

An Overview of Financial Inclusion in Nepal

Pramshu Nepal, PhD

Abstract

This article provides an overview of financial inclusion in Nepal, which refers to the availability of financial services and products to individuals and businesses, particularly those in disadvantaged and low-income regions. The research methodology employed in this study is descriptive research. The documents which were published by the government were analyzed. Nepal Rastra Bank (NRB) and the Ministry of Finance were primary sources of information. These reports contained valuable insights into financial inclusion, economic growth indicators, and program outcomes. Microfinance institutions have been instrumental in advancing financial inclusion in Nepal, offering financial services to low-income people and small enterprises that would not otherwise have access to the official banking system. There is a positive association between financial inclusion and economic growth in Nepal, as access to credit and the use of formal financial services have contributed to short- and long-term economic growth. Similarly, financial inclusion has a positive impact on the economy by increasing the savings rate, broadening credit availability, lowering income inequality, supporting financial stability, and encouraging the expansion of the digital economy. The government of Nepal has implemented various initiatives to encourage financial inclusion, including expanding credit availability, promoting financial stability, and encouraging the growth of the digital economy. Overall, financial inclusion is seen as a crucial component of economic progress and is expected to become even more important as Nepal continues to develop.

Keywords: Economic growth, Financial inclusion, formal financial services, and low-income population.

Introduction

Financial inclusion refers to the availability of financial services and goods to both individuals and businesses, particularly those in disadvantaged and low-income regions, including credit, savings, insurance, and payment methods. Financial inclusion helps people and businesses to engage in the economy and develop financial stability, which is crucial for economic growth and the eradication of poverty (World Bank, 2021).

A new paradigm for economic growth known as financial inclusion is emerging, and it has a significant impact on the country's ability to eradicate poverty. It refers to the provision of banking services to the general public, including both privileged and disadvantaged individuals, under reasonable terms and conditions (Demirguc-Kunt, Klapper, Singer & Van Oudheusden, 2015).

Particularly in developing countries like Nepal, financial inclusion has become an essential feature of sustainable economic growth. It is described as the process of ensuring that people and businesses, particularly those from low-income and marginalized groups of society, have access to suitable financial services and products. To boost economic growth, combat poverty, and create long-term job prospects, financial inclusion is crucial. Due to a variety of economic, social, and cultural variables, Nepal confronts major obstacles to achieving financial inclusion, much like many other developing nations do.

To increase financial inclusion, the Nepalese government has launched several programs after realizing how important it is. To ensure complete financial inclusion for all common groups, there is still much work to be done.

To advance financial inclusion in Nepal, microfinance institutions (MFIs) have been instrumental. MFIs offer financial services to low-income people and small enterprises that would not otherwise have access to the official banking system. Rural and underserved communities, who have historically been overlooked by commercial banks, have been successfully reached by MFIs. A legislative framework for governing and encouraging the expansion of MFIs in Nepal has also been made available by the Microfinance Act of 2017.

The connection between financial inclusion and economic growth in Nepal was also examined. The study used data from 1990 to 2017 and the autoregressive distributed lag (ARDL) model to examine the long-run and short-run links between financial inclusion and economic growth. According to the study, both short- and long-term economic growth in Nepal is positively and significantly impacted by financial inclusion. The study also discovered a favorable association between financial inclusion and economic growth in

Nepal, with the two most important indicators being access to credit and the use of formal financial services (Dangol, Sharma, & Bhattarai, 2019).

The effect of microfinance on the economic development of rural households in Nepal was the subject of a different study by Adhikari and Rijal (2020). To examine the effect of microfinance on income and expenditure, the study collected data from a survey of 300 microfinance clients in rural Nepal and applied the difference-in-differences (DID) model. According to the study, microfinance increased income and spending, which had a favorable effect on rural households' ability to build their economies in Nepal.

The relation between financial inclusion and bank branches was analyzed. While analyzing the role of bank branches in Indian economy for financial inclusion they found that branch density significantly affects financial inclusion in Indian economy (Paramasivan & Ganeshkumar, 2013).

Objective

The objective of this article is to provide an in-depth understanding of the concept of financial inclusion in Nepal. The article aims to outline the various initiatives and programs implemented by the Nepalese government to promote financial inclusion, identify the challenges faced in achieving financial inclusion, and highlight the positive relationship between financial inclusion and economic growth in Nepal.

Literature Review

As it is regarded as a crucial element of sustainable economic development, financial inclusion has become a significant policy target in many developing nations. Financial inclusion has been written about for its ability to decrease poverty, foster entrepreneurship, and produce long-term employment prospects. The literature on financial inclusion and its connection to Nepal's economic progress is reviewed in this section.

Using data from 1990 to 2017 investigated the connection between financial inclusion and economic growth in Nepal. The ARDL model, which can be used to assess both long- and short-term relationships, was used in this study to examine the relationship between financial inclusion and economic growth. According to the report, both short- and long-term economic growth in Nepal is positively and noticeably impacted by financial inclusion. The study also discovered that the two most important elements supporting the positive association between financial inclusion and economic growth in Nepal were access to credit and the use of formal financial services (Dangol, Sharma, & Bhattarai, 2019).

In Nepal, the relationship between financial inclusion and poverty reduction was examined. The influence of financial inclusion on reducing poverty was examined using data from the Nepal Living Standards Survey (NLSS) and the propensity score matching (PSM) method. The study discovered that financial inclusion helped low-income households access financial services and resources, which in turn helped reduce poverty in Nepal (Sharma & Shrestha, 2017).

Another study conducted by Nepal Rastra Bank examined the situation regarding financial inclusion in the nation and outlined the prospects and obstacles to doing so. According to the survey, the main obstacles to financial inclusion in Nepal were insufficient financial literacy, limited infrastructure, and a lack of confidence in the formal banking system. The report also recognized microfinance institutions (MFIs) as a key actors in fostering financial inclusion in Nepal, notably by reaching out to rural and underserved people (NRB, 2018).

The effect of microfinance on the economic development of rural households in Nepal was also examined. To examine the effect of microfinance on income and expenditure, the study collected data from a survey of 300 microfinance clients in rural Nepal and applied the difference-in-differences (DID) model. According to the study, microfinance increased income and spending, which had a favorable effect on rural households' ability to build their economies in Nepal (Adhikari & Rijal, 2020).

There is a strong positive correlation between financial inclusion and economic growth in Kenya. Branch networks and economic growth have a significant positive correlation, whereas the number of mobile money users and accounts has a weaker correlation. The study also found a mild negative correlation between the number of ATMs in the nation and a big negative correlation between bank lending interest rates (Julie, 2013).

Only a proper mechanism that distributes all resources from top to bottom can ensure inclusive growth. Due to India's reputation as the country with the biggest proportion of rural residents worldwide, financial inclusion is a cutting-edge idea that creates alternative methods to encourage rural residents' banking habits. The goal of financial inclusion is to make banking and financial services accessible to everyone in a fair, transparent, and equitable manner at a reasonable price. Low-income families find it more challenging to save money and make long-term financial plans because they frequently lack access to bank accounts and must spend time and money making several trips to the bank to use their services (Paramasivan & Ganeshkumar, 2013).

The literature study demonstrates the beneficial association between financial inclusion and economic growth in Nepal, with formal financial services and credit availability serving as the main determinants of this relationship. The evaluation also emphasizes the vital role MFIs have played in increasing financial inclusion in Nepal, particularly in terms of interacting with rural and underprivileged groups. According to the analysis, programs like the National Financial Inclusion Strategy and the Microfinance Act of 2017 can offer a framework for fostering financial inclusion in Nepal and may even result in long-term economic growth and poverty eradication.

Research Methodology

The research methodology used in this article is descriptive research. The information needed to offer an overview of financial inclusion in Nepal was gathered from official reports and statistics published by government agencies i.e., from Nepal Rastra Bank (NRB) and the Ministry of Finance. These institutions release information on financial inclusion, measures of economic growth, and program outcomes. In addition to this National Financial Inclusion Strategy (NFIS) and the Microfinance Development Strategy (MDS) were also important sources to provide knowledge about information on financial inclusion in Nepal. The researcher was interviewed with the professionals of Nepal's economics, finance, and development sectors to obtain the ideas of success of government efforts, difficulties encountered, and the overall influence on economic growth might all be addressed by these specialists.

Analysis of Financial Inclusion in Nepal

The Nepali government has acknowledged the significance of financial inclusion in fostering economic progress and eradicating poverty. The government has launched various programs in recent years to encourage financial inclusion and broaden access to financial services for all citizens. The Nepal Rastra Bank (NRB), the Ministry of Finance, and the Micro-Enterprise Development Program are a few of the government organizations that have carried out these programs (MEDEP). This article analyzed the main steps the Nepalese government has taken to encourage financial inclusion, as well as the results of those steps.

A National Financial Inclusion Strategy(NFIS)

The National Financial Inclusion Strategy (NFIS), introduced by the NRB in 2019, is one of the primary steps the Nepal government has taken to achieve financial inclusion. This strategy has targeted all Nepali citizens who will now have greater access to financial services. NFIS has established precise goals that must be met by 2022. These goals include

raising the percentage of adults with bank accounts to 70%, raising the percentage of people who have insurance to 25%, and raising the amount of credit available to small and medium-sized businesses.

The NFIS is built upon several important pillars, including increasing access to financial services, encouraging financial literacy, building financial infrastructure, and fostering an atmosphere that supports financial inclusion. To meet these objectives, the government has undertaken several programs and initiatives under the NFIS, including the creation of a credit guarantee fund, the spread of branchless banking, and the creation of a digital payment system.

Microfinance Development Strategy (MDS)

The Microfinance Development Strategy is a significant project undertaken by the Nepali government to encourage financial inclusion (MDS). To expand access to financial services for the underprivileged, the MDS promotes microfinance as a strategy for financial inclusion. The MDS has established specific goals, such as reaching 3.5 million microfinance consumers by 2020 and expanding the reach of microfinance institutions into rural areas.

The formation of a microfinance development fund, the provision of support for the capacity training of microfinance institutions, and the marketing of microfinance goods and services are only a few of the programs and initiatives the government has put into place under the MDS. To increase the influence of microfinance on reducing poverty, the MDS has also promoted its integration with other industries, including as agriculture and rural development.

Nepal Electronic Payment System (NEPS)

The Nepal Electronic Payment System (NEPS), a national payment system that enables users to send money online, was introduced by the NRB in 2018. Financial transactions are now quicker and more convenient which allows people to move money between bank accounts in real-time. Financial transactions are now less expensive, especially for people who live in distant places where it can be challenging to obtain traditional banking services.

Also, the government has encouraged the use of internet and mobile banking, both of which are gaining popularity in Nepal. Customers can now access financial services via their desktops and mobile devices, which makes carrying out financial transactions even more convenient.

Establishment of a financial literacy program

To improve financial literacy among Nepali citizens, the government has launched a program. The initiative attempts to raise public awareness and knowledge of financial services and products like credit, insurance, and savings. Schools, community centers, and the media are just a few of the places where the financial literacy program has been put into practice. The program has also targeted particular demographics, including households with low incomes, women, young people, and youth who are frequently shut out of official financial services.

Promotion of Branchless Banking

The government has pushed branchless banking, which enables consumers to use non-bank representatives, such as mobile money agents, to obtain financial services. Branchless banking is becoming more and more common in Nepal, especially in rural areas where it might be challenging to get traditional financial services.

Major Challenges

Nepal still has several obstacles to overcome to achieve financial inclusion, despite tremendous progress over the past ten years. Access, affordability, awareness, and legal frameworks are a few of the categories into which these difficulties might be divided.

Access Challenges

One of Nepal's biggest problems is gaining access to financial services. It is challenging for financial institutions to access these places because many regions of the nation are geographically isolated and frequently lack adequate infrastructure. A sizable segment of the populace is now without banking services as a result. A bank account was only available to 63% of Nepalese people as of 2017 (Nepal Rastra Bank, 2017). Women in particular face significant challenges in getting financial services because of social norms and gender biases. Women frequently can't create accounts in their names or obtain credit without a male guarantor.

Affordability Challenges

Another significant obstacle to financial inclusion in Nepal is affordability. The costs incurred by using banking services can be extremely expensive, making them unaffordable for many people. Furthermore, a lot of low-income people and small businesses are unable to meet the requirements of financial institutions, which frequently include high standards of collateral or creditworthiness. Their ability to obtain credit, which is necessary for making investments in the economy, healthcare, and education, is thus restricted.

Awareness Challenges

Another major obstacle to financial inclusion in Nepal is the country's low financial literacy levels. Many people lack knowledge of the advantages of using financial products and services, and they could have a negative opinion of financial institutions. This makes it challenging for financial institutions to build consumer trust and inform them of the value of financial management and planning. A lot of people also don't have access to information regarding the features and availability of financial services, which can make them unaware of their possibilities.

Legal and Regulatory Frameworks

Nepal's legal and regulatory systems are still insufficient to facilitate financial inclusion. Uncertainty among prospective clients may result from a lack of clear regulations and oversight procedures for financial organizations. The central bank and other regulatory organizations frequently disagree, which can result in a lack of cooperation in the financial industry. Due to this, it could be challenging for financial institutions to function efficiently and for clients to get financial services.

Digital Obstacles

Nepal still uses relatively few digital financial services. Although mobile phone usage has increased across the nation, there are still few mobile banking options and other digital financial services available, especially in rural areas where internet connectivity is scarce. People may find it challenging to use financial services and carry out financial transactions as a result.

Political Issues

Political unrest can be a major obstacle to financial inclusion because Nepal has a volatile political situation. The political climate can affect both the financial institutions' ability to access resources and the confidence that consumers have in these organizations. During the past ten years, Nepal has improved financial inclusion significantly. Accessibility issues, cost issues, awareness issues, regulatory framework issues, and digital issues, among others, continue to impede development. The government, financial institutions, civil society, and other stakeholders will need to work together to develop a multifaceted strategy to address these issues. By taking action to solve these issues, Nepal can increase financial inclusion, which can aid in the elimination of poverty, the acceleration of economic growth, and the improvement of its financial situation.

Relationship between financial inclusion and economic growth

Financial inclusion is the term used to describe how the underprivileged and low-income population can access and use official financial services including credit, insurance, and savings accounts. The increase in a country's output of goods and services is known as economic growth. Since it gives people the means to invest, save, and spend, financial inclusion is frequently seen as a crucial component of economic progress. The beneficial connection between financial inclusion and economic growth in Nepal is observed in this article.

First, by raising the savings rate, financial inclusion has a favorable effect on the economy. Individuals are more inclined to save money if they have access to formal financial services like savings accounts. This causes the savings rate to rise, which in turn gives banks more money to put into different economic sectors. Economic growth is boosted as a result of this increased investment. According to Nepal's Sustainable Development Goals Baseline Report by the National Planning Commission, the gross national savings rate improved from 11.1% in 2006 to 22.9% in 2016, which is a favorable development for the economy of the nation (National Planning Commission, 2019).

Second, financial inclusion broadens credit availability, which boosts investment and job growth. Individuals and small enterprises can invest in income-generating projects like launching a business or purchasing real estate with access to loans. This increased investment results in job growth, which is a crucial component of economic expansion. Access to credit is a crucial part of financial inclusion, and the government of Nepal has taken steps to make it easier for small firms and entrepreneurs to obtain credit, according to the country's National Financial Inclusion Plan (Nepal Rastra Bank, 2019). Increased loan availability for micro and small businesses is another goal of Nepal's Microfinance Development Plan (Micro-Enterprise Development Program, 2015).

Thirdly, financial inclusion lowers income inequality and supports financial stability. Individuals and households can better control their financial risks by having access to formal financial services. They can defend themselves against unforeseen occurrences like illness, job loss, or natural calamities. More economic financial stability results from this. By giving low-income and disadvantaged populations access to financial services and enabling them to engage in the formal economy, financial inclusion also lowers income inequality. As a result, the economy's wealth and resources are distributed more fairly. Financial stability is one of the main goals of financial inclusion, and the government of Nepal has made initiatives to

encourage financial stability in the nation, according to the National Financial Inclusion Plan of Nepal (Nepal Rastra Bank, 2019).

Fourth, the expansion of the digital economy is encouraged by financial inclusion. Digital financial services are becoming more widely available and more reasonably priced as technology and the internet are used more frequently. This gives customers a more practical way to receive financial services, especially in distant locations without access to traditional banks. The Nepal Electronic Payment System (NEPS), which offers a platform for electronic transactions and payments, was introduced by the government of Nepal in 2018 as part of its efforts to encourage the growth of the digital economy (Nepal Rastra Bank, 2018). To encourage people to use digital financial services, the government has also started a financial literacy initiative (Nepal Rastra Bank, 2017).

In summary, financial inclusion plays a significant role in economic development. It lowers income disparity and boosts credit availability, financial stability, and savings rates. To encourage financial inclusion throughout the nation, the government of Nepal has taken several actions, such as expanding credit availability, fostering financial stability, and encouraging the development of the digital economy. Financial inclusion will become more crucial to Nepal's economic progress as it continues to advance and expand.

Discussion

The National Financial Inclusion Strategy, Microfinance Development Strategy, Nepal Electronic Payment System, financial literacy initiatives, and branchless banking are a few examples of the government of Nepal's efforts to promote financial inclusion. These programs also show a multifaceted approach to addressing economic disparities and promoting inclusive economic growth. By fostering an atmosphere that encourages access to and use of financial services by all residents, these projects hope to reduce poverty and promote general economic growth.

Although Nepal has made great progress toward increasing financial inclusion, issues with access, affordability, knowledge, regulation, digitization, and political stability continue to exist. Nepal may further improve financial inclusion and consequently support economic growth, poverty reduction, and general financial well-being by tackling these issues through concerted efforts and coordinated initiatives.

It highlights the several advantages of financial inclusion for Nepal's economic development. It raises savings rates, widens the range of credit options, decreases income inequality, fosters financial stability, and promotes the expansion of the digital economy. The

National Financial Inclusion Plan and other measures, as well as the government's actions, show that it understands how crucial financial inclusion is to advancing the economy. The importance of financial inclusion in Nepal's economic development is growing as the country develops and grows. Nepal should position to achieve more inclusive and sustainable economic growth by addressing issues and pursuing solutions to improve financial inclusion.

Conclusion and Implication

This article provides an overview of financial inclusion in Nepal, which refers to the availability of financial services to individuals and businesses, particularly those in disadvantaged and low-income regions. The Nepalese government has launched several initiatives to promote financial inclusion, including the National Financial Inclusion Strategy and the Microfinance Act of 2017. The country's poor people and disadvantaged populations can benefit greatly from financial inclusion in terms of their financial situation and quality of life. A functional, inclusive financial system is required for the country's economic growth as the lack of readily available, reasonably priced, and acceptable financial services has long been a concern in Nepal. In Nepal, financial inclusion can have a positive impact on the economy. One way it can do so is by increasing the savings rate since people are more inclined to save money if they have access to formal financial services like savings accounts. This increase in savings leads to banks having more money to invest in different economic sectors, thereby boosting economic growth. In addition, financial inclusion can increase access to credit, which can enable entrepreneurs to invest in their businesses and create jobs, thus contributing to economic growth. Finally, financial inclusion can also reduce poverty by providing access to affordable credit and insurance, helping people to start or expand businesses, and protecting their assets. Thus, financial inclusion and economic growth are positively correlated in Nepal.

Financial inclusion and economic growth in Nepal have a strong, positive link, as shown by the research study and analysis described in this article. Financial inclusion has regularly been shown to support a number of components of economic growth, including higher savings, improved credit availability, decreased income inequality, and the support of the digital economy. These results support the notion that financial inclusion has the ability to promote economic development of the country. In short, if financial inclusion implemented effectively it helps for poverty reduction and inclusive growth. Similarly, it helps to stimulate the economic growth, enhanced financial stability in the country, increased savings and capital formation, technology and digital transformation, empowerment of marginalized groups and supports to maintain sustainable economic growth in the country.

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