 0
Proportion of richest quintile having access to bank borrowing	21.8	26.8	34

Source: NLSS I and NLSS II (1997, 2004, 2010)

The table reveals that, the proportion of household borrowing increased by 7 percent from 1995/96 to 2003/04 but coming to year 2010 it decreased by 3.8 percent. The most common source of household loans in the

country, relatives/ friends and money lenders decreased slightly in 2010 whereas borrowing from bank increased by 4.9 percent. But the poorest quintile having access to bank borrowing has remained constant over the year. The proportion of the richest quintile households having access to formal bank borrowing is almost three times higher than that for the poorest quintile and it has increasing trend. Besides, more than 70 percent of the loans that are borrowed are for the purpose of personal use. Households in richer consumption quintiles are more likely to borrow for business/ farm purpose whereas households in poor quintiles tend to borrow for consumption purpose.

The different indicators show that despite the government effort and increasing number of financial institutions in the country, formal financial institutions have not been able to provide services to the population significantly. More than 50 percent of banks and financial companies are concentrated in urban areas whereas largest proportion of rural population depends on FINGOs/ cooperatives.

Households with credit from formal sources (urban/rural)

	Banks	Finance Companies	MFDBs/ RRDBs	FINGOs /Cooperatives
Kathmandu	43.2	43.2	4.5	9.1
Other Urban areas	56.1	9.6	10	9.1
Rural	31.7	1.4	22.4	44.6

The study shows, urban population is able to utilize the economic benefits from financial market significantly whereas the rural

population is still excluded from well functioning formal financial market. Since majority of Nepalese population resides in rural Nepal, formal financial institutions have not been able to cater to the needs of Nepalese population at large and access to such services has been very limited for low income households. Since population from rural areas do not have proper access to formal financial institutions, they may access to financial services via informal financial institutions. The majority of people these days are involved in informal financial markets like mother group. In this market, people regularly save money as per the rule of the institution. Basis loan is provided to the member in need. The interest rate is very low and it's easy for poor rural households to participate in this market. It also avoids the complexities of formal financial institution. This type of financial market is very popular in rural Nepal.

Conclusion

Access to finance is crucial for significant economic growth. The developed countries have seen the different drivers converge and hence an exponential growth in access to finance for those at the lower end of the markets. In Nepal, despite decades of efforts to motivate and push people to use formal financial institutions for the financial access.

Nepalese financial market was dominated by money lenders. The decreasing proportion of people dependent on money lenders shows the significant change in financial access at household level. But the preference of borrowing from relatives and family members is still a major constraint for development of a well-functioning financial market.

Banks should expand lending to small businesses and low-income households and microfinance institutions can also go a long way. Financial inclusion and continuous government involvement are quintessential for

the road ahead. If Nepal can allow diverse institutions to enter the industry and play an active role, she undoubtedly can see much higher growth rates.

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