Promoting Financial Inclusion in the SAARC Region*

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*The findings, interpretations and conclusions expressed in the report are entirely those of the authors. They do not necessarily represent the views of their affiliated institution. The findings were presented at the 34th SAARCFINANCE group meeting and SAARCFINANCE Governors' Symposium, Colombo, Sri Lanka, 12 July, 2017.

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Abstract

The paper analyses the major trends and approaches to financial inclusion in the SAARC region. It also assesses the progress , current scenario of the regulatory frameworks, and various factors behind of financial inclusion. The analysis shows that financial inclusion has been gaining momentum over time across the countries but the degree of financial inclusion varies widely . Although much progress had been achieved, a huge work remains to be done to foster financial inclusion for inclusive growth, particularly in the areas of financing in MSMEs, revisiting regulatory framework and focusing on the usage of financial services. The paper concludes with urging a better coordination among different stakeholders (government, regulators, banks, MFIs, mobile phone operators, and donor agencies) for understanding more policy initiatives of broad based financial inclusion leading towards inclusive growth in the SAARC region.

Keywords: Financial Inclusion, Inclusive Growth, SDGs, and regulatory framework.

I. Introduction

Promoting financial inclusion is one of the cherished goals in the development agenda of the countries in the SAARC region. Accordingly. the countries in the SAARC region have been pursuing financial inclusion for a long time for inclusive growth and sustainable development. A multipronged financial inclusion strategy has been adopted by the central bank and governments in the SAARC countries to expand financial services to unbanked/underserved adults population, firms, farmers and MSMEs.

Globally, promoting financial inclusion has been discussed widely among policy maker and development partners for universal financial inclusion . A World Bank Report (WB,2014) states that ñé financial inclusion has moved up the global reform agenda and become a topic of great interest for policy makers, regulators, researchers, market practitioners, development partners and other stakeholder". The post-2015 Development Agenda squarely puts financial inclusion as a key objective for United Nations member countries. Financial inclusion has been identified as an enabler for seven (7) of the

17 Sustainable Development Goals. The G20 committed to advance financial inclusion worldwide and reaffirmed its commitment to implement the G20 high-level principles for digital financial inclusion. UNDP(2015) reports that "...an inclusive financial system is essential for structural transformation and the creation of work".

The World Bank Group considers financial inclusion a key enabler to reduce extreme poverty and boost shared prosperity, and has put forward an ambitious global goal to reach Universal Financial Access (UFA) by 2020. To date, at the country level more than 60 governments across the world have set financial inclusion as a formal target (IMF, 2015). It is notable that Pakistan launched " National Financial Inclusion Strategy" in 2015 in the SAARC region. Bangladesh's progress is also spectacular in the area of financial inclusion. Being relatively late starter , Bangladesh has already recorded almost 70 percent adult population under financial inclusion.

The greater access to financial services (savings, credit, insurance and payment mechanisms) is very important to increase savings, empower women, and boost productive investment and consumption. Access to credit by the unbanked people has positive effects on consumptionð as well as on employment status and income and on some aspects of mental health and outlook. The benefits sometimes go beyond individuals levels and spreads among different cluster of the society. Greater access to financial services for both individuals and firms may help reduce income inequality and accelerate economic growth (Demirguc-Kunt et. al., 2015).

Economic literature on finance shows that there is a strong link between inclusive finance and inclusive growth. Indeed, a growing consensus is that financial inclusion is critically important for development and poverty reduction (WB, 2014, King et. al, 1993; Beck et. al, 2000, 2004; Levine, 2005 and Demirgüc-Kuntet. al, 2008). However, few studies such as Naceur and Zhang's study (2016) find a negative relation between financial access and income inequality for 143 countries. Sahay and others(2015) argues that access to finance can facilitate the poorest of the population to improve their economic situation, particularly in developing countries. In the developing countries, many adults including farmers, women young, MSME entrepreneurs and rural habitants are excluded from formal financial services or under-served and limited access to finance.

Financial inclusion strategy has emerged as an effective tool for achieving the Sustainable Development Goals (SDGs). The General Assembly adopted the 2030 Agenda for Sustainable Development, including the SDGs. With 17 goals and 169 targets, the SDGs aim to bring together all stakeholders to address the three pillars of sustainable development--economic prosperity, social equity and environmental responsibility. These 17 goals are to be realized by the next 15 years and the year of 2016 is the beginning year. Greater financial inclusion helps to achieve some of the SDGs. For example, the goals: (1) end poverty in all its forms everywhere, (2) end hunger, achieve food security and improved nutrition and promote sustainable agriculture, (3) ensure healthy lives and promote well-being for all at all ages), (4) ensure inclusive and equitable quality education and promote lifelong learning opportunities for all, (5) achieve gender equality and empower all women and girls (6) promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, (7) reduce inequality within and among countries , and (8) take urgent action to combat climate change and its impacts are linked with financial inclusion .

The indicators of the financial inclusion are impressive in the SAARC region although rate of success varies across the countries. The MDG was terminated in 2015. The UN adopted sustainable development goals (SDGs) which the member countries have been pursuing since January 2016. In view of the UN global post-2015 development agenda and sustainable development, the study covers various issues of financial inclusion e.g., strategies, barriers and policy suggestion, in the SARRC region.

II. Objectives of the Study

The objectives of the study are given below:

- The study reviews the various issues related to inclusive finance in the SAARC region.
- The paper provides the current trends of and approaches towards financial inclusion. It also provides explanation for the cross country variation in access to financial services in the region, while also highlighting the relationship with inclusive finance policy measures for growth and sustainable development.
- The paper focuses on the role of governance measures for creating an enabling environment which is critical to the implementation of the inclusive finance in the

SAARC countries. The study makes use of various policy initiatives at the country level in the region and highlight key messages for appropriately implementing financial inclusion for sustainable development.

- The study underlines the lessons learned from SAARC region and key recommendations would be provided on the importance of including financial inclusion strategies as a key element of the overall financing for sustainable development architecture.
- The paper analyses recent scenario and provides policy discussions in the light of the UN global post-2015 development agenda and the role of financial inclusion policies in the overall architecture of sustainable development financing.
- The paper also attempts to estimate factors associated with financial inclusion.

III. An Assessment of the Level of Financial Inclusion in the SAARC Region

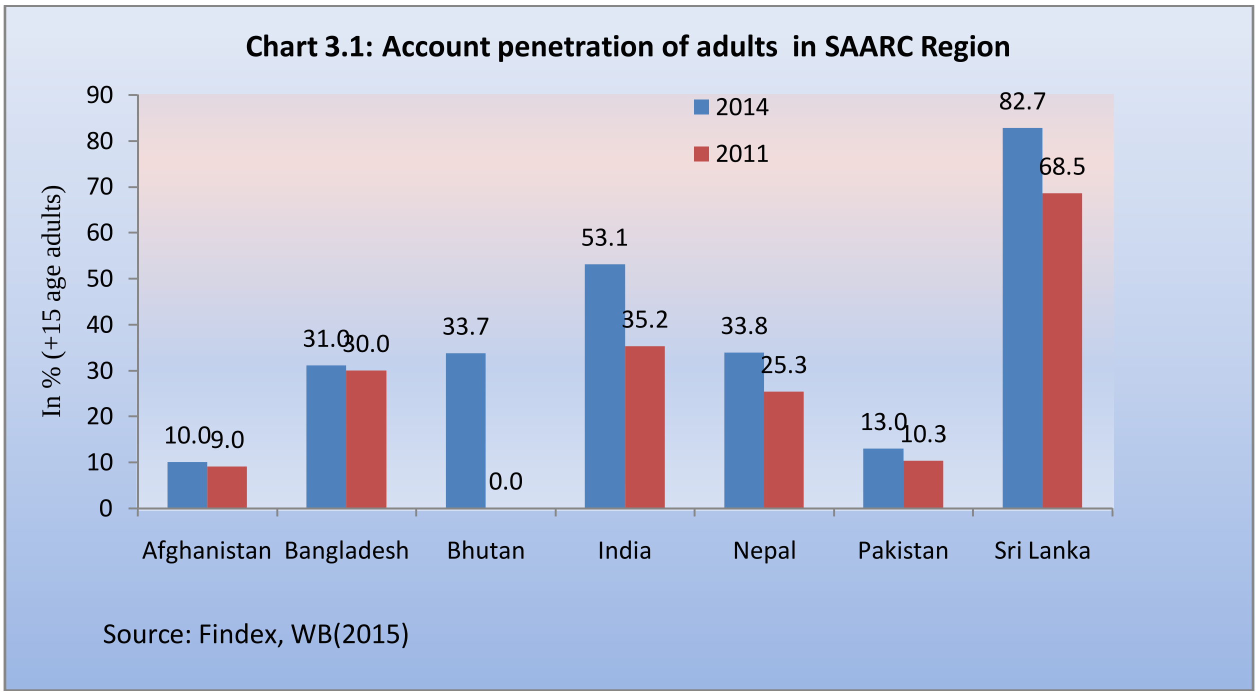
To pursue financial inclusion, various approaches had been taken by the central banks and governments of the SAARC's countries. The main trends and approaches for financial inclusion found in the country level are: (1) expanding bank branches both in rural and urban area, (2) scaling up innovative account (for example, No frill A/C, i.e., 10 taka farmer A/C in Bangladesh and opening A/C under PMJDY in India), (3) adoption of ICT in payment system and banking (MFS, Branchless banking, ATM etc), (4) allowing agent banking to serve remote area,(5) increasing loan /advances to agricultural and MSME sector,(6) fostering microfinance activities, (7) upgrading and formulating the regulations/prudential guideline for creating enabling environment for financial service providers and consumers (for example, Sri Lanka passed Microfinance Bill, 2016 and Pakistan adopted regulations for Mobile Banking inter-operability) , and (10) taking initiative for expanding financial literacy .This section reviews the level of financial inclusion based on available data at country level.

Overall Account Penetration

Account penetration data show that overall financial inclusion level in South Asia increased by 13.4 percentage point to 46.4 percent in 2014 from 33.0 percent in 2011. Chart 3.1

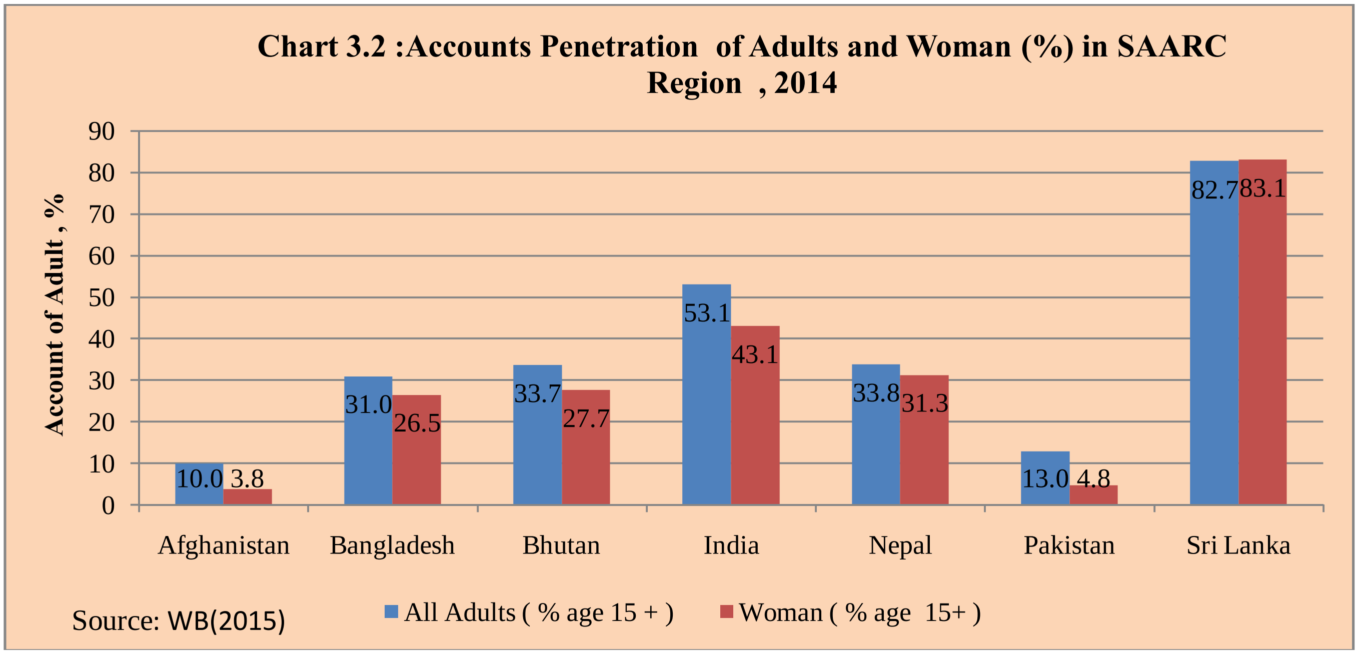
shows that the increased in account penetration was more in India (17.9 percentage point) followed by Sri Lanka (14.2 percentage point) and Nepal (8.5 percentage point) between 2011 and 2015.

Although various approaches have been taken to expand financial inclusion, we observe that the level of financial inclusion varies across country. Adults accounts (% age 15+) of Afghanistan, Bangladesh, Bhutan, Nepal and Pakistan are below than that of South Asian average (46.4 percent).



Account penetration by women adults

In South Asia, women account ownership on average increased by 12.4 percentage point to 37.4 percent in 2014 from 25.0 percent in 2011. Although much progress has been achieved in women account ownership in the region, country level data show that much variation prevails across the countries(Char 3.2)

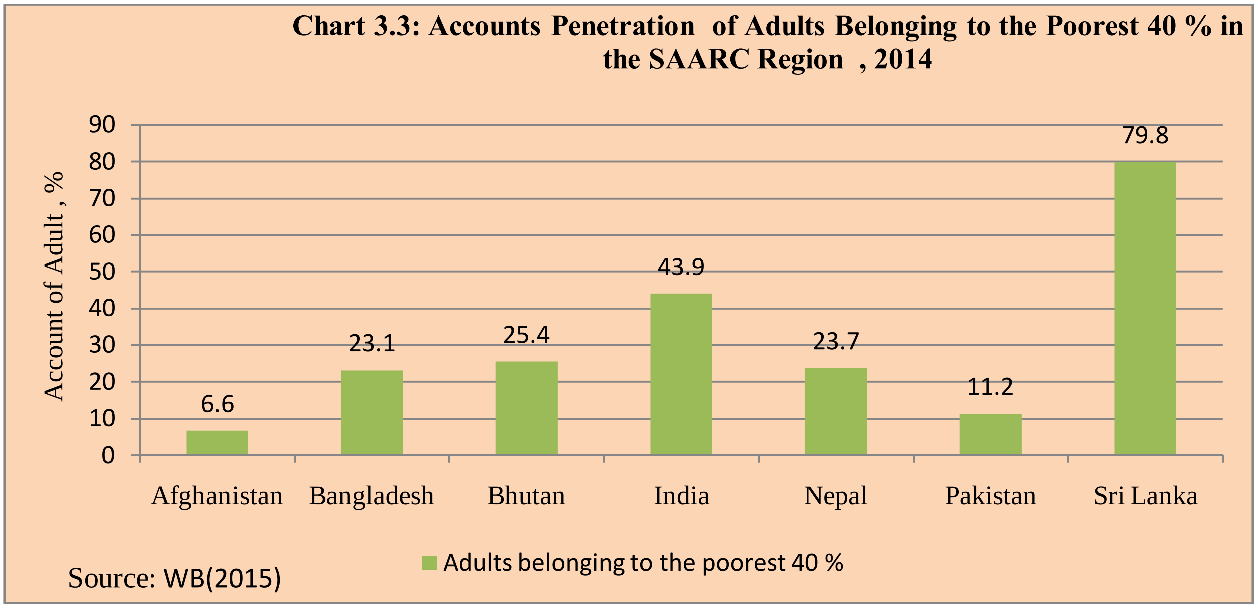


The Gender Gap

The gender gap in account penetrationЬ differences in account penetration between all adult and women accountЬ prevails in almost all countries in SAARC region except Sri Lanka. The gap much higher in Afghanistan and Pakistan (Chart 3.2). An interesting observation is that gender gap on average has been reducing over time. The gender gap on average was 15.5 percentage point in 2011 which reduced to 9 percentage point in 2014.

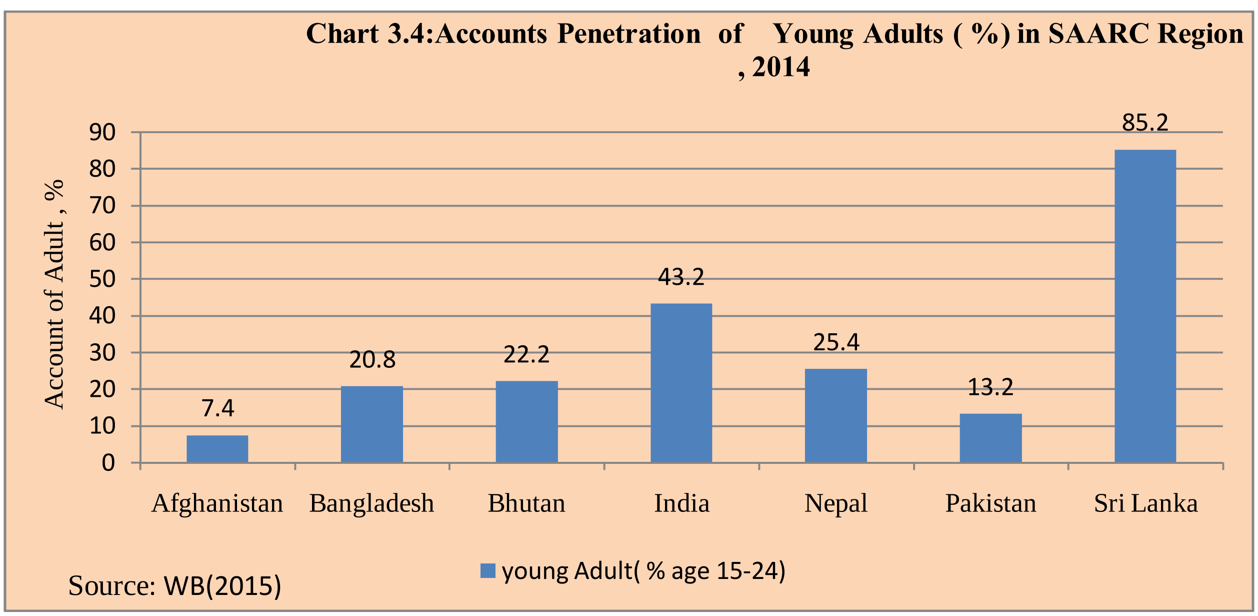
Account of Adults Belonging to the Poorest 40 Percent

Account of adults belonging to the poorest 40 percent of total population varies across the SAARC's countries. Account penetration is much lower in Afghanistan and Pakistan. The average account holder of the bottom 40 percent poor in South Asia increased by 12.8 percentage point to 38.1 percent in 2014 from 25.3 percent in 2011(Chart 3.3).



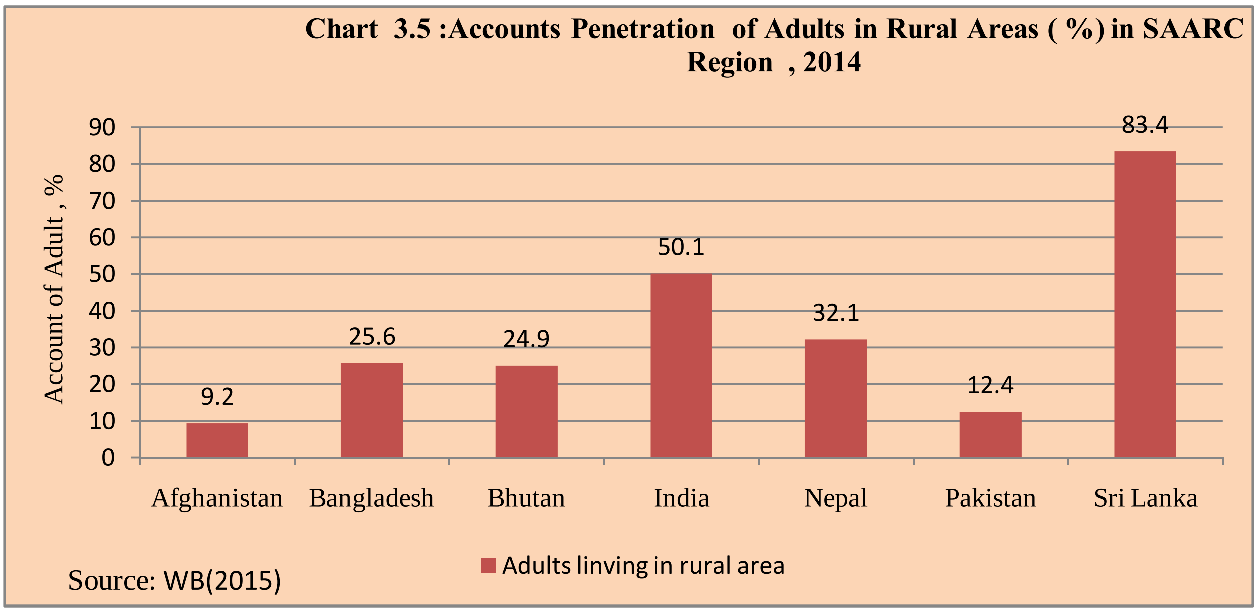
Account of Young Adults

Young adults (% aged 15-24 year) account has also been improving over time and varying across countries in the SAARC region (Chart 3.4). The Global Findex Database 2014 shows that account increased by 12 percentage point to 36.7 percent in 2014 from 24.7 percent in 2011.



Account of Adults in Rural Area

In general, unbanked people live predominantly in rural area in the SAARC region. According to Global Findex 2014 data, on average, account penetration went up by 12.7 percentage point to 43.5 percent in 2014 from 30.8 percent in 2011.. County wise account penetration is given in Chart 3.5.



An Assessment of Usage of account

Use of financial services is more important than opening account for getting benefit of financial inclusion . Many accounts which are opened under financial inclusion drive remained dormant. In view of using account by adults, past year account usage has been considered.

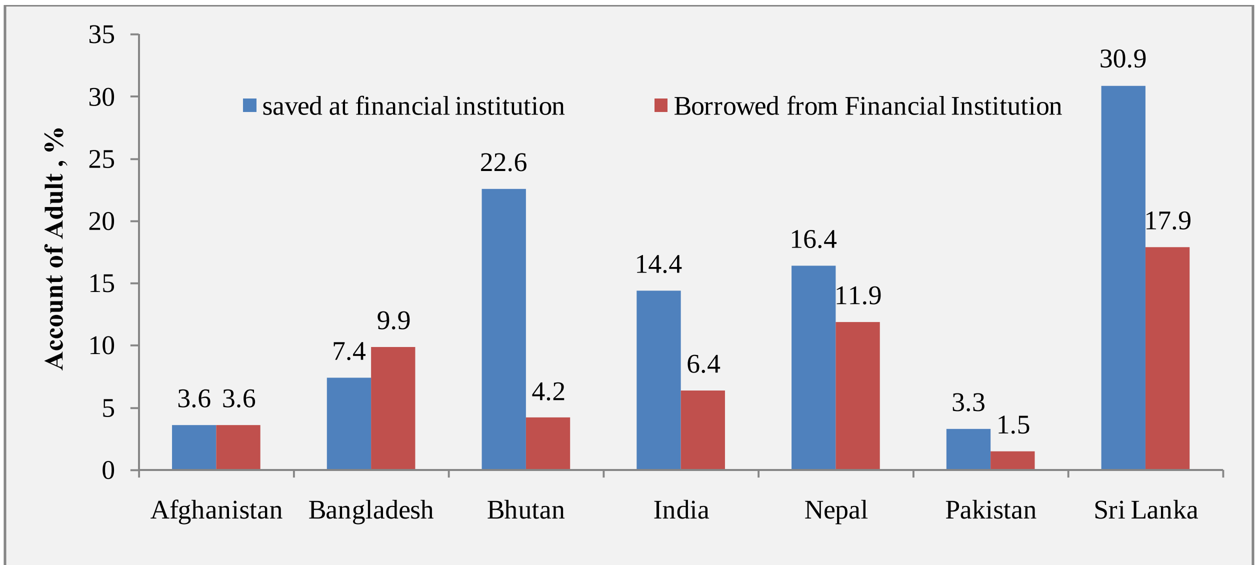
Savings and Credit in the past year

Savings account information in past one year shows that on average 12.7 % accounts holders saved in 2014 which was 11.1 % in 2011 in South Asia. Country wise data show that account holders who saved at financial institution was higher in 2014 from level of 2011 in

Nepal (6.5 percentage point), India (2.8 percentage point), Sri Lanka (2.8 percentage point) and Afghanistan (1.8 percentage point) (Chart 3.6). In case of Bangladesh, on the other hand, account holders who saved past year declined by 9.2 percentage point.

Usages of account for borrowing from financial institution decreased by 2.3 percentage point to 6.4 % in 2014 from 8.7 percent in 2011 in the region. On average 31 % of the account holder borrowed from family and friends. Country wise data indicate that account holder who borrowing from financial institution edged down marginally in 2014 except for Nepal and Sri Lank from the level of 2011 (Chart 3.6). Scaling up the usage of accounts is a major concern for promoting financial inclusion in the region.

Chart 3.6: Savings and Credit in past year (% ages 15+) in SAARC Region, 2014



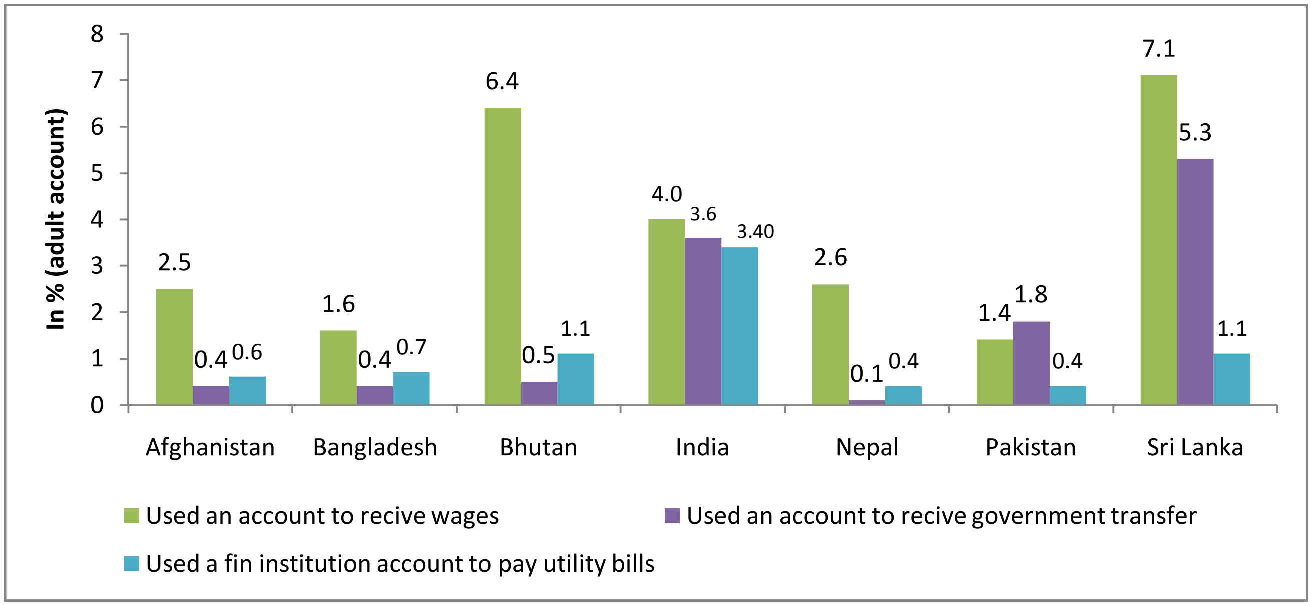
Source: WB(2015)

Government Transfer , Wage and Pay Utility Bill

Country wise usage of accounts to receive government transfer is given in Chart 3.7. On average, in South Asia 3.1 % adult accounts received government transfer in 2014 compared to 3.5 percent in 2011. Usage of accounts to receive these transfers are better in Sri Lanka , India, and Pakistan compared to that of other countries.

In South Asia, use of account to pay utility bill and to receive wages were on average 2.7 percent and 3.5 percent respectively in 2014. Country wise developments of account usage are given in Chart 3.7.

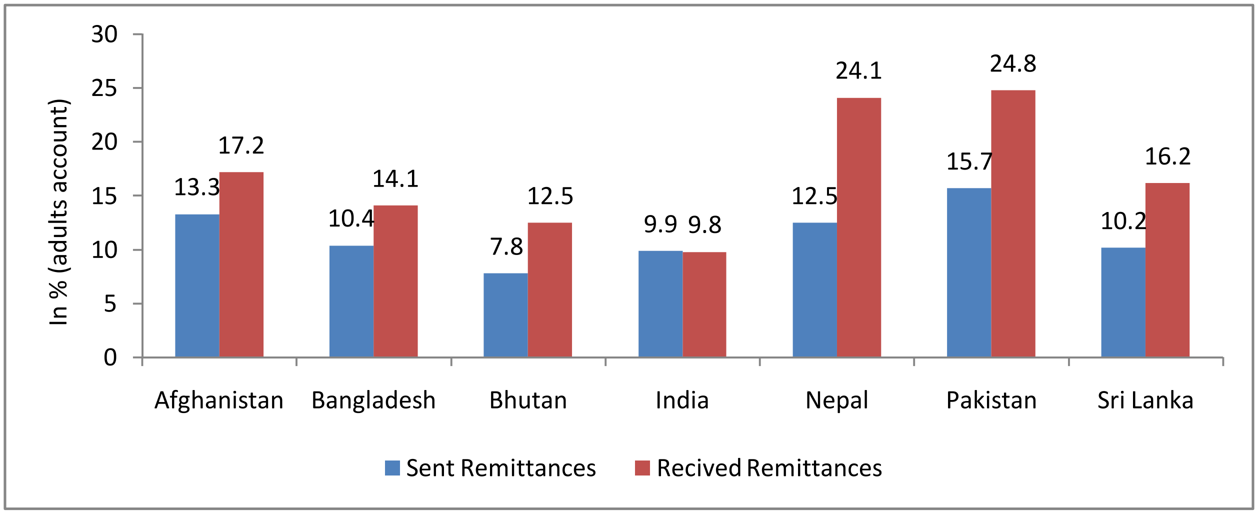
Chart 3.7: Use of Account in the Past Year to Receive Government Transfer, wages and to pay bill, 2014



Domestic Remittances

Data show that on average 10.7 percent account holders sent remittances in 2014 while 12.2 percent account holder received remittance compared to 1.6 percent and 2.0 percent respectively in 2011 in the region. Country wise data show that usage of accounts in domestic remittances by Afghanistan, Nepal and Pakistan were much impressive compared to that of the other countries in 2014 (Chart 3.8).

Chart 3.8: Domestic Remittances in Past Year (% ages 15+) in 2014

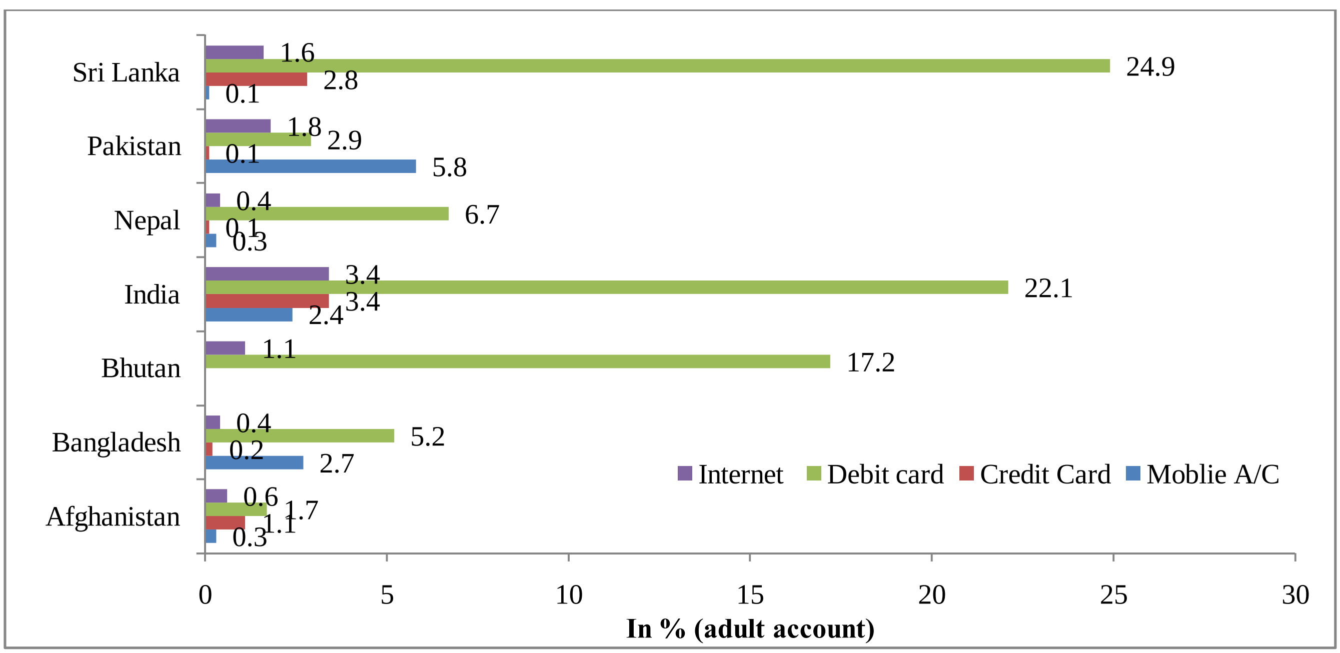


Use of ICT in Financial Services

Payment System

To make payment through digital payments ъ debit and credit card, mobile account, and the internet ъ debit card appears the main vehicle. Cross country data show that debit card was used more to make payment compared to credit card and internet (Chart 3.9). To make a payment, on average, 8.5 percent account holder used debit card in the region compared to 2.6 percent and 1.2 percent account holders used credit card and internet in 2014 (Chart 3.9).

Chart 3.9: Mobile Account and other Digital Payment in the past year, 2014



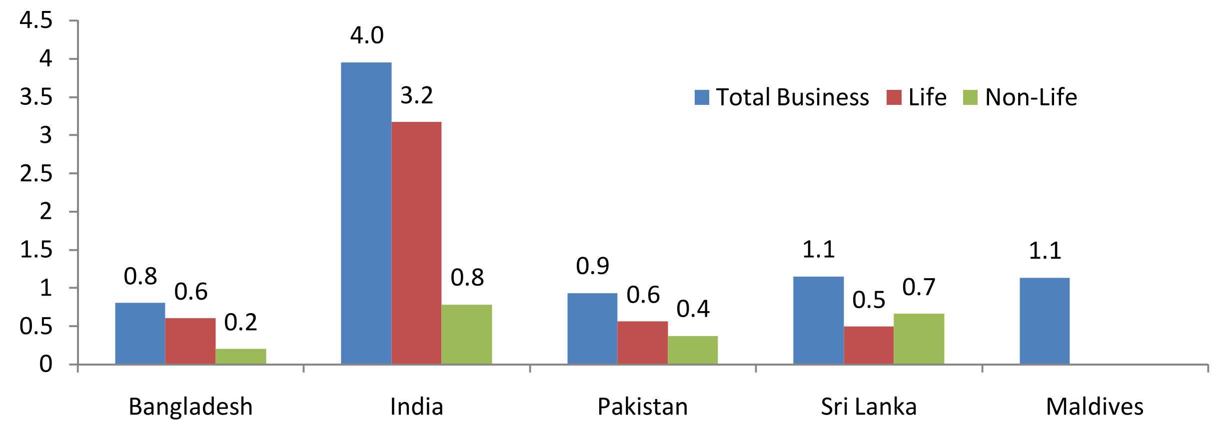
Mobile Account Penetration

Mobile account penetration indicates that about 2.6 percent adults on average have mobile accounts in the SAARC countries compared to 10 percent adult mobile account in the low income countries in 2014. One of the reasons is that vast adults who live in rural area in the SAARC region have low technical knowledge which is essential for using mobile accounts. The Findex data show that mobile account penetration is promising in Bangladesh, India and Pakistan compared to the other SAARC countries (Chart 3.9).

Insurance Penetration

Insurance is one of the most important financial services and very important for promoting financial inclusion. Low level insurance penetration indicates that massive programs may be taken for increasing insurance activities in the SAARC region. Data of some selected countries are plotted in Chart 3.10. India's performance is quite promising in the region.

Chart 3.10: Insurance penetration in selected countries in the region, 2015.



Source: NFIS, Pakistan and Sigma, 3/2016

IV. An assessment of Financial Inclusion by the three Basic Dimensions

There are various measures and assessment of financial inclusion. The report uses the three basic dimension of financial services for inclusive financial system. These three dimensions are accessibility, availability and usage of banking services[1].

Accessibility

Deposit and loan accounts per 1000 adults are a good proxy for measuring financial access in a country. According to the Financial Access Survey Data by IMF, deposit account per 1000 adults has increased across countries between 2010 and 2015 (Chart 4.1). Much progress has been made in deposit account per 1000 adults for Pakistan, Bhutan , India and Maldives between 2010 and 2015 . In term of number of loan account per 1000 adults also improved during the period across countries in the SAARC region (Chart 4.2).

Availability

Two types of measures are used for assessing the availability of financial services. One is geographical penetration of ATM and bank branches per 1000 square kilometer (km2) and another is population penetration measured by number of ATM and bank branches per 100000 adults. All indicators show an impressive improvement between 2010 and 2015 in the countries of the SAARC region (Chart 4.3-4.6).

Usage of Financial Services

Trends in usage of financial services measured by outstanding deposit and loan as percent of GDP have also been showing improvement between 2010 and 2015 in the region except few countries (Chart 6.7 and6.8). Loan outstanding as percent of GDP for Pakistan, Maldives and Afghanistan declined between 2010 and 2015.

[1] See Sama. M and Pais (2011) for detail

Chart 4.1: Trends in accessibility by deposit account per 1000 adults.

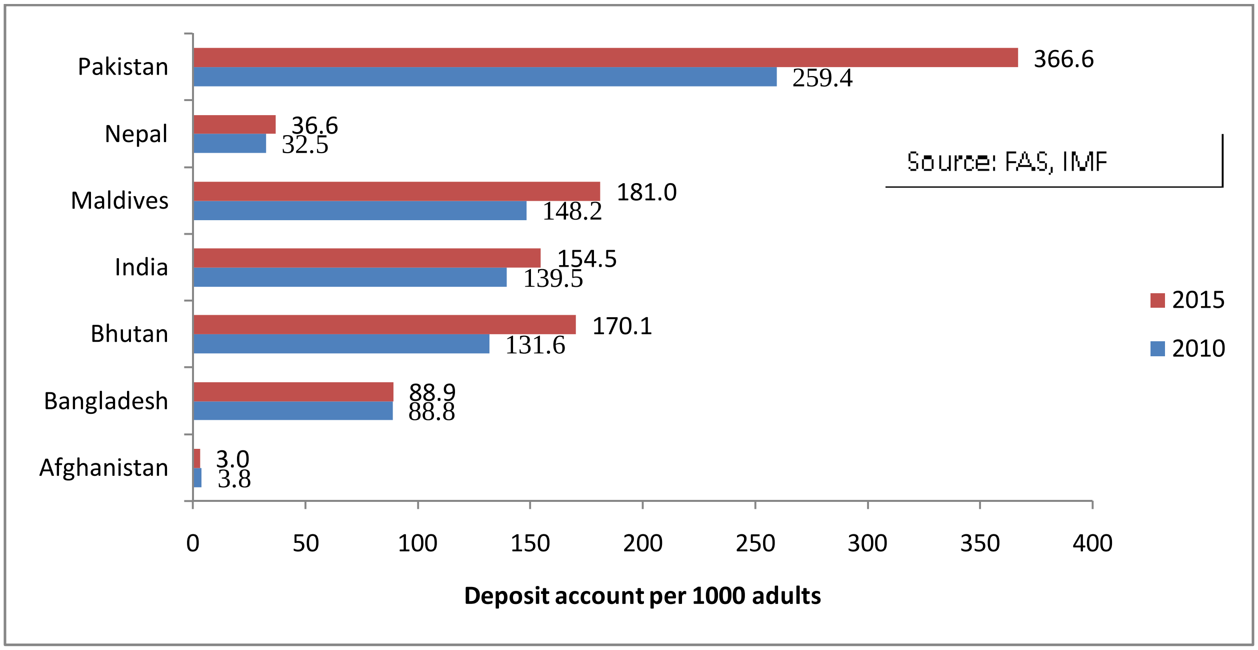


Chart 4.2: Trends in Loan Account per 1000 Adults during 2010-2015

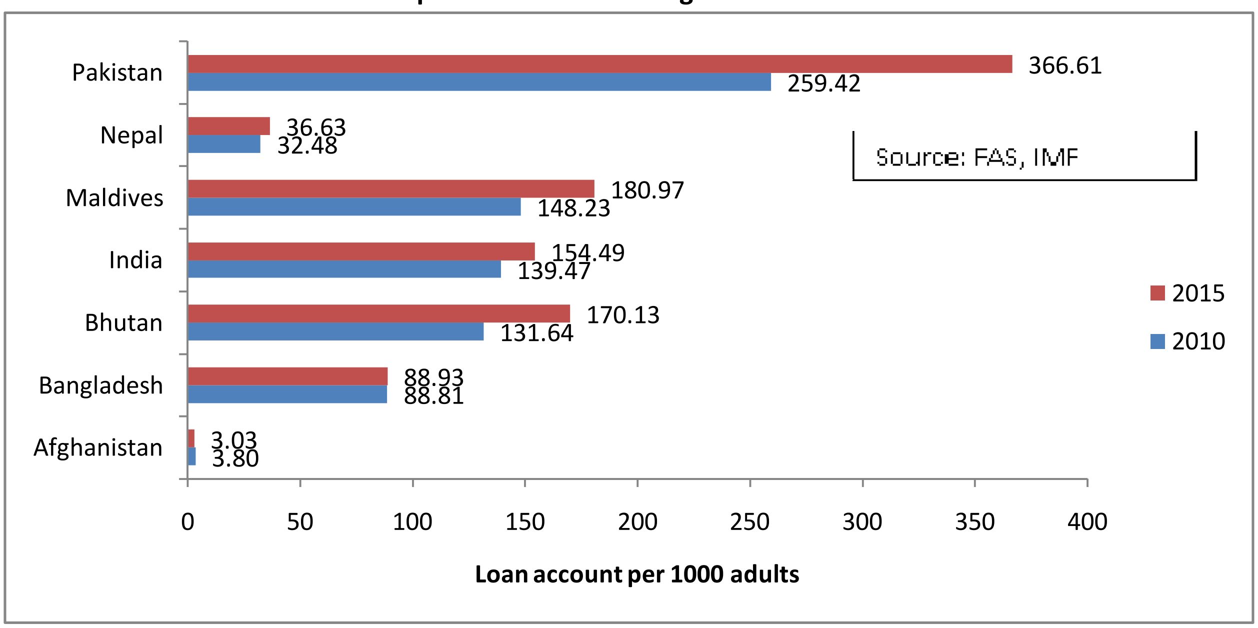


Chart 4.3: Trends in Bank Branches per 1000km2 during 2010-2015

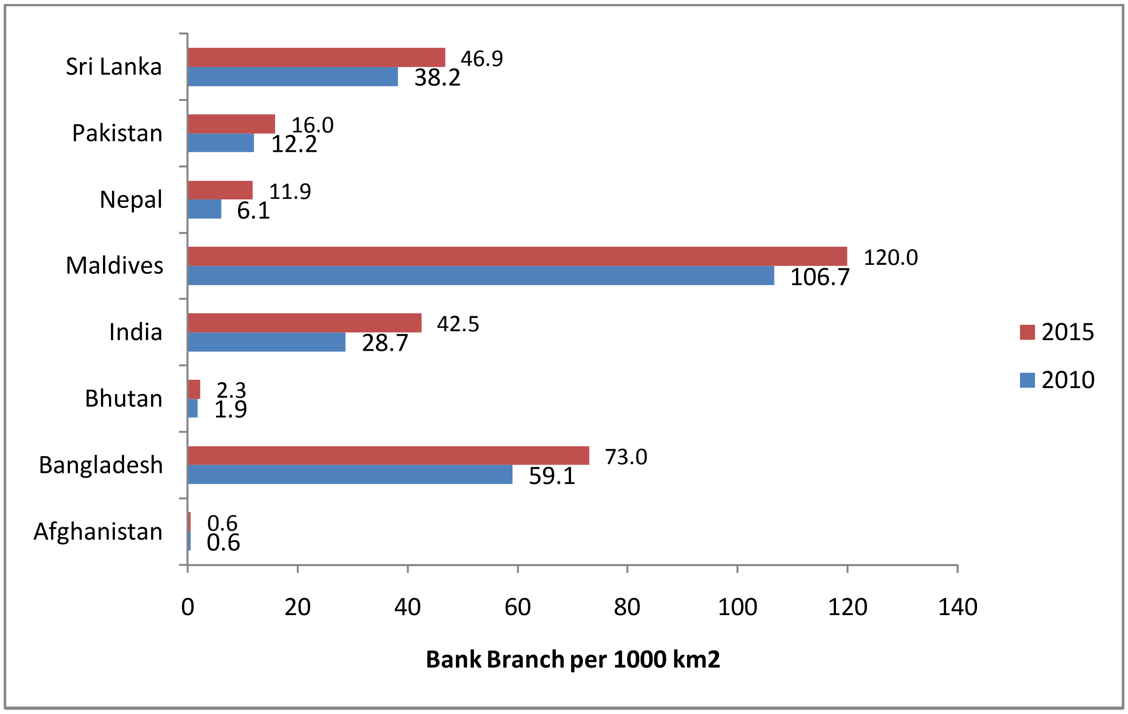


Chart 4.4: Trend in ATM per 1000km2

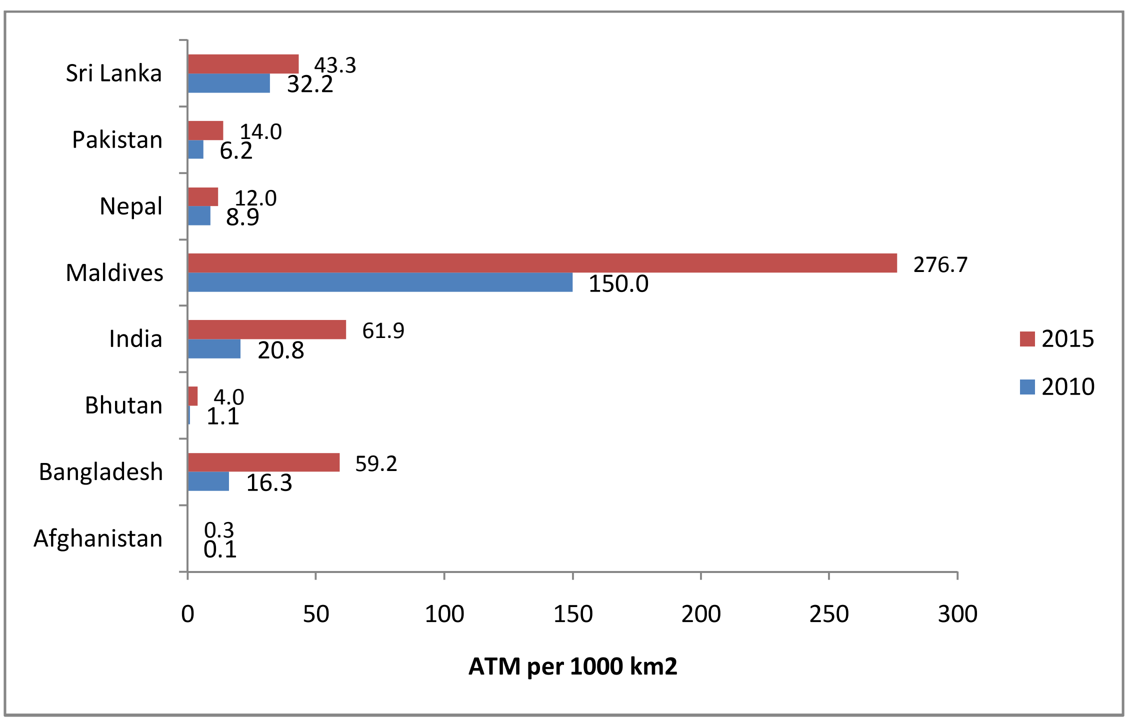


Chart 4.5: Trends in Bank Branches per 100,000 adults

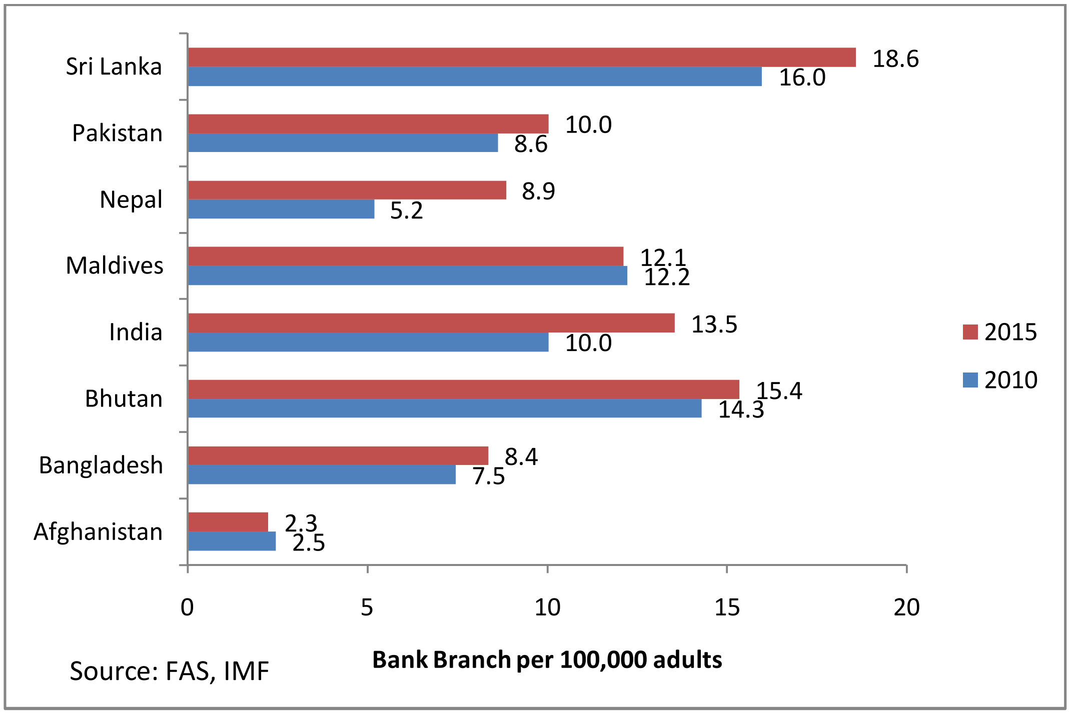


Chart 4.6: Trends in ATM per 100,000 adults

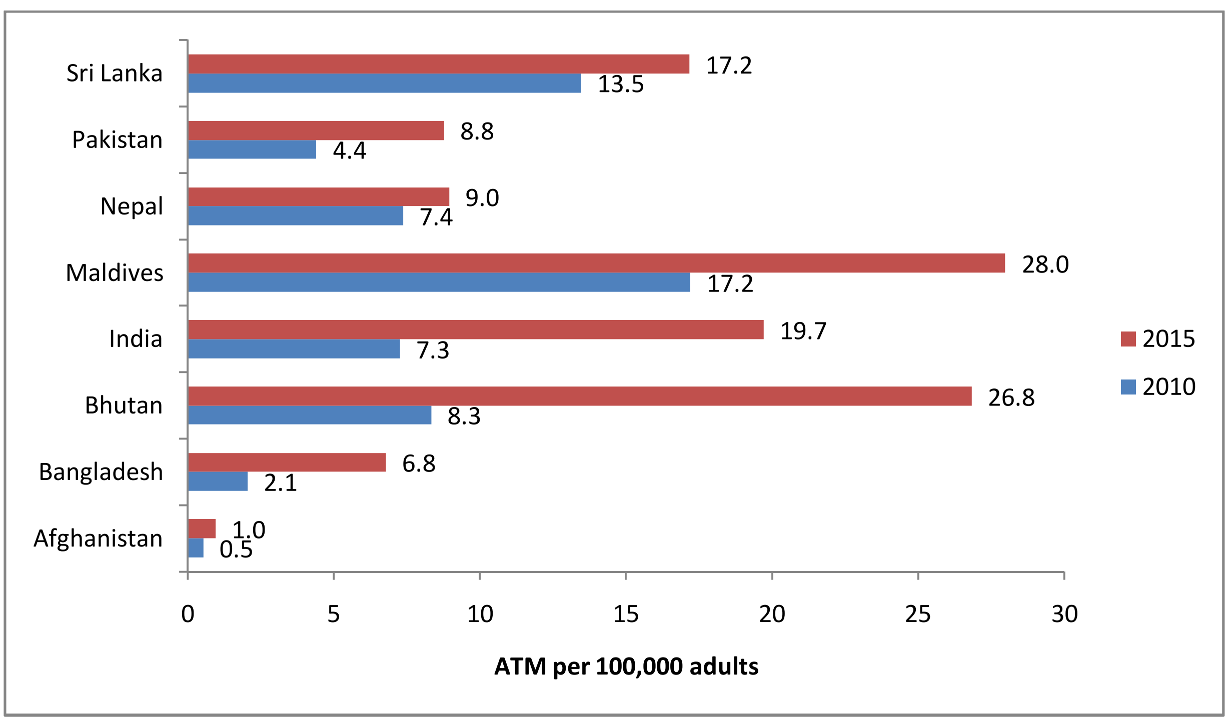


Chart 4.7: Trend in outstanding Deposit as % of GDP

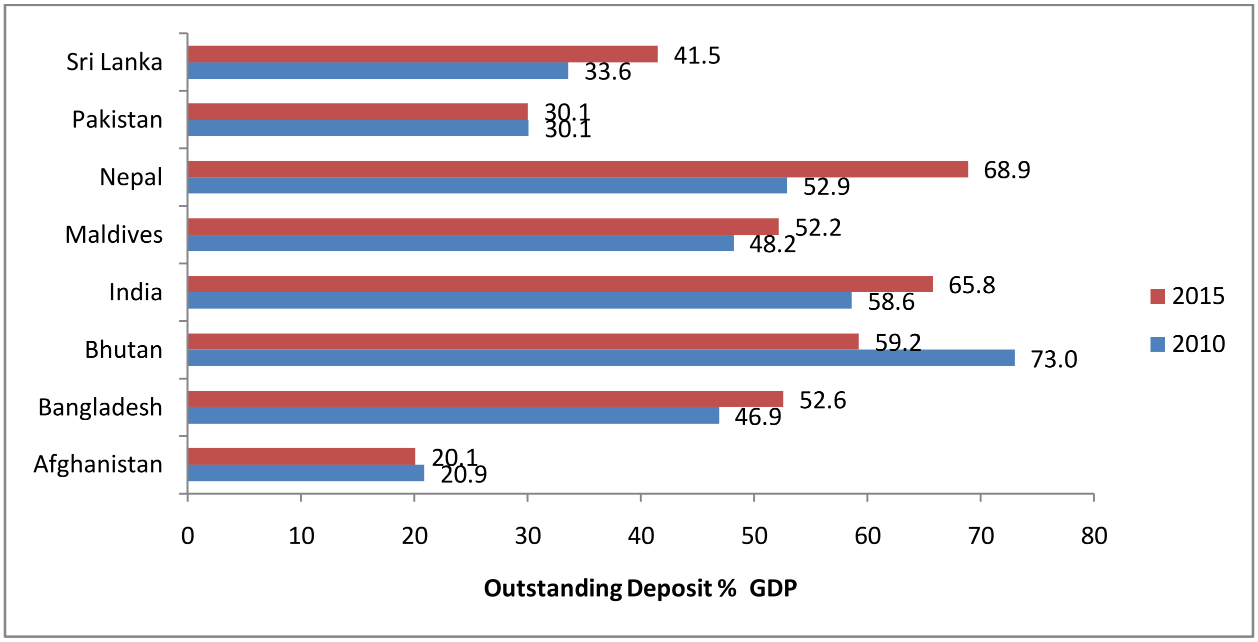
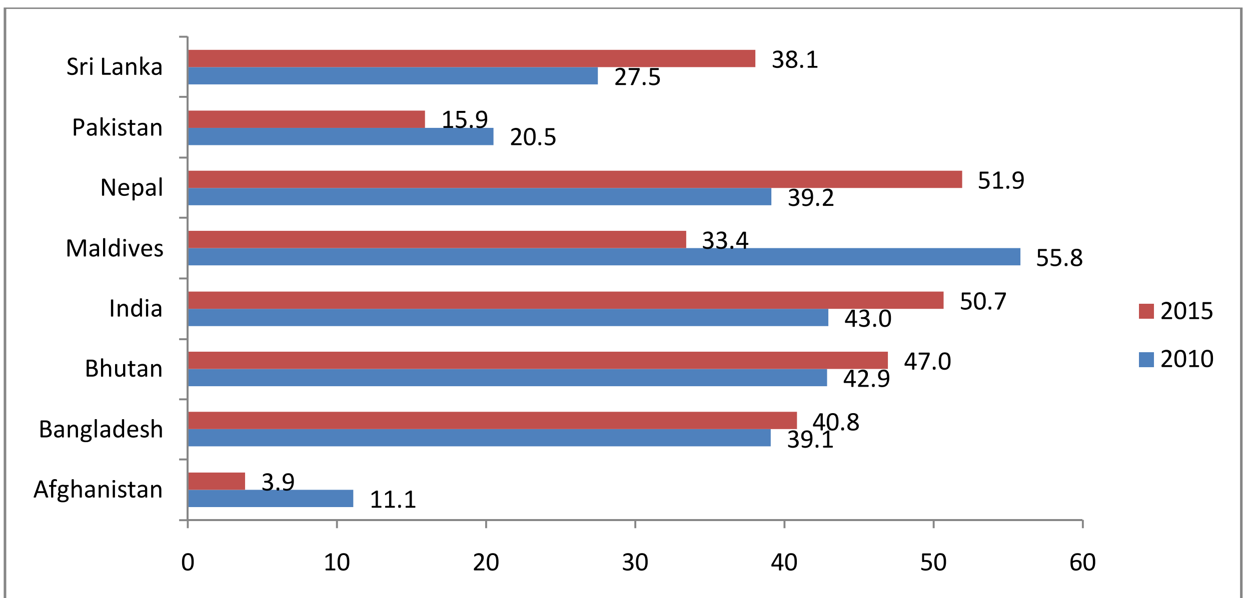


Chart 4.8: Trends in Outstanding loan as % of GDP



Source: FAS, IMF

V. An Assessment of Regulatory Framework for the Enabling environment for financial inclusion

Regulatory framework is very important for promoting financial inclusion. The Global Micro Scope (EIU, 2016) assesses the regulatory environment for financial inclusion across 12 indicators for 55 countries. The indicators are (1) Government support for Financial Inclusion, (2) Regulatory and supervisory capacity for Financial Inclusion, (3) Prudential Regulation, (4) Regulation and supervision of credit portfolios , (5) Regulation and supervision of deposit taking activities,(6) Regulation of Insurance targeting low-income populations, (7) Regulation and supervision of branches and agents ,(8) Requirements for non-regulated lenders, (9) Electronic Payment, (10) Credit -reporting systems , (11) Market conduct rules , and (12 Grievance redress and operation of dispute-resolution mechanisms[2]. The Global Micro Scope prepared a composite score based on these parameters and a normalized score is derived whose value varies between 0-100, where 100 is the best.

According to scoring mentioned above, India has performed well and it's score increased by 7 point to 78 in 2016 from previous year level. Bangladesh , Nepal and Sri Lanka have improved marginally while Pakistan has marginally degraded in 2016 from previous year level (Chart 5.1).

The 2015 Brookings Financial and Digital Inclusion Project (FDIPR, 2015) constructs overall and individual score based on four broad dimension relevant to financial inclusion. These are: country commitment, mobile capacity, regulatory environment, and adoption of traditional and digital financial services[3]. Some selected SAARC country sores are given in Chart 5.2. Data show that India and Pakistan have achieved 100 score in country commitment dimension while Bangladesh and Afghanistan scored 94 and 56 respectively. Country commitment is very important for fostering financial inclusion. All countries are doing well in overall score (Chart 5.2).

[2] see EIU(2016) for detailed methodology

[3] See Vilasenor et al. (20150 for detail

Vilasenor et al. (2015) opined that ñé many country that have strong mobile or digital network have demonstrated progress toward financial inclusion because these mechanism help poor people use financial services in convenient and affordable manner.ò

Chart 5.1: Trends in Regulatory Environment scoring

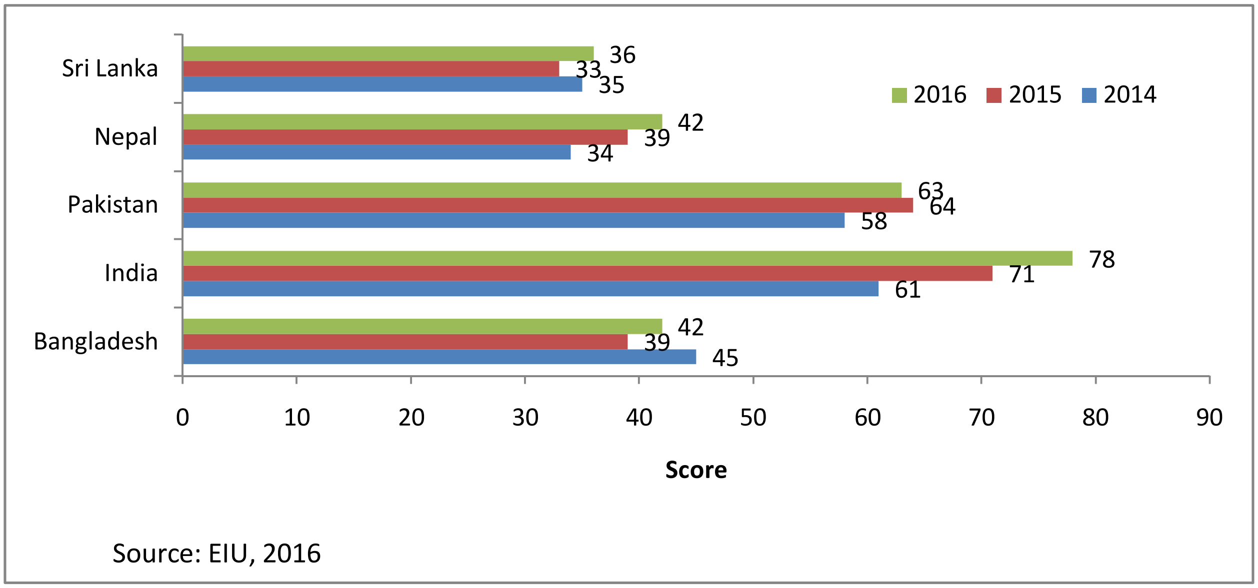
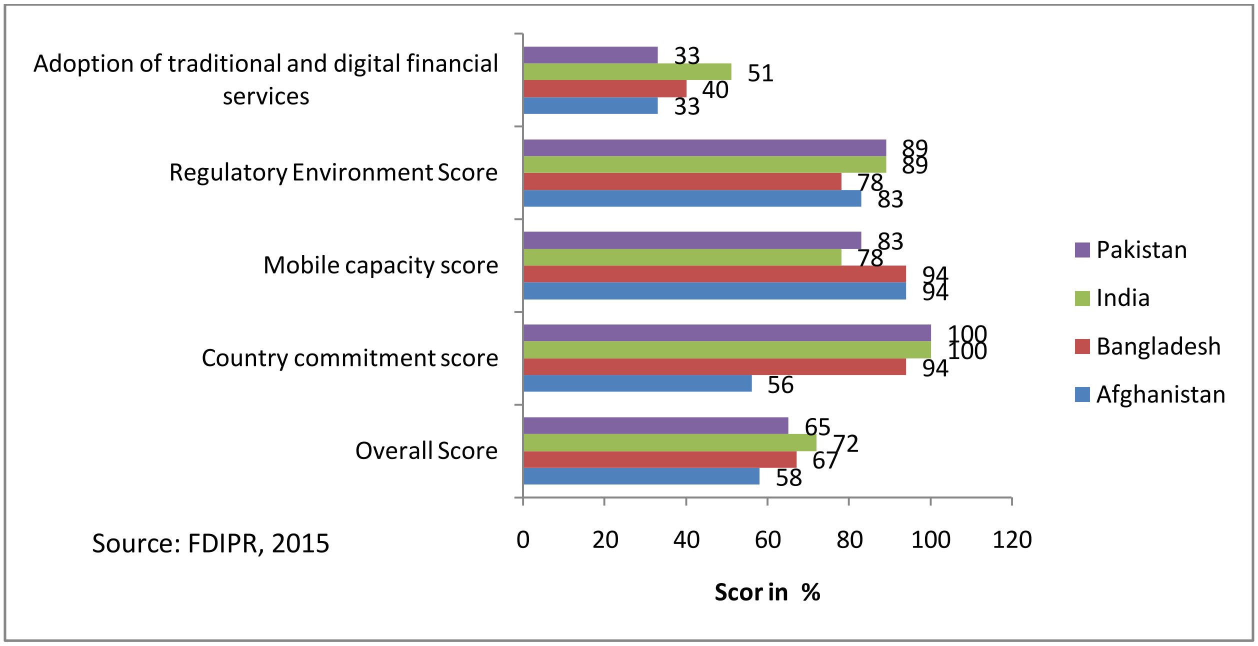


Chart 5.2: Trends in score of different Dimension of Financial Inclusion



VI. Trends and Approaches of Financial Inclusion at Country Level

A. Afghanistan

The financial sector in Afghanistan is relatively young and comprises a variety of financial institutions including 15 commercial banks with one specialized microfinance bank and 6 Islamic banking windows, 4 insurance companies, 9 microfinance institutions, 3 electronic money institutions, 774 money service providers with 337 representative offices, and 2047 foreign exchange dealers.[4]

During the last decades, financial markets and institutions in Afghanistan have witnessed significant changes in terms of penetration as well as diversification of services. Though the financial sector has witnessed significant progress and grown rapidly in the last decade, but still the financial system especially banking sector faces major problems including ineffective legal framework, weak corporate governance practices, inadequate strategies and policies, weak internal control environment, lack of competent & qualified human resources, absence of safe investment opportunities, poor infrastructures, etc, which are subsequently impacting its proper functioning and expansion.

It is worth mentioning that, in a very recent action to promote financial inclusion in Afghanistan, Da Afghanistan Bank with the help of World Bank has established a totally new department under the very same title of ñFinancial Inclusionò.

Banking Sector

Banking sector plays a major role in financial system and has a dominant share in the financial sector of Afghanistan. The banking system in Afghanistan currently consists of 15 duly-licensed banks that include 3 state-owned banks, 9 privately-owned banks, and 3 foreign banksô branches. Nowadays, banks provide various banking services all across the country through 1,103 banking facilities.[5]

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[4] Financial Supervision Department Strategic Plan, DAB
[5] Financial Supervision Department Strategic Plan, DAB

Although there is no legal framework for Islamic banking, commercial banks were allowed to offer Islamic banking products and services in 2008 through Islamic banking windows. There are currently six operating windows that accept profit sharing investment accounts and mostly in Murabahah[6] operations.

Microfinance Sector

Afghanistan National Development Strategy has paid special attention to microfinance as a pivotal factor playing a central role in reconstruction of the country. Microfinance services are viewed to have an impact on employment generation, levels of household income, gender equity, access to health and education facilities and alternative livelihoods.[7]

Afghanistanôs microfinance sector was created under a donor funded development program in 2003. Today, this sector has proven to be an integral and important part of Afghanistanôs overall financial sector, filling the gap between informal credit and the formal banking system. Microfinance has shown to be more effective in reaching poor Afghans in rural areas, who have less or no access to the financial services offered by banks.

Microfinance institutions (MFIs) in Afghanistan provide credit to microenterprises and SMEs. Unlike in other countries, MFIs in Afghanistan provide loans only for income-generating activities and do not lend for consumption purposes. Some microfinance institutions require their clients to have at least 6 months of experience in their business. The size of a loan in microfinance does not exceed Af.2.5 million or $50,000.[8]

There are a total of nine MFIs in Afghanistan which operate in most provinces. Microfinance Investment Support Facility for Afghanistan (MISFA) provides funds to seven of these MFIs.

A report by Afghanistan Microfinance Association indicates growth in most key indicators in 2015: the number of active borrowers and savers has increased by 0.4 percent and 3.3 percent respectively. However, due to security and instability issues in most part of the

[6] Murabahah is a particular kind of sale contract in which one party purchases goods and sells it to another party at a price that includes a profit margin agreed by both parties.
[7] Afghanistan National Development Strategy (ANDS)
[8] Access to Finance in Afghanistan, Research and Statistics Department, Afghanistan Investment Support Agency, April 2012

country, particularly in northern and southern parts of the country, gross loan portfolio of the microfinance sector decreased by 1.3 percent over the last quarter of 2015.[9]

Mobile Money

In 2008, Vodafone and the telecommunications company Roshan initiated the first mobile money transfer service called ñM-paisaò in Afghanistan. M-paisa was created to facilitate payroll for the afghan national police force initially.

Considering a national figure of 62 percent SIM ownership in the country, mobile money is an opportunity and a need for a new way of transferring money, and a new way of banking in Afghanistan. The near-universal mobile phone ownership is offering just that opportunity, while providing possibilities for enhancing the lives of millions of poor people in the country. Access to basic money transfer services will help poor families save time and money that can be spent in more productive ways. Basic credit will allow them to use current assets to capitalize on future opportunities. Appropriate insurance schemes will allow them to protect themselves against economic shocks. The ability to save and to do so securely will allow them to decrease their risk in handling cash. In sum, access to basic financial instruments and services will allow families to pursue economic opportunities, generate greater income, and accumulate amounts of net worth. As a result, they will be more able to meet their life and emergency expenses.

Based on a market research conducted by Altai Consulting on November 2013, only 5 percent of SIM owners have subscribed to mobile money and only two-third of these subscribers actually perform functional transactions, with most services essentially not used at all.

A lack of savings, low awareness, the perception that mobile money is too complicated and to some un-Islamic have been identified as barriers to market penetration in Afghanistan. Additionally, access to mobile money agents continues to be a major issue, as well as the reputation and liquidity of agents, particularly, non-bank agents.

The Afghanistan Financial Sector's Major Challenges

Despite the fact that in over past ten years financial markets and institutions in Afghanistan have witnessed significant progress and grew rapidly, but still the system is

[9] Afghanistan Microfinance Association, report, Dec. 2015

challenged by some serious issues, namely, ineffective legal framework, poor infrastructures, security, limited access to finance, lack of competent & qualified human resources, absence of investment opportunities and so far.

Although the Islamic banking business is still limited in Afghanistan, banks are also facing challenges in this respect. There are no Islamic banking law and regulations governing the practice of Islamic banking whether through windows, branches or fully fledged banks. The other challenge facing the Islamic banking industry is the lack of public awareness about the essentials of Shariûah compliant banking and the low capacity of Islamic banking practitioners in the local market.[10]

The above conditions led to the failure of the largest bank in Afghanistan and the emergence of other weak banks. This has affected the level of financial intermediation in the economy and led many banks to limit their lending activities. As such the loan-to-deposit ratio went down from as high as over 50% in 2010 to around 22% in 2012. This has resulted in a higher level of idle funds that were kept in liquid instruments mostly due to poor legal infrastructure for lending and few opportunities for investment other than capital notes issued by the DAB.

In addition to above, non banking financial institutions, mainly money service providers (hawala system), foreign exchange dealers, and electronic money institutions are a big segment of the Afghanistan economy with historic background and had existed even before the establishment of the banks, except EMIs. Previously, MSPs used to serve like a bank in order to safe keeping of customers depositors and domestic and international fund transfers. EMIs, however, are important in financial inclusion and accessibility of rural inhabitants to financial system.

Also, nowadays non banking financial institutions are facing many challenges in terms of insecurity (to transfer funds from one province to another), competition with banks, poor legal environment to sustain in the market, lack of competency in using advanced technology like banks, and many other cultural and social problems.

[10] Financial Supervision Department Strategic Plan, DAB

Table A1: Trends in Various Financial Inclusion Indicators during 2012-2015

	2010	2011	2012	2013	2014	2015
Automated Teller Machines (ATMs) per 1,000 km2	0.12	0.15	0.16	0.19	0.21	0.27
Automated Teller Machines (ATMs) per 100,000 adults	0.55	0.64	0.66	0.73	0.78	0.96
Borrowers at commercial banks per 1,000 adults	3.90	3.76	4.25	3.87	3.11	3.04
Branches of commercial banks per 1,000 km2	0.55	0.53	0.54	0.60	0.64	0.63
Branches of commercial banks per 100,000 adults	2.46	2.29	2.21	2.34	2.40	2.25
Deposit accounts with commercial banks per 1,000 adults	116.39	106.19	169.70	135.35	181.36	192.31
Depositors with commercial banks per 1,000 adults	109.28	144.11	172.05	161.72	179.79	188.73
Loan accounts with commercial banks per 1,000 adults	3.80	3.70	4.21	3.84	3.09	3.03
Mobile money accounts: active per 1,000 adults			0.64	0.43	0.82	1.14
Mobile money accounts: registered per 1,000 adults			84.13	83.73	81.50	12.36
Mobile money agent outlets: active per 1,000 km2			0.89	1.17	1.65	2.02
Mobile money agent outlets: active per 100,000 adults			3.66	4.57	6.19	7.24
Mobile money agent outlets: registered per 1,000 km2			0.89	1.17	1.65	2.02
Mobile money agent outlets: registered per 100,000 adults			3.66	4.57	6.19	7.24
Mobile money transactions: number per 1,000 adults			2.41	27.99	31.37	56.09
Mobile money transactions: value (% of GDP)			0.03	0.31	0.33	0.36
Outstanding deposits with commercial banks (% of GDP)	20.88	20.17	18.11	18.34	19.02	20.10
Outstanding loans with commercial banks (% of GDP)	11.13	4.71	3.97	4.14	3.76	3.85
Outstanding loans with commercial banks: o/w SMEs (% of GDP)		0.59	0.27	0.26	0.16	0.17

Source: FAS, IMF.

Based on IMF financial access survey, despite some improvements, the growth of accession to financial services by Afghans has been very slow over the decade after 2005. Despites of a significant increased in percentage; number of ATMs per 100,000 adults is still very low reaching to 0.95 in 2015. Similarly, in terms of geographical outreach, number of ATMs per 1000 km2 has increased to 0.27 in 2015 from 0.01 in 2005. In terms of formal banking sector penetration, it should be said that the number of commercial bank branches per 100,000 adults has increased to 2.26 branches in 2015 from 0.62 branches in 2005.

Numbers of deposit accounts and loan accounts with commercial banks have had a trend with more fluctuations. Number of deposit accounts with commercial banks increased to 172.25 per 1,000 adults in 2012 but it decreased to 138.32 in 2013 indicating a 19 percent decline over one year period. This indicator improved in 2015 reaching to a number of 192.31 deposit accounts per 1000 adults. On the other hand, number of loan accounts still are in declining trend (Table A1).

B. Bangladesh

Bangladesh Bank (BB) has taken various approaches for accelerating financial inclusion. These approaches are to expand credit flow to agricultural, SME, and environmentally-friendly sectors; to bring a large number of un-banked/under-banked, socially disadvantaged people into the ambit of financial services; to adopt mobile financial services and agent banking to expand banking services to remote areas; and to adopt information and communication technology (ICT) in delivering financial products at an affordable cost. In view of the contribution to food security, employment generation, and poverty reduction, agriculture and SME are priority sectors. BB accordingly formulates and implements its agricultural and SME credit policies, under which marginal farmers, sharecroppers and women entrepreneurs can access banks and get loans at an affordable cost.

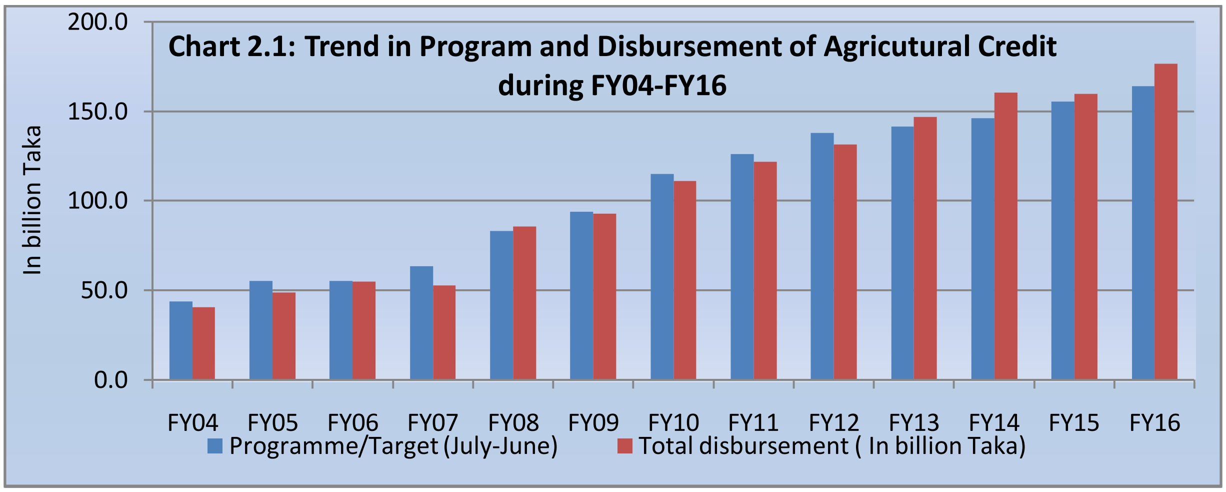
For achieving the targeted goals, BB has created a conducive regulatory environment and has provided institutional support for banks in accelerating their financial inclusion initiatives. As a result, the aim of inclusive finance is gradually being realized: to significantly increase outreach to un-served and under-served households and enterprises. Supported by a sound policy, together with an appropriate legal and regulatory framework, any country should have a continuum of financial institutions that collectively offer appropriate products and services to all segments of the population at an affordable cost (Rahman, 2013).

In order to establish a welfare-oriented modern payment system and to gear up the activities of financial inclusion in the country, Bangladesh Bank has prepared a strategy paper for the payment system; set up an automated clearing house for management of its overall operational activities; undertaken an approval procedure for mobile financial services (MFS) and its proper oversight; taken initiatives for upgrading the National Payments Switch (NPS) and installation of an e-payment system; formulated a ñrules and regulationsò framework for the payment system; and taken measures to accelerate remittance inflows and related initiatives for real-time gross settlements (RTGS).

2. Trends and Approaches in Agricultural Financing

The agriculture sector is one of the priority sectors of the present government, due to its major contribution to employment generation, poverty reduction, food security and sustained economic growth. To increase agricultural production and rural activities, BB pursues pragmatic agricultural credit policies. Under this agricultural credit policy, marginal farmers, landless farmers, and sharecroppers can access banks for demand loans. Chart 2.1 plots agricultural credit targets and actual disbursements for the period from FY04 to FY16. Total agricultural credit disbursement by banks increased manifold to BDT 1760.50 billion in FY '16 from BDT 111.17 billion in FY' 10.

Chart 2.1 : Trend in Program and Disbursement of Agricultural Credit during FY04-FY16



The sharecroppers were brought into the agricultural credit programm under a revolving refinance credit scheme of BDT 5 billion in FY10. It is noteworthy that the sharecroppers now enjoy credit facilities having been previously excluded from bank credit. In FY16 BDT 14.94 billion was disbursed to 363,000 sharecroppers (Table 2.1).

Table 2.1 Trend in Credit disbursement to the Sharecroppers

Financial Year	No. of Sharecroppers (In Thousands)	Disbursement (In BDT billions)
2009-2010	374	4.3
2010-2011	427	7.4
2011-2012	501	10.9
2012-2013	447	11.1
2013-2014	375	11.7
2014-2015	406	13.3
2015-2016	363	14.9

Source: Agricultural Credit & Financial Inclusion Department.

In order to promote production of agricultural import substitute crops, BB arranges credit facilities at a 4% concessional interest rate**.** Agricultural credit at a concessional 4% interest rate is being extended by banks to farmers for growing of pulses, spices, oilseeds, and maize. Banks get a 6% interest subsidy from the government through Bangladesh Bank against these loans. Local production of these specialized crops is already contributing significantly towards reduction of import dependence. The payment process of interest subsidy has been simplified with a view to settling the bank's claim promptly**.**

Half of the population of Bangladesh deserves special attention -- our women citizens. The effective and meaningful participation of women in the mainstream of the economy is essential for sustainable economic growth. Banks are instructed to extend credit facilities to women for agricultural activities such as gardening, nursery, post-harvesting activities, production and preservation of seeds, bee rearing/apiculture and honey production, food processing, fisheries, the animal resources sector, and many other occupations. In the agricultural and rural credit policy, banks are directed to provide credit facilities to the women on a priority basis.

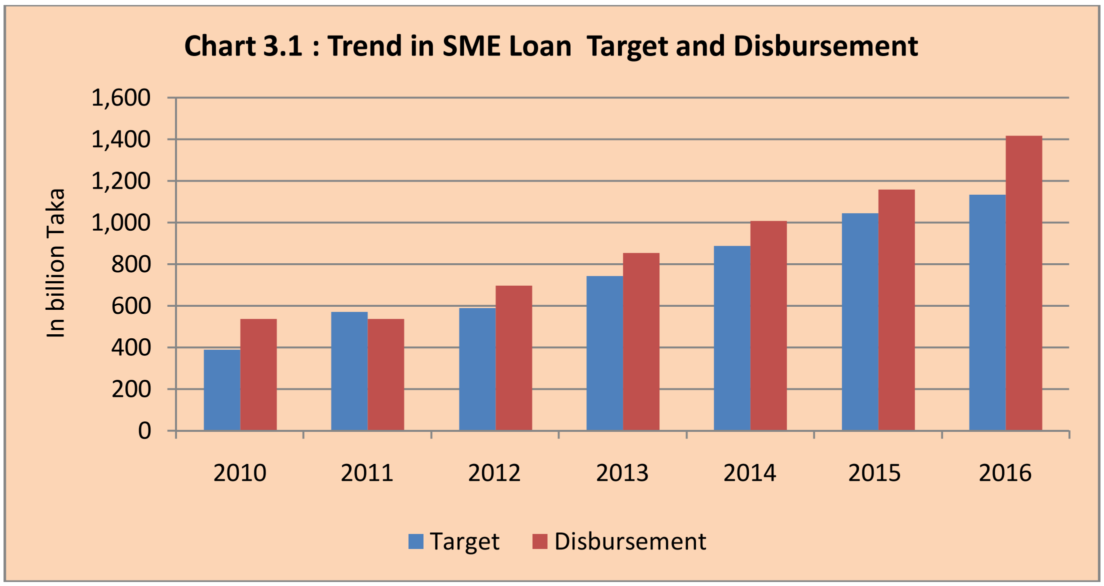
Banks are asked to disburse agricultural and rural credit by following an ñarea approach method,ò to give emphasis to the regional comparative advantages of crop production. Agricultural and rural credit has been disbursed to the tribal farmers at a concessional 5% rate of interest in Rangamati, Bandarban and Khagrachari, the three hill tracks districts of the country.

3. Trends and Approaches of SME Financing

Reaching small and medium-size enterprises (SMEs) is one the major segments of financial inclusion in Bangladesh. To promulgate SME financing, BB set up **the** SME & Special Programmes Department (SMESPD) in 2009. The SMESPD formulates SME credit policy and takes various steps for expansion of SME financing.

A target-based SME lending program was initiated in 2010. The beauty of this initiative is that the target is not imposed by the central bank; rather the banks and non-bank financial institutions (NBFIs) independently decide their targets. Banks and NBFIs disbursed altogether

BDT 1419.35 billion to 634574 enterprises in 2016, up from BDT 535.44 billion to 310,000 enterprises in 2010 (Chart 3.1).



3.1 Refinance Scheme for SMEs

The lack of adequate financing is the main barrier for growth and expansion of the SME sector. Therefore, Bangladesh Bank is committed to make SME credit easily accessible. In order to resolve this chronic funding crisis and to expedite the SME sector development program, Bangladesh Bank has been providing a refinance facility to banks and NBFIs against their disbursed SME credit from its own fund along with the assistance of ADB, IDA, and JICA. At present, refinancing from two funds is running concurrentlyï the Bangladesh Bank Fund and the Japan International Cooperation Agency (JICA) Financial Sector Project for the Development of Small and Medium-size Enterprise (FSPDSME) Fund. As of 31 March 2015, BDT 39.47 billion has been refinanced to banks and NBFIs against financing to 44,934 enterprises.

In order to stimulate employment generation and empowerment for women, SMESPD has taken a number of policy initiatives so that women entrepreneurs can have financial facilities on simple terms and conditions. During 2014, BDT 39.39 billion was disbursed to about 43,000 women-owned enterprises, up from BDT 18.05 billion to about 14,000 women entrepreneurs in 2010 (Table 3.2).

Table-3.2: SME Credit disbursement to Women Entrepreneurs during 2010-2015

Year	No. of Women Entrepreneurs	Amount Disbursed (In billion Taka)
2010	13,831	18.05
2011	16,696	20.48
2012	17,362	22.44
2013	41,695	33.47
2014	42,730	39.38
2015	41,000	42.27
2016	42,000	53.46

4. Information and Communication Technology (ICT)and Financial Inclusion

4.1 Mobile Financial Services

The developments in mobile phone density in Bangladesh, with 116.6 million subscribers, present a unique achievement in a shortest possible and engender ample opportunity to leverage the mobile platform to meet the objectives and challenges of financial inclusion. To tap the opportunity, BB published the ñGuidelines on Mobile Financial Services for Banksò on 22 September 2011 as the legal framework for a mobile technology based payment system. This event served as a milestone in financial inclusion activities in the country.

At the end of December 2016, the number of total agents was 710,026, and the number of registered customers was almost 41.08 million, of which active accounts were almost 15.87 million under Mobile Financial Services (MFS). The number of total transactions was 133.73 million, while the amount of total transactions was BDT 232.13 billion at the end of December 2016 (Chart 4.1 and Table 4.1).

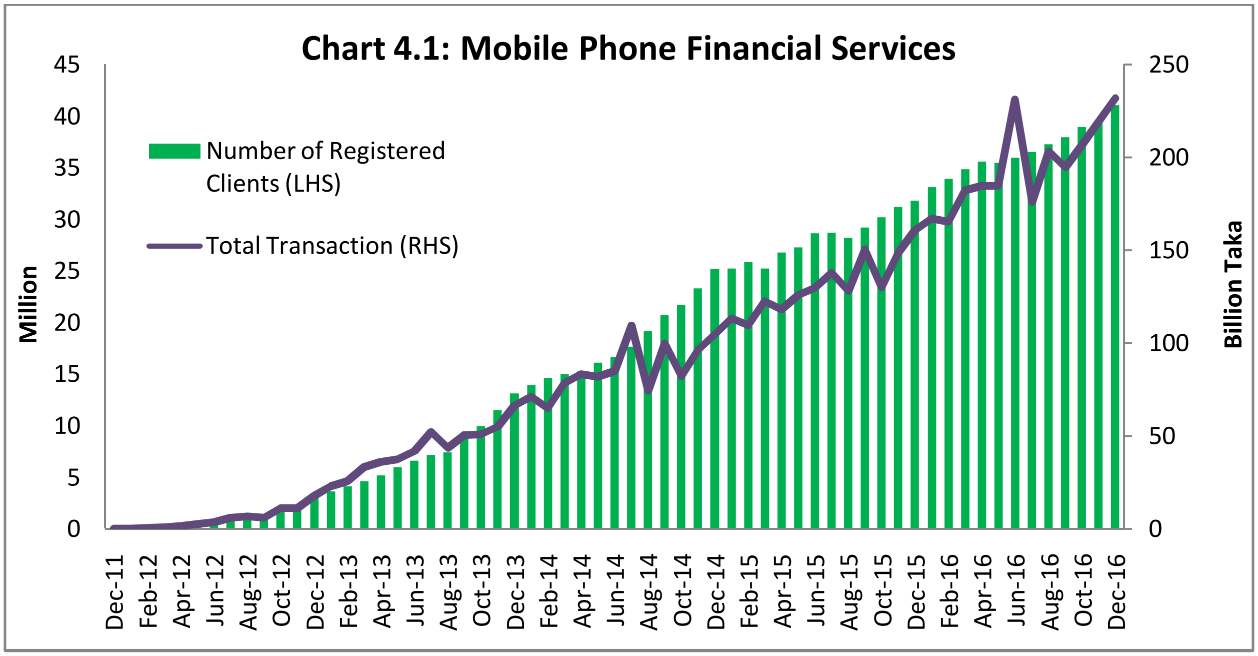


Table 4.1:Trend in Mobile Financial Services (MFS)

Serial no.	Description	December 2015	December 2016	Growth
1	No. of Banks Launched the Services	28	19	
2	No. of Banks currently providing the Services	18	17	
3	No. of Agents (in thousands)	561	710	26.52%
4	No. of registered clients (in Millions)	3.18	4.11	28.99%
5	No. of active accounts (in Millions)	13.22	15.87	20.09%
6	No. of total transaction (in millions)	115	134	16.44%
7	Total transaction in amount (in billion BDT)	161.25	232.14	43.96%
8	No. of daily average transaction (in million)	3.83	4.46	16.44%
9	Average daily transaction (in billion BDT)	5.37	7.74	43.96%
10		Amount (in billion BDT)		
a	Inward Remittance	0.0425	0.0812	91.06%
b	Cash In transaction	68.30	100.16	46.66%
c	Cash Out transaction	59.31	90.46	52.52%
d	P2P transaction	27.51	33.68	22.44%
e	Salary Disbursement (B2P)	1.54	2.35	52.35%
f	Utility Bill Payment (p2b)	1.09	1.81	66.18%
g	Others	3.45	3.58	3.75%

Source: Payment System Department, BB

In the banking sector, 28 banks have received permission for providing financial services through mobile technology as an alternative payment channel. Of these, 20 banks are already carrying out activities such as disbursement of inward remittances, financial transactions through agent/ bank branch/ ATM/ mobile operator outlet, payments of business organizations (such as utility bills) by individuals, payment of individuals by business organization (such as salary distribution) payment of individuals by Government (such as old-age allowance, freedom fighter allowance, etc.), payments of Government by individuals (such as tax payments), individual to individual transactions (from one registered mobile account to another registered mobile account) and other transactions such as microfinance, overdraft facilities, insurance premiums, etc.

4.2 Automation of the Payment System

In order to establish a welfare-oriented modern payment system and to gear up the activities of financial inclusion in the country, Bangladesh Bank has prepared a strategy paper for the payment system; set up an automated clearing house for management of its overall operational activities; undertaken an approval procedure for MFS and its proper oversight; taken initiatives for upgrading NPS and installation of an e-payment system; formulated rules and regulations framework for payment systems; taken measures to accelerate remittance inflows; and undertook related initiatives for RTGS[11].

Bangladesh Bank has established a National Payment Switch (NPS) to simplify the interbank electronic payments originating from different payment systems such as ATM, POS, Internet, mobile applications, etc. The main objective of establishing the NPS is to create a general platform for interbank transactions with the cards issued by banks through different partnership switches, which had already been established by private initiatives, and switches that had been set up by the banks themselves. Primarily, National Payment Switch Bangladesh (NPSB) started operating in a limited scale through interbank ATM transactions in December 2012. Now, 42 commercial banks are connected with this NPSB, and the rest are also taking preparation to join it. According to data up to December 2014, about 6,202 ATM and 8 million debit and credit card are now being conducted by different banks. (Data on ATM-based transactions through NPSB in the fiscal year 2014-2015 are shown in Table 4.2)

[11]Mundra (2015) opines that there is a strong linkage between financial inclusion and the payment system.

Table 4.2: Trend in ATM based transactions through NPSB from July 2014 to April 2015

Time	Total transaction amount (in BDT Million)	Average daily transaction amount (in BDT Million)	Total number of transaction	No. of daily average transaction	Number of LIVE banks
Jul, 2014	110.5	3.7	23,982	800	17
Aug, 2014	180.6	6.0	38, 414	1,280	19
Sept, 2014	688.6	23.0	158,645	5,288	23
Oct, 2014	652.7	21.8	142,896	4,764	27
Nov, 2014	799.7	26.7	166,929	5,565	30
Dec, 2012	1073.7	34.6	212,662	6,860	31
Jan, 2015	1203.6	38.82	230,245	7,427	38
Feb, 2015	1312.5	46.9	246,758	8,812	38
Mar, 2015	2039.5	65.8	366,410	11,820	40
Apr, 2015	2673.6	89.1	455,518	15,184	42

In order to start e-Commerce activities, Bangladesh Bank has issued circulars with proper directions to banks for launching online utility bill payments, online fund transfers among bank customers, and credit card based Internet payments. Already two banks have started e-Commerce activities, and other banks are also taking initiatives. Under NPSB, e-payment gateway procedures are in progress for paying Government bills through the Internet.

The draft of the National Payment Systems Act (NPSA) has already been completed, and it has been uploaded in the Bangladesh Bank website for soliciting the opinion of the general public. An announcement was published in the daily newspapers for encouraging the feedback/opinions of the boards of directors from each commercial bank and public opinion on this matter. It is expected that the National Payment Systems Act will be finalized by July 2015.

Bangladesh Bank has been working with development partners such as ADB and the Payment Systems Development Group of the World Bank for launching the Real Time Gross Settlement (RTGS) system. With collaboration of ADB, and after completing the procedure of insertion of recommended conditions in the Award of Contract and the Work Order through decision of the executive committee, Bangladesh Bank signed a contract with CMA Small System AB on 20 November 2014. A technical team of the vendor has already come to

Bangladesh and discussed the assessment, gap analysis, timeline and our dues about the contract from 14 February 2015 to 18 February 2015 for implementation of this project.

5. Agent Banking

To expand the outreach of financial services to the remote rural areas and marginalized populations, BB has taken initiatives in agent banking. Regulations and guidelines for agent banking operations were issued on 9 December 2013[12]. Two banks have been licensed so far for starting agent banking services. They have already started appointing agents, and 100 agentsô outlets are in operation now.

The agent banking system provides a comprehensive range of banking services to the unbanked portion of the society, and provides efficient services to the existing customers[13].The model of agent banking is given below:

NGOs, Co-operative Societies, Courier Service Companies, Agents of Mobile Companies, post offices, MFIs (licensed from MRA), Government Offices, Union Information and Service Centers, Agents of Insurance companies, owners of pharmacies, chain shops, petrol/gas stations, and reputable persons can conduct agent banking activities.

[12] As per the guidelines, the aims of agent banking are to serve the non-privileged, underserved population and the poorer segments of society, especially those from geographically dispersed locations. Banks will give much emphasis to the rural areas to cover the lion's share of the target group. The ratio of the numbers of sub-agent/ outlets of a bank will be 2:1 for rural and urban areas.

[13]Through agent banking, a customer can get a variety of banking services, including(1) small value cash deposits and cash withdrawals, (2) collection of foreign remittances, (3) small value loan disbursement and loan repayment in installments; (4) cash payments under the social safety net program of the Government; (5) utility bill payment; (6) fund transfers, (7) account opening, (8) application for loans, and (9) collection of debit/credit cards.

6. Innovative Account (No Frills Account)

Bangladesh Bank brings socially disadvantaged and financially excluded people into financial services under its on-going financial inclusion program[14]. BB has advised the banks to open bank accounts with a minimum deposit of BDT 10 and BDT 100,with the one step of filling out the KYC (Know Your Customer) form to cover those people. These accounts are free of service charges. Up to 2016, a total of 16.75 million accounts had been opened by the state-owned banks and specialized banks(Table 6.1). Of these, 9.04 million are BDT 10 farmersô account.

Table 6.1: Trend in Innovative Accounts During 2011-2014 (in number)

Year	Farmer's BDT10	Social safety net Beneficiaries	Freedom fighter	Small insurance policy holder	Others	Total
2011	9,525,553		61,631			9,525,553
2012	9,588,933	2,623,886	109,533	8,355	720,454	12,941,628
2013	9,675,313	3,007,346	138,998	12,945	1,010,532	13,706,136
2014	9,726,645	3,384,961	152,528	27,447	1,669,357	14,808,410
2015	8,590,876	3,527,809	159,747	37,808	3,000,618	15,316,858
2016	9,043,589	4,252,478	218,593	98,129	3,142,469	16,755,258

Source: Financial Inclusion Department, Bangladesh Bank

7.1 School Banking

Bangladesh Bank undertook several initiatives towards transforming Bangladesh into a model of financial inclusion; and school banking is one of those initiatives. The goal of the school banking program is to introduce the students to modern banking services and technologies, and to encourage them to participate in financial activities through saving. With this aim, Bangladesh Bank asked all scheduled banks to implement school banking with special priority. At the end of 2016, the number of accounts and deposit balances stood at 1,257,370 and BDT 10.21billion respectively under this school banking program (Table 7.1).

[14] Socially disadvantaged and financially excluded people are farmers, the ultra-poor, freedom fighters, beneficiaries from the social safety net program, small life insurance policy holders, ultra poor women, vulnerable people who are getting grants for rehabilitation under the Ministry of Religious Affairs, cleaners of Dhaka North and Dhaka South City Corporations, and others (vulnerable people who are getting grants from the Hindu Religious Welfare Trust, Tornado (Aila) affected people, etc.).

Table 7.1: Trend in School Banking Account and amount in Bangladesh (Outstanding)

Year	No. of accounts	Balance amount (in BDT billions)
2011	29,080	0.31
2012	132,537	0.97
2013	295,802	3.06
2014	850,303	7.17
2015	1,034,954	8.44
2016	1,257,370	10.21

Source: Financial Inclusion Department, Bangladesh Bank

7.2 Banking Services for Street Urchins and Working Children

In 2014 Bangladesh Bank directed banks to bring street urchins and working children under their banking services activities in order to create a scope for them to protect their earnings through savings. The banks and NGOs (Non Government Organizations) formally started such activities from May 31, 2014. Later, Bangladesh Bank started collecting information regarding banking activities of street urchins and working children from authorized banks on a quarterly basis.

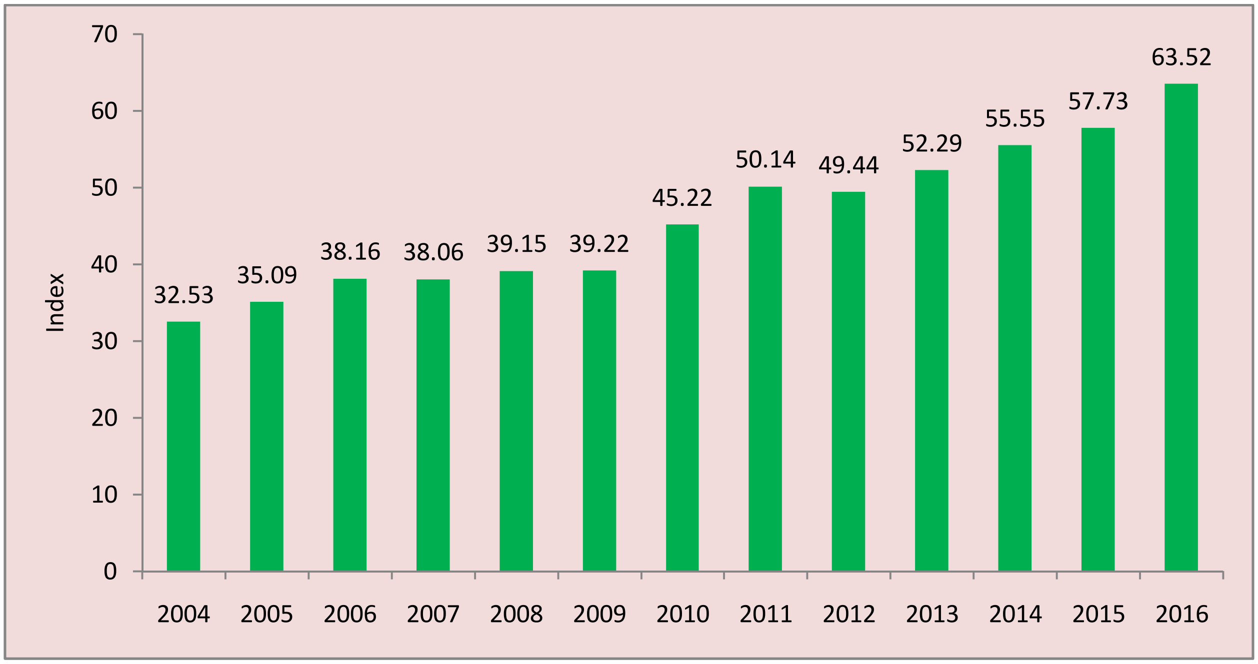
7. Financial Literacy

Bangladesh Bank has been giving special priority to financial literacy programs in addition to financial inclusion initiatives in order to bring the mass population of the country under the coverage of financial services and achieve poverty reduction and financial inclusion. An individual needs certain capabilities to understand and decide how money works, how to ensure its secured and correct utilization, and where money can safely be invested. Financial literacy denotes this capability to decide safe and correct utilization of oneҁs earnings. It awakens the nascent interest of the general populace to know more about financial and monetary matters, creates awareness among them about monetary demand and financial planning, and provides them with a basic idea about the topic. Bangladesh Bank first took a well-planned initiative to spread financial literacy in an organized manner with financial assistance of UK-based UKAID.

8. Overall Financial Inclusion Index (Banks and MFIs)

The overall financial inclusion index has been constructed by taking weighted average of number of deposit accounts as a percentage of the total adult population by banks and MFIs. The index has increased at a modest pace in Bangladesh during the last 10 years. Trends in overall financial inclusion index shows that financial inclusion by banks and MFIs increased from 35.09 percent in 2009 to 57.73 percent in 2015 due to the opening of a significant number of innovative accounts, including the farmersô BDT 10 account in the last several years (Chart 8.1).

Chart 8.1: Trend in Overall Financial Inclusion Index during 2004-2016



Source: Author's own calculation based on deposit account of banks and MFIs.

C. Bhutan

Bhutanôs financial sector has grown significantly over the last few years and has made substantial progress in terms of financial viability, profitability and competitiveness. However, there are concerns that it has overlooked a large segment of the population comprising of the poorer and weaker sections - especially those living in the rural areas. While the available data is patchy, there is some evidence that only a minority of the population in rural areas has access to formal financial services. There is lack of access to a range of appropriate financial services in particular among low-income people and in remote rural areas.

Therefore, in order to address the above gaps, the RMA has initiated to develop a Financial Inclusion Policy for Bhutan (still in draft with the Ministry of Finance) to foster the development of an inclusive financial system that contributes to the countryġs goal of poverty alleviation through sustainable and equitable regional development. In order to implement financial inclusion policy and to increase financial inclusion in the Country, the RMA has taken following initiatives/ in the process of undertaking the following measures:

1. The Royal Monetary Authority is member to Alliance for financial Inclusion (AFI).

2. The Royal Monetary Authority of Bhutan with the financial support of the Alliance for Financial Inclusion (AFI) conducted both demand and supply-side survey of access to finance in 2013 with a purpose of understanding the level of financial penetration by the Financial Institutions (FIs) and informal lenders in Bhutan. It is also aimed at identifying potentially existing supply-sided constraints in the provision of financial services, such as low level of population density, mountainous terrain with high administrative cost, low profitability and ultimately to feed the result into the policy-making and action-plan building in achieving inclusive growth. The survey was carried out based on the core set of financial inclusion indicators developed by the AFI Financial Inclusion Data Working Group (FIDWG). Those indicators measure broadly three things viz. penetration of the financial services geographically, access and usage.

3. RMA has put in place regulations for microloan institutions in 2014 and under which the NGOs engaged in lending activities were registered in 2016.

4. A regulation for deposit taking microfinance institution is in draft, which is expected to be implemented by end of 2016.

5. We have also drafted agent-banking regulations focusing on agent banking by the licensed banks. It is expected to be finalized and implemented by end of this year.

6. Currently, Bhutan has five commercial banks, one composite insurance company, one general insurance company and one reinsurance company.

7. The following table shows the trend in financial access point/indicators from 2010-2015.

Table 1: Some Indicators of ATM and Bank Branch in Bhutan

Total Banks	units	Year					
		2015	2014	2013	2012	2011	2010
1. Number of Banks		5	5	5	5	5	5
2.. Number of Bank Branches							
- Total	*in number*	*79.00*	*78.00*	*77.00*	*77.00*	*72.00*	*73.00*
- Rural	in number	33.00	32.00	32.00	32.00	32.00	32.00
- Urban	in number	17.00	17.00	17.00	17.00	13.00	14.00
3. Automated Teller Machine (ATM) related information							
- Total Number of ATM machines	*in number*	*167.00*	*125.00*	*122.00*	*50.00*	*30.00*	*29.00*
4. Point of Sales (POS) related information							
- Total Number of POS machines	in number	656.00	480.00	398.00	92.00	71.00	42.00
- Total number of transaction	in number	46267.00	38181.00	29922.00	2720.00	2133.00	1894.00

Currently, Bhutan does not have any data on finance to cottage, micro and small-scale industries and agricultural activities. Nonetheless, we are in the process of coming up with the proper framework on the finance to SME (including the reviewing of definition of these sectors along with the Ministry of Economic Affairs).

Table B1: Trends in Financial Inclusion Indicator

	2010	2011	2012	2013	2014	2015
Automated Teller Machines (ATMs) per 1,000 km2	1.10	1.89	1.08	2.81	3.23	3.99
Automated Teller Machines (ATMs) per 100,000 adults	8.34	13.95	7.74	19.72	22.16	26.82
Branches of commercial banks per 1,000 km2	1.89	2.20	1.73	2.28	2.26	2.28
Branches of commercial banks per 100,000 adults	14.30	16.27	12.47	16.03	15.49	15.35
Deposit accounts with commercial banks per 1,000 adults	675.14	923.73	382.57	962.36	1,330.63	1,464.01
Loan accounts with commercial banks per 1,000 adults	131.64	140.71	102.57	146.87	155.00	170.13
Outstanding deposits with commercial banks (% of GDP)	72.97	60.16	56.94	55.38	63.03	59.24
Outstanding loans with commercial banks (% of GDP)	42.87	49.24	48.65	47.95	46.27	46.96

Source: FAS, IMF.

In view of the low level of financial literacy specially in the rural population, particularly observed among low-income and rural women in Bhutan coupled with the increasing number of financial players in the market, the RMA is in the process of creating financial awareness to ensure people can make sound financial decisions, select financial products, which best fit their needs, and know how to use related channels, such as ATMs or mobile banking. The following are the initiatives taken in terms of financial literacy:

- ✓ RMA since 2009 have carried out various financial literacy activities such as producing comic books, audio-visual materials and other publicity materials. However, no national financial literacy action plan exists till date in Bhutan. All activities that have been carried out were implemented based on the work plan of the financial literacy team of RMA.
- ✓ In, 2013, RMA initiated the celebration of the global money week with support from the world bank and launched all the resource materials such as comic books, Television and Radio programs, Music video targeting the general public. Schools were also visited jointly by the RMA and representatives from Bank to carry out activities such as reading the comic book stories to the children, talking on importance of piggy bank savings accounts and holding quiz rewarded with prizes.
- ✓ In, 2014 (March 11-12), RMA initiated the celebration of Global money week in schools aimed at raising awareness on the importance of financial inclusion and education targeting school going children. The celebration was held at two schools and the activities carried out during the celebration were more exhaustive than in the previous year.
- ✓ Through various activities, such a Screening of financial literacy videos, awareness program sessions, distribution of comic books, essay writing competition, interactions with the RMA, the students learnt on the importance of money, savings, the difference between ñwantsò and ñneedsò, insurance, social security, rights of the customers while dealing with financial institutions, creating livelihoods, gaining employment and entrepreneurship.
- ✓ To bring children and youth to the limelight of banking & financial services, 150 piggy bank accounts were opened by students from School (Account opening minimum balance supported by financial institutions) and 300 account opening forms were distributed to the students in schools.

D. India

Branch Expansion/ Growth in Savings & Credit Accounts

Due to the limited penetration of brick and mortar branches across the country, the expansion of formal banking system became a major focus area from the policy perspective. During the last decade and half, a slew of measures were taken to bring larger portions of rural and semi-urban areas within the banking system. To meet the objectives of increasing banking penetration and financial inclusion rapidly, all Scheduled Commercial Banks (excluding Regional Rural Banks) were advised by RBI in July, 2011 that while preparing their Annual Branch Expansion Plan (ABEP), they should allocate at least 25 percent of the total number of branches proposed to be opened during a year in unbanked rural (Tier 5 and Tier 6) centres. An unbanked rural centre would mean a rural (Tier 5 and Tier 6) centre that does not have a brick and mortar structure of any scheduled commercial bank for customer based banking transactions.

	CAGR(%) of Individual Saving Bank Deposit Accounts	CAGR(%) of Individual Saving Bank Deposits' Amount Outstanding
Rural	15.6	15.8
Semi-Urban	15.9	16.6
Urban	11.8	15.5
Metropolitan	10.9	15
All India	14	15.6

Table 1.1: Branch Expansion of SCBs.*Population estimates are based on CAGR between Census 2001

2. Further, a phase wise approach has been adopted to provide door step banking facilities in all the unbanked villages in the country. In November 2009, under Phase-I, guidelines for preparation of Roadmap for providing banking services in villages with population more than 2000 was issued. After

	Branches/100,000 Population*		
As on March	Rural + Semi-urban	Urban + Metropolitan	Total
2001	5.3	11.7	6.4
2006	5	12.3	6.2
2010	5.4	15.2	7.2
2014	7.3	17.9	9.2
2015	7.8	18.7	9.7

Table 1.2:Growth in Individuals' Savings Bank Deposits Accounts/Amount with SCBs during 2006-2015.

successful completion of Phase-I by March 2012, a roadmap to provide banking services in unbanked villages with less than 2,000 population has been rolled out in June 2012.

As can be observed from Table 1.1, the branch expansion of SCBs has shown a steady increase. The growth in rural and semi-urban areas has also shown an upwards trend, however, the number of branches per lakh of population is more than in case of urban and metropolitan areas as compared to the corresponding figures of rural and semi-urban areas. It can be further observed from Table 1.2 that the compound annual growth rate (CAGR) for both the number of individual saving bank deposit accounts as well as saving bank depositsô amount outstanding has been the highest for semi-urban areas followed by rural areas and urban & metropolitan areas. At country level, there was a CAGR of 14 percent for the period 2006-2015 in terms of individual saving bank deposit accounts, while the CAGR for individual saving bank depositsô amount outstanding for the 10 year period was 15.6 percent.

With regard to credit growth, a CAGR of 6 percent was observed for the period 2006-2015 across the country. The growth in credit accounts was highest in the case of semi-urban and rural areas as compared to the urban areas. A similar trend can be observed in the case of credit outstanding, with highest CAGR observed in the semi-urban areas during the 10 year period (Table 1.3).

Credit Flow to Agriculture

Agriculture and its allied sectors directly impact output, wages, employment, and consumption patterns of a vast multitude of the countryòs population, thereby unleashing growth impulses in the economy. Of many inputs, agriculture credit plays a very important role in sustaining agriculture productivity. Government of India has been fixing agricultural credit disbursement targets annually and banks have been achieving the targets every year. Considering the share of agriculture in Indiaòs GDP, there has been a consistent focus on ensuring adequate credit

	CAGR(%) of Credit Accounts	CAGR(%) of Credit Outstanding
Rural	6.4	18.9
Semi-Urban	7.4	19.6
Urban	5.8	18.2
Metropolitan	4.1	18.1
All India	6	18.3

Table 1.3: Credit Growth of SCBs during 2006-2015.

flow to agriculture sector.As can be seen from Table 1.4, the achievement in lending to agriculture sector has consistently surpassed the targets fixed by the Governments. The priority sector guidelines issued by Reserve Bank of India also mandate a target of 18 percent of a bankôs Adjusted Net Bank Credit to be deployed in agriculture sector.

As per the Report of Internal Working Group (IWG) formed to revisit the priority sector guidelines, it was found that small and marginal cultivators (operating less than 5 acres of land) have not received their due share in the distribution of agricultural credit despite the fact they account for more than 80 per cent of total cultivators in India. The increase in the share of small and marginal farmers is, in part, attributable to the subdivision of land given the high land-man ratio. However, given their major contribution to overall agricultural production, food security and diversification within agriculture in India, they remain legitimate claimants for an increased allocation of agricultural credit. Accordingly, a sub-target of 8 percent for lending to the category of Small and Marginal Farmers within the 18 percent target for lending to agriculture was introduced for the SCBs from FY 2015-16 onwards to be achieved in a phased manner i.e., 7.5 per cent of ANBC by March 2016 and 8 per cent of ANBC by March 2017.

	Target	Achievement
2010-11	3,750	4683
2011-12	4750	5110
2012-13	5750	6074
2013-14	7,000	7116
2014-15	8,000	8406

Table 1.4: Credit Flow to Agriculture (In ₹ Billion).

Credit Flow to Micro, Small and Medium Enterprises (MSME)

As is the case particularly in developing economies, MSMEs play a critical role in employment generation, building up a competitive export portfolio and channelizing the entrepreneurial aspirations of the Indian population. As per the data released by the Ministry of MSME, Government of India, there are about 26.1 million enterprises in this sector. The sector accounts for 45 per cent of manufactured output, close to 40 per cent of all exports

Table 1.5: Rate of growth in credit to MSE sector (In % per annum)

Period	Credit to MSE sector	Total bank credit
1991-2001	4.1	4.9
2001-2007	7.2	16.4
2008-2012	12.7	8.5

from the country and employs nearly 59.7 million people, which is next only to the agricultural sector. As per the IWG Report, the share of credit to MSEs shows a trend posting a decline and then showing some signs of revival with the broadening of the definition of the MSE sector after 2006-07. To ensure that the smallest segment within the MSME sector i.e. the micro enterprises, get the required credit, a sub-target of 7.5 per cent of ANBC was introduced for lending to micro enterprises to be achieved in a phased manner in a period of two years i.e. 7 per cent of ANBC by March 2016 and 7.5 per cent of ANBC by March 2017.

Financial Inclusion Plans

The Reserve Bank has encouraged banks to adopt a structured and planned approach to financial inclusion (FI) with commitment at the highest levels through preparation of board approved financial inclusion plans (FIPs). The first phase of FIPs was implemented over 2010-13. The Reserve Bank has used FIPs to gauge the performance of banks under their FI initiatives. With the completion of the first phase, a large banking network has been created and a large number of bank accounts have also been opened. However, it has been observed that the accounts opened and the banking infrastructure created has not seen substantial operations in terms of transactions. In order to continue with the process of ensuring meaningful access to banking services to the excluded, banks were advised to draw up fresh three-year FIPs for 2013-16. Banks were also advised that the FIPs prepared by them are disaggregated and percolate down to the branch level so as to ensure the involvement of all the stakeholders in FI efforts and also to ensure uniformity in the reporting structure under FIPs. To sustain the momentum of achieving the financial inclusion objectives by setting FIP targets for banks, the third phase of Financial Inclusion Plans for the next three years 2016-19 has been initiated. Under the third phase, the focus is on more granular monitoring of the progress made by banks under FIPs at district level.

No Frills Accounts

Banks have been advised to make available Basic Savings Bank Deposit Accounts (BSBDAs) for all individuals with zero minimum balance and facility of ATM card/Debit card. Existing impediments of minimum balance maintenance, bank charges, etc. are being addressed through the same. With this it has become a right for every eligible Indian citizen to open basic savings account with banks. Further, banks have also been advised to provide in-built overdrafts in such basic savings accounts so as to meet the emergency credit needs of the customer and prevent them from having to approach money lenders in distress situation. The entrepreneurial credit has also been simplified in the form of KCC for farm sector household and GCC for non-farm sector households. There has been a substantial increase in the number of BSBDAs since 2010, as can be seen from Table 1.6.

2010	2011	2012	2013	2014	2015
73.5	104.8	138.5	182	243	398

Table 1.6: BSBDAs (in million) as per FIPs reported by all SCBs

Latest Approaches

Priority Sector Lending Certificates

The Reserve Bank of India had comprehensively revised the priority sector guidelines in April 2015 which provided for the introduction of PSLCs as a mechanism to incentivize banks having surplus in their lending to different categories of priority sector. On lines of carbon credit trading, the goal of PSLCs is to allow market mechanism to drive priority sector lending by leveraging the comparative strength of different banks. By trading in PSLCs, a bank with an expertise in lending to small farmers can over perform there and get benefit by selling its over performance through PSLCs. Another bank that is better at lending to small industry can buy these certificates while selling PSLCs for micro enterprise loans.By incentivizing the surplus lending to priority sector, the certificates are expected to increase the system wide lending to priority sector.

Differentiated Banking

Differentiated banks are distinct from universal banks as they function in a niche segment. The differentiation could be on account of capital requirement, scope of activities or area of operations. As such, they offer a limited range of services / products or function under a different regulatory dispensation. The Reserve Bank has, accordingly, decided to licence differentiated banks and guidelines on licensing of small banks and payments banks have been issued in November 2014.

Table I1: Trends in Financial Inclusion Indicators for Indian.

	2010	2011	2012	2013	2014	2015
Automated Teller Machines (ATMs) per 1,000 km2	20.80	25.81	32.67	38.96	54.90	61.88
Automated Teller Machines (ATMs) per 100,000 adults	7.27	8.85	10.99	12.87	17.80	19.71
Borrowers at credit unions and financial cooperatives per 1,000 adults	79.58	69.90	60.10	63.54	64.89	63.62
Branches of commercial banks per 1,000 km2	28.72	30.65	33.24	35.89	39.69	42.54
Branches of commercial banks per 100,000 adults	10.04	10.51	11.19	11.85	12.87	13.55
Branches of credit unions and financial cooperatives per 1,000 km2	72.65	72.08	71.50	72.36	71.95	72.38
Branches of credit unions and financial cooperatives per 100,000 adults	25.39	24.72	24.06	23.90	23.33	23.05
Deposit accounts with commercial banks per 1,000 adults	863.86	934.45	1,022.34	1,161.03	1,337.89	1,542.26
Deposit accounts with commercial banks: o/w households per 1,000 adults	752.99	836.36	875.25	1,008.85	1,216.13	1,388.42
Loan accounts with commercial banks per 1,000 adults	139.47	139.25	148.15	142.52	151.33	154.49
Loan accounts with commercial banks: o/w households per 1,000 adults	17.46	20.20	23.08	27.31	30.48	33.45
Loan accounts with commercial banks: o/w SMEs (% of non-financial corps.)	8.19	9.01	8.92	10.79	11.34	12.23
Mobile money transactions: number per 1,000 adults					59.19	192.71
Mobile money transactions: value (% of GDP)					0.31	0.98
Outstanding deposits with commercial banks (% of GDP)	58.59	61.69	61.08	62.21	63.71	65.76
Outstanding deposits with commercial banks: o/w households (% of GDP)	30.27	32.11	30.93	31.32	34.73	37.30
Outstanding deposits with credit unions and financial co-ops (% of GDP)	5.83	5.65	5.67	5.76	5.82	5.89
Outstanding loans with commercial banks (% of GDP)	42.97	46.65	48.27	49.01	50.30	50.70
Outstanding loans with commercial banks: o/w households (% of GDP)	12.13	14.74	16.16	17.49	17.32	17.08
Outstanding loans with commercial banks: o/w SMEs (% of GDP)	4.65	5.48	5.30	6.10	6.82	7.08
Outstanding loans with credit unions and financial co-ops (% of GDP)	4.85	5.13	5.18	5.58	5.38	5.38

source: FAS, IMF

The objectives of licensing *small finance banks* are furthering financial inclusion by (a) provision of savings vehicles, and (b) supply of credit to small business units; small and marginal farmers; micro and small industries; and other unorganized sector entities, through high technology-low cost operations. It is hoped to achieve the stated objectives by stipulating target segments where the credit should be directed and by indicating the ticket size of the advances to ensure that the target segment is serviced. The Small Finance Banks will be small sized universal banks. They have to finance priority sector to the extent of 75% of their NDTL; while 40% should be as per standard priority sector norms, the other 35% can be in any of the priority sector. 50% of their credit portfolio will have to be of ticket size of less than ₹25 lakh.

The objectives of setting up of *payments banks* are to further financial inclusion by providing (i) small savings accounts and (ii) payments / remittance services to migrant labor workforce, low income households, small businesses, other unorganised sector entities and other users. The Payments Banks can undertake payment and deposit services only. They can accept deposits from a customer upto ₹1 lakh only. They will have no credit portfolio. They should invest 75% of their NDTL only in Government securities. They will not be subject to priority sector norms. They can perform Banking Correspondent functions to other banks.

E. Maldives

Promoting financial inclusion in the Maldives is a unique and challenging task for policy makers compared to other member countries in SAARC region. This is mainly due to its geographical nature. In Maldives, providing financial services with traditional physical branch network is quite costly due to lack of economies of scale. Financial inclusion is critical for an inclusive growth to achieve SDGs and provide a higher quality of life for all citizens of the country. The Micro Small and Medium Enterprises (MSMEs) creates a large percentage of employment in Maldives and play an essential role in securing income and employment for many households through creation of new jobs opportunities. Although there is no formal plan or strategies for promoting national financial inclusion, there are several initiatives undertaken by government authorities together with financial institutions to promote financial inclusion across the country. Some of these include providing financing schemes for MSMEs, interventions on improving their business environment and increasing access to business development services.

Historically, there have been a number of credit schemes operated by government authorities to improve financial inclusion in Maldives. In the past, these projects were mostly funded by the international development agencies such as UNDP, OPEC, IFAD, ADB etc. Most of these funds are allocated to specific projects with defined objectives through the state owned bank(theBank of Maldives Plc), though selection criteria is set by the concerned ministry within the government. The methodology for delivering these targeted financial services differed with programs and its underline objectives. The most common methodology seemed to be small scale lending to individual households with no collateral requirement offered at a concessional rate.

However, the loan scheme size of those targeted financing program is much higher in Maldives compared to other countries in the SAARC region.

Initiatives to improve financial inclusion in Maldives

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 regulatory bodies who are actively engaged in promoting financial inclusion in Maldives. There has been a notable development of the regulatory environment for promoting financial inclusion across the country. In 2013, Government introduced an SME Act, with the aim of providing continuous financial support to SMEs funded through central budget. As per this Act, Government has to allocate MVR 50 million (equivalent to US$3.24 million) for SMEs financing each fiscal year. The SME Council formed under this Act is responsible to formulate policies and providing overall coordination, monitoring and evaluation of this scheme. Similarly, recent amendments to the MMA Act allow the authority to carry out financial sector development projects to improve and strengthen financial inclusion. Meanwhile, CMDA Act has the mandate to develop and increase public awareness on all matters relates to the capital market activities.

Financial literacy is one of the key components to facilitate greater financial inclusion. It is an essential component to empowerment of the financial service users as it gives them an understanding of how to manage their finances in the real economy in order to avoid unnecessary risks, excessive debt and possible financial exclusions. There are several initiatives undertaken by the regulatory authorities to improve financial literacy in Maldives. National Financial Literacy Initiative by the Capital Market Development Authority (CMDA) and collaborating institutions is an established framework at the CMDA to educate people to make informed judgments and take sound and effective decisions on various financial matters. As such, CMDA has been conducting regular financial literacy programs on capital market intermediary services to various targeted groups such as school childrenøs and private sector investors. Similarly, MMA also conducts targeted financial literacy and financial awareness programs. Since 2004, In coordination with MMA training institute and the Monetary Policy and Research Division

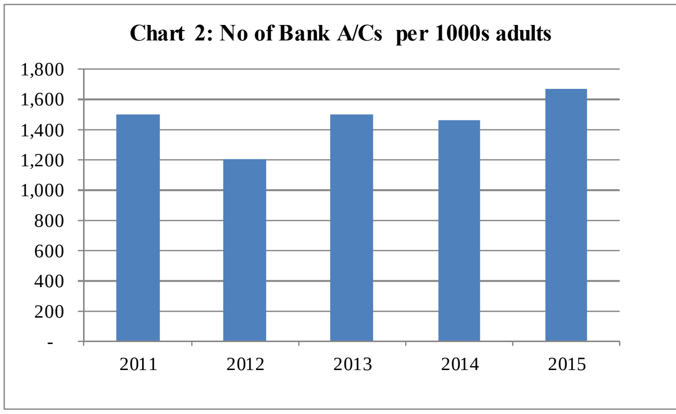
(MPRD), MMA conducts information sessions to students on various economic issues. Since 2014, MMA marks the ñGlobal Money Weekò each year in collaboration with all financial institutions and relevant government authorities. This is an international movement, aiming to enhance financial inclusion and improve financial education amongst young children and youth. The MMA also hosted a ñFinancial Expoò for the first time in Maldives in 2015. The aim of this event was to provide information to the public on the opportunities within the financial sector of Maldives and identify key issues and challenges faced by customers of banks, insurance companies and other financial institutions and finding short- and long-term solutions to them. It is also a key goal to increase awareness about the best practices of financial management at different levels of society and understand the opportunities and constraints in the Maldivian context.

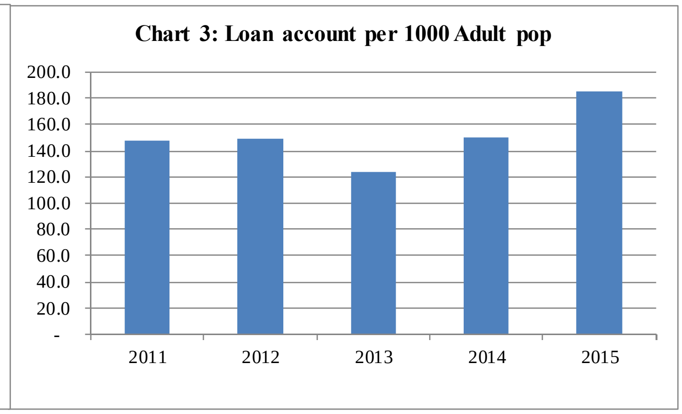
Bank Account Penetration and Access to Finance

As shown in the charts 2 and 3, Maldives has achieved remarkable progress promoting access to bank accounts and credit facilities to individuals. The number of bank accounts per 1000 adult population has grown steadily since 2013 with a slight decline in 2012. The total number of bank accounts increased by about 20% during the period 2011 to 2015. As of 2015, the number of bank deposits accounts per 1000 adults stood at 1,670 while it was 1495 in 2011. Number of loan accounts per 1000 adults increased from 148 in 2011 to 185 in 2015.

The number of bank accounts per 1000 adult population is not the most accurate indicator of the ratio of adults with bank accounts, due to counting the accounts of corporations as well as double counting adults who may have multiple accounts- savings accounts, accounts in multiple banks, separate accounts for their businesses, and more. However, penetration in terms of adults with bank accounts is still high. In interviews with the Bank of Maldives, executives told us that the Bank of Maldives serves about 80% of the adult population of the Maldives, and that at least one family member having a bank account is almost universal. The current numbers from different sources as well as the trend from counts for previous years in IMF statistics all, however, indicate about a total of 484,400 accounts, which is greater than the Maldivian population.

Financial services offered by OFIs also improved in terms of number of customers and their outstanding credits. During the period 2009 ï 2015, number of customer accounts with OFIs has more than doubled from 503 in 2009 to 1066 in 2015. Insurance penetration is high and improving in Maldives compared to other countries in this region. By the end of 2015, insurance penetration ratio stood at 1.13% while insurance density increased significantly from US$ 34.74 in 2007 to US$109.53 in 2015.





Source: Maldives Monetary Authority and IMF – IFS survey data

The bank account access and availability of credit facilities is high among salary earners as most employers transfer monthly salaries in to their employeeӧs bank accounts. The use of credit facilities by households has also increased. As shown in Table 2, the supply of credit to individuals by commercial banks has also increased, doubling in the last 10 years to reach about 30% of their total loan portfolios. Meanwhile, loans by OFIs to individuals stood at an average of over 80% of their total loan portfolio during the period 2007 -2015.

A large portion of these loans to individual were for housing finance and are highly collateralized offered at market interest rates. There are several government funded credit schemes offered to SMEs through state owned banks at concessional terms. While there is a dearth of official data to quantify the scale of SME finance in Maldives to understand whether the supply is adequate, many of the micro enterprise and small business programs that do exist suffer from a range of shortcomings. They include the structural conditions that fail to provide appropriate incentives for borrowers or lenders, insufficiently developed policies and controls, lack of appropriate lending technology, high transaction costs, limited product choice, and risk assessment weaknesses. These shortcomings invariably impact MSEӧs use of finance and sustainability. To address some of these shortcomings such as the high collateral requirements, the government has established a credit guarantee scheme (CGS) to encourage financial institutions to finance SMEs. Additionally, MMA is developinga Credit Information Bureau (CIB) to encourage banks and OFIs to provide financial services based on customers credit worthiness with no or little collateral. Discussions are underway to establish a collateral registry for both movable and immovable assets.

Table 1: Key indicates – Access to banks accounts and finance in Maldives 2011 – 2015

	2011	2012	2013	2014	2015
Number of Accounts (deposits, loans & insurance policies)					
Commercial Banks	404,424	334,572	425,711	423,380	484,841
Other Financial Institutions (OFIs)	875	993	1,066	1,074	1,126
No of insurance policies	NA	56,504	52,633	59,633	67,369
No of loan accounts - Commercial Banks	40,099	41,256	35,004	43,522	53,699
No of loan accounts - OFIs	875	993	1,066	1,074	1,126
Total outstanding loans (In MVR millions)					
Commercial Banks	17,702	16,022	16,148	*16,363*	17,824
Of which: To individuals	3,163	3,117	3,540	4,515	5,092
Other Financial Institutions (OFIs)	830	931	977	1,089	1,293
Of which: To individuals	749	878	953	1,066	1,257
Key performance indicators of the insurance sector					
Insurance density (US$)	63.30	74.92	79.70	97.70	109.53
Insurance penetration (%)	0.90	1.00	1.02	1.10	1.13

Note: Insurance penetration is the total value of insurance premiums taken as a percentage of total GDP.Insurance density is the ratio of the total value of insurance premiums to the total population.
Source: Maldives Monetary Authority and IMF – IFS survey data

Financial Services Outreach

Providing financial services to all islands in the Maldives is a challenging task given the countryộs geographical dispersion. However, there has been remarkable progress in this regard with the initiative by financial sector participants. Like in many other countries in this region, the state owned banks plays a key role in expanding financial services to all inhabited islands. In 1990, the Bank of Maldives established a development-banking cell dedicated to extend their banking services to people living in atolls. By the end of 2015, there were 29 bank branches, of which 16 branches are located outside the capital city. Geographical penetration indicates that the number of bank branches per 100 square kilometer has doubled during the period 2004 -2015 from 5 in 2004 to 10 in 2015. As shown in Chart 2, a similar, trend observed in terms of geographic penetration of the banking service in Maldives. The expansion of digital financial services across the country is another key development initiative by the financial institutions. As of 2015, there were 4402 POS terminals (50% are located outside capital city) and 83 ATMs (of which 25 are located outside capital city). As show in Chart 4, the number of ATMs per 100 square kilometers increased tremendously from 5 in 2004 to 28 in 2015. The trend in geographical and demographic penetration indicates that access to banking service is quite high and improved in the Maldives. When looking at the percentage of population living in islands with bank branches and ATMs, the population with immediate geographical access is61% and 63% respectively. For the two-thirds of the Maldivian population living outside of the Maleô City area, the percentage with immediate access to bank branches and ATMs respectively are 32% and 37%.

Chart 4: Geographic Penetration of Banking Services

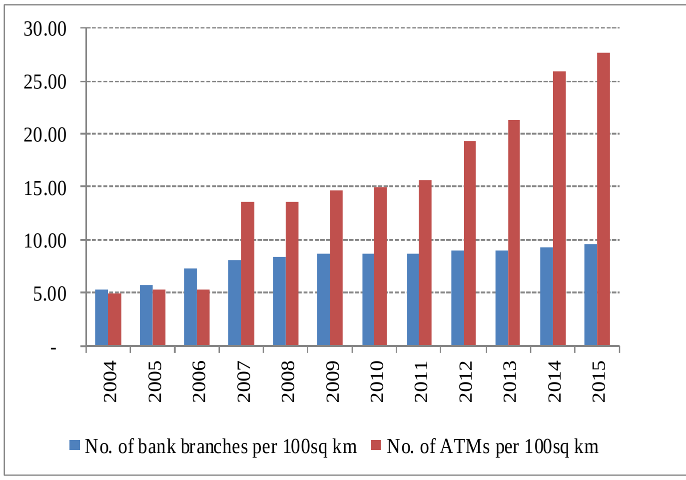
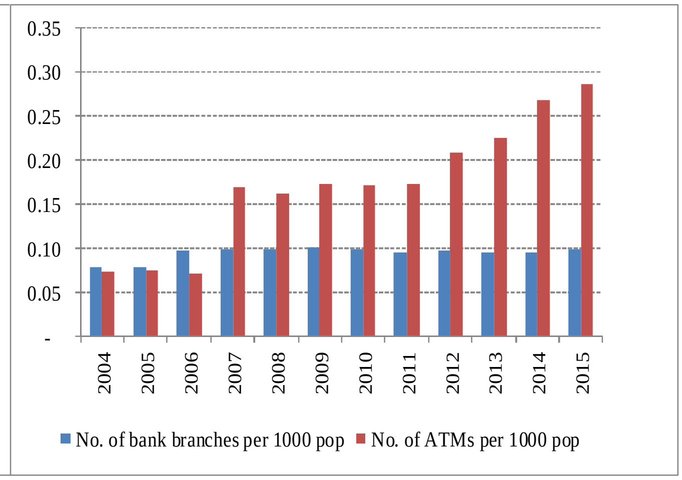


Chart 5: Gemographic Penetration of Banking Services



Source: Maldives Monetary Authority and IMF – IFS survey data.

The banks and OFIs also provide their services outside the capital city via their agent networks in atolls. For instance, BML has introduced agent banking services to almost all inhabited islands. As of 2015, the count of the bankôs cash agents had increased to 176. BML cash agent service provides basic banking services to all inhabited islands using debit cards to withdraw cash through BMLôs point-of-sale (POS) terminals, which allow residents to withdraw up to MVR 2000 a day. The bank also provides banking services especially to smaller islands via boats (ñdhoni branchesò) that visit each island once per month. Meanwhile, insurance companies have also extended their services across the country using their agent and brokers networks. By the end of 2015, there were 34 registered insurance agents and 6 brokers.

To enhance financial outreach across the country, the MMA has initiated a mobile banking service project in the Maldives with technical and financial assistance from the World Bank. The main objective of this project is to benefit the common people living and working in the atolls by sparing them the burden of traveling great distances, and waiting in long queues at bank branches to collect payments (salaries, pensions, social transfers or sales proceeds), pay bills, or transfer payments to relatives, friends, or suppliers. Moreover, the project aims to: (i) reduce the number and amount of cash transactions made by individuals, businesses, and industries; (ii) enable banks to extend the outreach of their services, provide more products, and reduce transactions costs; and (iii) reduce the cost to government and to the banking system of printing, storing, and distributing cash. In June 2016, the MMA issued a commercial license to a Telecom Company to carryout mobile money services in the Maldives. This service will enable customers to deposit and withdraw cash any time anywhere in the Maldives. It will also provide merchant services to business in all parts of the country.

The MMA launched the Credit Guarantee Scheme for Micro Small Medium Enterprises (MSMEs) in late 2016 with the purpose of increasing and strengthening financial inclusion and to provide easy access to credit facilities. The scheme will overcome the problem of inability of MSMEs to offer acceptable collateral in form of immovable properties which results in the banks and other financial institution reluctant to lend credit facilities.

Participating banks (Bank of Maldives, Maldives Islamic Bank, State Bank of India, Bank of Ceylon, Mauritius Commercial Bank, Habib Bank Limited) will provide loans with credit guarantee cover of 90% to commercially viable SMEs. Loans under CGS will be provided for acquisition of fixed assets and working capital purposes.

Loans are for an amount between MVR 100,000 ï MVR 1,000,000, with interest rate up to 9% and a CGS premium of 1%. The loan repayment period is up to 5 years with a grace period of 6 to 12 months and zero collateral requirements, with an equity contribution up to 20%. Borrowing enterprises should be registered under the Ministry of Economic Development as a SME, as well as registered at MIRA. All shareholders/owners should be Maldivian, and it should be a financially viable business with no unpaid dues to banks or any financial institutions.

As at 4th December 2016, CGU has received 16 applications with the total value of MVR 11,863,595.00. This includes applications from Bank of Maldives, Maldives Islamic Bank and Mauritius Commercial Bank (Maldives). Among these, 2 applications with total value of MVR 1,322,600 have been approved for Credit Guarantee Scheme. 90% of each application will be secured by MMA.

The MMA Credit Information Unit is working on expanding credit information, which will allow financial institutions to offer more loans and lower interest rates by being able to differentiate products for low-risk borrowers. This can expand financial inclusion by including credit-worthy borrowers that may have been frozen out of borrowing by strict requirements and high interest rates in place when banks are unable to identify risk.

Telecommunications company Ooredoo was given a license to begin mobile money services across the Maldives in late 2016, with approval for their main competitor, Dhiraagu, in the works.

With a bank already in every atoll, opening any more brick-and-mortar bank branches in small islands will only increase geographical access to a tiny amount of people and high fixed costs make doing so unfeasible. There is a BML cash agent in every island. Currently, they provide withdrawals of up to MVR 2000 every day as a rudimentary form of banking. The MMA can work with participating banks to train these cash agents to help people fill out loan and insurance applications, which the agents can then send along with supporting documents in regular intervals to the atoll bank branch. This will extend the full range of financial services to all individual islands and provide near-universal access. With people in all islands having access to credit and insurance services, small businesses and sole proprietors can gain access to capital greater than their own savings and income as well as manage risk and mitigate losses, allowing them to expand beyond their normal constraints and increasing development.
Banking agents are also in the unique position of being an individual permanently present in, and with community ties to, small and tightly knit communities of just hundreds of people. Two key barriers to financial access in the Maldives are financial literacy and the uptake of internet and mobile banking. Individuals trained to use and demonstrate online and mobile banking services to the island population, explain key financial instruments and options to customers, and assist in gaining access to services such as overdrafts for consumption smoothing, personal loans to expand businesses, insurance to cover key risks, or long-term savings options, would facilitate deep and broad financial inclusion.

Microloans of about MVR 100 to MVR 5000 provided through mobile banking credit or overdraft face qualitatively different risks from larger loans. Default risk is much lower due to the small values of these loans, usually well below expected monthly income of most customers, which makes it unlikely borrowers won't have the resources to repay and make it a value that can be easily recovered. When defaults do happen, the values are so small that the systemic risk is minimal.

Information on a customer's steady income to cover the value of microloans, often used to smooth consumption, deal with financial shocks, or invest in durable goods, is available with much more certainty than likelihood of repayment for larger sums, which are often for large investments and thus contingent on success of whatever it was that the loan was borrowed to fund.

Table M1: Major Indicator of Financial Inclusion in Maldives

	2010	2011	2012	2013	2014	2015
Automated Teller Machines (ATMs) per 1,000 km2	150.00	156.67	193.33	213.33	260.00	276.67
Automated Teller Machines (ATMs) per 100,000 adults	17.20	17.37	20.90	22.53	26.86	27.97
Borrowers at commercial banks per 1,000 adults	109.93	144.64	143.95	116.88	135.70	139.81
Borrowers at commercial banks: o/w households per 1,000 adults		141.93	141.42	114.27	132.48	136.25
Branches of commercial banks per 1,000 km2	106.67	110.00	113.33	113.33	116.67	120.00
Branches of commercial banks per 100,000 adults	12.23	12.20	12.25	11.97	12.05	12.13
Deposit accounts with commercial banks per 1,000 adults		1,495.02	1,205.69	1,498.58	1,457.92	1,633.94
Deposit accounts with commercial banks: o/w households per 1,000 adults		1,400.37	1,126.75	1,295.05	1,382.27	1,548.11
Depositors with commercial banks per 1,000 adults	1,022.09	1,143.40	1,101.41	1,123.05	1,402.05	1,179.73
Depositors with commercial banks: o/w households per 1,000 adults	23.92	1,070.06	1,039.82	993.77	1,342.91	1,133.78
Loan accounts with commercial banks per 1,000 adults		148.23	148.67	123.22	149.87	180.97
Loan accounts with commercial banks: o/w households per 1,000 adults		144.40	144.36	119.01	143.62	176.57
Outstanding deposits with commercial banks (% of GDP)	48.20	48.44	46.37	48.79	51.57	52.19
Outstanding deposits with commercial banks: o/w households (% of GDP)	20.77	20.61	22.01	22.90	24.20	24.69
Outstanding loans with commercial banks (% of GDP)	55.83	49.49	41.41	37.60	34.38	33.42
Outstanding loans with commercial banks: o/w households (% of GDP)	10.30	8.84	8.06	8.24	9.49	9.47

Source: FAS, IMF

Microcredit can be limited to customers who have had a regular source of income into their account for a set amount of time. Access to future microcredit can be denied customers that default. The small payout compared to the greater inconvenience of limited future access to financial services greatly reducing the incentive to voluntarily default, and even in cases of default, the amount of money lost is very small.

As the country's major financial regulator, the MMA can craft a specific set of regulations for microloans, particularly by mobile money operators. This would have positive effects on financial inclusion without much increasing the systemic risk or instability of the financial system (note: credit cards are already currently available as a line of credit but the joining and annual fees alone add up to about MVR 800, which may make it unappealing for many consumers). Systemic risk can be minimized by keeping the maximum amounts that classify as microloans low, having a low ceiling for the maximum total amount borrowed at any given time, and mandating denial of further credit for individuals with poor repayment records.

F. Nepal

Nepal Rastra Bank (NRB) in coordination with the Government of Nepal, has taken an array of policy measures and initiatives to increase outreach to poor and unbanked people of the country ensuring reliable and affordable financial services.

Nepalös financial sector has grown rapidly over the past two and half decades, with the country experiencing a substantial growth in financial institutions, both licensed and non-licensed. The Government of Nepal has adopted microfinance as a poverty-reduction tool to increase the outreach of financial institutions to low-income groups especially in remote areas. Despite of various initiatives, the outreach of banking sector has remained low. According to a FinScope survey carried out by the United Nations Capital Development Fund in 2014, 61 percent of Nepalese adults are formally served through banks and financial institutions including cooperatives (including 40 percent which are formally banked) while 21 percent use informal channels and 18 percent remain financially excluded.

Banks and Financial Institutions and Micro Finance Financial Institutions

Inorder to increase no. of robust and competitive financial institutions with adequate capital to absorb unexpected shocks NRB has issued directives on merger and acquisition followed by need to increase paid up capital by specified period from time to time. As a consequence, the number of BFIs which had been 218 in Year 2011 has declined to 178 uptill Year 2016. Mean while, NRB has directed licensed FINGOs to upgrade itself as MFFIs by specified period resulting in increase of MFFIs from 21 in Year 2011 to 42 uptill Year 2016.

Table 1: Trends in Banks & financial institutions and Insurance companies

Year	2016	2015	2014	2013	2012	2011
BFIs *, Number	178	193	200	207	214	218
Branches of BFIs, Number	4274	3,876	3,465	3138	2,428	1,902
Population per branch of BFIs, Number	6562	7,356	8,131	8,870	11,326	14,289
Total deposit of BFIs, in billion NRs.**	1910	2051	1488	1257	1076	873
Total loans of BFIs, in billion NRs.**	1494	1417	1154	977	807	718
Deposits with banks as percent of GDP, Percent**	89.9	96.74	76.66	82.50	58.98	50.01
Outstanding loans with banks as percent of GDP, Percent**	70.4	66.84	59.45	49.30	45.51	38.40
Insurance companies, Number	26	26	25	25	25	25
Total amount of insurance premium, in billion NRs.	##	##	23	17	14	11
ATMs per 100,000 adults, Number	..	7.50	..	8.47	7.50	7.39

Table 2: Trends of Micro finance financial institutions

Year	2016	2015	2014	2013	2012	2011
MFFIs, , Number	42	39	33	31	24	21
Branches of MFFIs, , Number	1378	1124	881	646	598	NA#
MFFIs Clients, Number	18,98,797	1,548,987	1,616,367	1,252,353	1,163,712	NA#
Loan disbursement O/S, in million NRs.	77,221	55,327	35,689	23,401	17,738	14,649
Savings, in million NRs.	24,110	16,057	11,001	7,221	5,235	3,537

Table 3: Trends of Saving and credit co-operatives (SACCOs)

Year	2015	2014	2013	2012	2011
Cooperatives, Number	32,663	31,177	29,526	26,758	23,559
Cooperative members, Number	5,100,370	4,555,286	4,352,005	2,200,000	......
SACCOs, Number	13,460	13,368	12,916	......	......
SACCOs members, Number	2,729,485	2,466,550	2,309,931	......	......
Deposit with SACCOs, in million NRs.	145,084	129,333	118,180	......	......
Loan disbursement of SACCOs, in million NRs.	136,433	117,214	100,668	......	......

Note: *=Decrease in number of BFIs due to adoption of merger and acquisition policy. BFIs comprises Commercial banks (Class A), Development Banks (Class B), Finance Companies (Class C) and Micro Finance Financial Institutions i.e. MFFIs (Class D). **Based on 8 months data from Economic Survey 2072/73

=Data yet to come

Branches of BFIs (including MFFIs)

Despite the decline in no. of BFIs, no. of network of bank branches have been expanding with increase in robust BFIs. In addition, after adoption of remote bank branches policy by NRB (i.e. for opening every additional branch inside the capital city three branches should be opened outside capital city and amonst it one should be in remote unbanked areas) network and outreach of bank branches has increased which is evidenced by no. of bank branches from 1902 in Year 2011 to 4274 uptill Year 2016.

Population per branch

There is still huge imbalances in population served per branch of BFIs in mountains, hills, rural and remote areas due to difficult geographical structure, poor infrastructure and dispersed population. The situation is being particularly unfavorable for people living in Mid-western and Far-western regions covered by hills and mountains. The formal microfinance service providers are only able to extend their microfinance services to 57 districts, whereas 18 districts are still left to have access to formal financial services in Nepal as of mid-march 2014/15 (Economic Survey, 2014/15). In addition, a decade long political transition, natural disasters and border blockade have impacted financial inclusion programs and financial services outreach. However, overall population served per branch of BFIs have reduced from 14,289 in Year 2011 to 6,562 in Year 2016.

The approaches towards promoting financial inclusion are as follows

- Sector based- Priority sector and deprived sector credit program.
- Gender based- Production credit for rural women (PCRW) and Micro credit project for women. Financial services through micro finance and cooperative model have increased women participation in financial inclusion with more than 90% of women clients.
- Other project based credit programs- Cottage and small industries project, Poverty alleviation project in western terai (PAPWT), Third livestock development project (TLDP), Community ground water irrigation sector project.
- Community based- Financial intermediary non-government organizations (FINGOs) and Saving and credit co-operative societies (SACCOs).

- Wholesale-lending based- Rural self-reliance fund (RSRF), Rural Microfinance Development Center (RMDC), Sana kisan bikas bank limited (SKBBL), National co-operative development bank (NCDB)
- Nepal Government projects- Poverty alleviation fund (PAF), Youth and small entrepreneur self-employment fund (YSESEF), among others.
- Donor based- International donors including the DFID, ADB, GIZ, USAID, FAO, Save the Children, UN, UNCDF and Aus-Aid have supported financial sector access and inclusion in selected areas. Some programs supported by UNCDF are Mobile money for poor (MM4P) and Access to finance (A2F). Financial Inclusion Survey by FinScope.

Current policies & strategies

NRB, together with other stakeholders, has formulated a ôFinancial Sector Development Strategy (FSDS) 2015-2020öwhich need to be approved by Parliament in which financial access and inclusion serves as a pillar of the banking system. In order to develop a stand-alone national strategy for financial inclusion, NRB along with national stakeholders and international development partners jointly conducted demand side as well as supply side survey on financial inclusion.

The final draft of the National Financial Literacy Policy has been submitted to the Government for approval. Finalization of Micro finance Act is underway for establishment of a separate, second-tier organization for regulating licensed NGOs and Co-operatives. Nepal Payment System Development Strategy (NPS) has been formulated and drafting of National Payment Act is under progress. In this regard, study on RTGS (Real Time Gross Settlement), CSD (Central Securities Depositories) and National Payment Switch/Gateway are going on.

The initiatives taken by NRB were moratorium on all new bank licenses with the exception of establishment of Micro Finance Financial Institutions (MFFIs) in specified financially excluded 9 districts. E-mapping study based on federal state structure is in progress which will determine licensing to new MFFIs and their mergers. Gradual increment in deprived sector lending requirement for licensed BFIs (A, B, and C class), micro credit limit based on group guarantee has been increased to NRs. 3 lakh per group member and such limit per group member with good credit history for last two years has been increased to NRs. 5 lakh. Mandatory requirements for BFIs (A, B and C Class) to allocate 20% of their total credit to specified productive sectors including 12% of their total credit to agriculture and hydro sector for investment in the productive sector, encouraging adoption of information and communication technology (ICT) solution. Refinance facilities by NRB with concessional interest rate to productive sector, special refinance facility to cottage and small industries in the form of general refinance, special refinance, export refinance, SME Refinance, agriculture refinance. Establishment of Rural Self Reliance Fund for subsidized credit to the poor and marginalized population. Directives on consumer protection to enhance pricing transparency, information on financial services and dispute resolution, and directives on e-banking, branchless banking and mobile banking services have been issued to enhance financial literacy and access.

Zero interest loan by NRB for opening branches in remote unbanked 14 districts i.e. Rs. 50 lakh loan for opening in such district headquarter and Rs. 100 lakh loan outside headquarter of such districts. Need for up-gradation of FINGOs as MFFIs within specified deadline. NRB has launched Rs 100 billion Economic Revival Fund (ERF) through which interest subsidy and refinancing facility would be extended to borrowers of the productive sector. This fund was created to revive the economy hit by the April and May 2015 earthquake and border blockage along with Terai disturbances. GON has been availing 5% interest subsidy on commercial agricultural credit to Youth and Small Entrepreneurs. Similarly, inorder to promote agriculture and small income generating activities NRB has been providing special refinance facilities to BFIS at 1% in 114 VDCs (Village Development Committees) and 4 Municipalities with high poverty incidence. Inorder to control Multiple banking by MFFIs arrangements are underway to get them associated with Credit Information Bureau for obtaining related credit information.

Challenges

Despite progress, Nepal still faces challenges in having an inclusive financial environment. Financial inclusion in Nepal must focus towards reducing regional imbalances in financial access as the large number of people living in mountains, hills, rural and remote areas are still unable to get formal financial access due to difficult geographical structure, poor infrastructure and dispersed population. Likewise, over indebtedness is a major problem due to multiple financing and over-borrowing. Further, there is risk of exclusion of the target groups from grass-root level due to urban and city centric expansion of branches of BFIs, loan duplication and donor driven project duplication in limited areas. Also, the rapid spread of non-regulated financial co-operatives and informal sectors increases financial sector risks as they are not well supervised and engage in deceptive practices and charge high interest rates. Lastly, low level of financial literacy continues to remain a challenge.

A key GON focus is to graduate country from least developed country (LDC) status by 2022 and to achieve the UN Sustainable Development Goals (SDGs) and become a middle-income country by 2030. In order to provide a vision and direction for financial inclusion in Nepal, the following national financial inclusion roadmap has been proposed by MAP (Making Access Possible) Nepal study;

Increase formal financial inclusion in Nepal from 60% to 75% by 2022, and reduce the excluded from 18% to 3% so as to create economic empowerment through the following actions:

1. Unlock constrained credit and savings markets
2. Improve payment system
3. Bolster risk mitigation capabilities
4. Enhance and leverage locally based financial service providers
5. Enhance financial inclusion support in the national governance
6. Strengthen consumer empowerment, protection and education

G. Pakistan

Pakistan is predominantly a rural-based economy with 67% of its 189 million people living in rural areas. Despite robust financial sector reforms, Pakistanȇs financial sector has yet to attain sufficient breadth or depth.

Traditionally, financial services of banking system in Pakistan and elsewhere have remained concentrated in urban markets. To improve equal opportunities in the banking sector, State Bank of Pakistan (SBP) has taken various policy measures and market interventions for broadening access to financial services by rural and urban areas. Broad measures are as follows:

A. Access to Finance and National Financial Inclusion Strategy (NFIS).
B. Encouraging commercial banks to expand agriculture credit and making it mandatory for them to open 20% of their new branches in rural areas.
C. Establishing and fostering microfinance banking industry in Pakistan.
D. Promoting mobile phone banking through partnerships between financial institutions and telecoms.
E. Promoting SME Financing
F. Managing a comprehensive "Financial Inclusion Program".

A. Access to Finance and National Financial Inclusion Strategy

SBP being the apex policy & regulatory body has been striving to promote access to formal financial services for achieving policy inclusiveness which is a prerequisite for wider distribution of the economic growth across all regions and segments of the population.

In pursuit of this objective, SBP has been driving "Financial Inclusion" as a strategic goal through a three pronged approach, which covers agile & innovative regulations, development of market information & infrastructure and capacity building of providers & clients.

Current State of Financial Inclusion in Pakistan

Access Strand in Pakistan		
Percentage of Adult population	A2FS 2015	A2FS 2008
A. Bank Accounts	16%	11%
B. Other formal	7%	1%
Formally Served (A+B)	23%	12%
C. Informally Served	24%	32%
Financially Served (A+B+C)	47%	44%
Financially Excluded	53%	56%

The recent Access to Finance Survey (A2FS) 2015 indicates that access to formal financial services has increased from 12% in 2008 to 23% in 2015 and adult population with a bank account has increased from 11% in 2008 to 16% in 2015. Particularly, women's access to financial services has expanded considerably, as 11% now have access to a bank account, compared with merely 4% in 2008.

National Financial Inclusion Strategy (NFIS) 2020

In order to address the challenges behind the low level of financial inclusion, Pakistan has developed a broader National Financial Inclusion Strategy (NFIS) in collaboration with the World Bank which was adopted by Government of Pakistan and launched in May, 2015.

The objective of the Strategy is to set national vision for achieving universal financial inclusion in Pakistan. The NFIS lays out the vision, framework, action plan, and target outcomes for financial inclusion. It provides the basis for coherent and sequential reforms needed to address both demand and supply side issues to help tackle financial exclusion in an integrated and sustained manner. The strategy aims to enhance formal financial access to 50 percent of the adult population by 2020. NFISôs objectives are fully consistent with the Government of Pakistanôs Vision 2025, which calls for enhancing access to credit for SMEs and focusing on financial inclusion and deepening.

NFIS sets the vision that, ñIndividuals and firms can access and use a range of quality payments, savings, credit and insurance services which meet their needs with dignity and fairnessò. NFIS covers priority areas such as Branchless Banking (BB), Digital Payment Systems, Agri. & MSME Finance, Housing Finance, Islamic Finance, Consumer Protection, Financial Literacy, Insurance Pensions etc. The strategy comes at a particularly opportune moment as new technology and the rapid expansion of branchless banking offer unprecedented opportunities to transform financial inclusion in Pakistan.

NFIS involves the commitment and active engagement of key stakeholders from both the public and private sectors for successful implementation. The implementation of NFIS is focusing on the following actions:

- Facilitate account opening such as Mobile (M)-wallets and easy accounts to expand access and drive scale

- Increase access points like, bank branches, banking agents, ATMs, Point of Sale Machines etc.
- Implementation of National Payment Gateway and up-gradation/ conversion of Pakistan Real time Interbank Settlement Systems (PRISM)/(RTGS) System that enables businesses and organizations to receive and manage money remittances in real-time and promotes ecommerce
- Build capacity of banks to provide easy and need based loan products to small and micro businesses
- Raising financial awareness of poor people and women

NFIS Coordination Structure

To implement the strategy, a national coordination structure has been set up with participation from both, the public and private sectorsô stakeholders and it envisages the following governance bodies:

i) **NFIS Council** is the primary platform for achieving Pakistanǿs financial inclusion objectives and vision. The Council is functioning as the guiding body for governance and coordination and also oversees the implementation of NFIS. The Council is chaired by Honorable Finance Minister with Governor SBP, Secretary Finance, Chairman FBR, Chairman PTA, Chairman SECP, Provincial Finance Secretaries, Chief Commissioner, and Islamabad Capital Territory (ICT) as members.

ii) **NFIS Steering Committee** has the overall responsibility of implementing the NFIS. This will be functioning under the guidance of the NFIS Council and with support from various technical committees to drive the agenda of financial inclusion. The Steering Committee is chaired by Governor - SBP and with the participation of senior technical level representatives from public and private institutions, such as MoF, SECP, PTA, FBR, NADRA, professional associations (Pakistan Banksô Association, Pakistan Microfinance Network, Insurance Association of Pakistan), Small & Medium Enterprises Development Authority etc.

iii) **Technical Committees** in seven focus areas with more than 160 members from the private sector, Ministries, Government Departments, Regulators, Associations & networks have been formed to identify plans, address technical issues and propose solutions to Steering Committee to achieve the NFIS targets.

iv) In addition, a fully functional **NFIS Secretariat** is housed at SBP to facilitate NFIS coordination, implementation and monitoring of the targets.

B. Agriculture Finance and Rural Branches

Like many developing countries, Pakistan has vast potential for agriculture sector as about 27 percent of its total land area is considered arable. Agriculture sector is the single largest sector of the economy which employs nearly half of the labor force and accounts for around a quarter of GDP. The sector directly supports three-quarters of the population and fetches directly or indirectly a large (around 60%) share of the countryös foreign exchange earnings. Agriculture also plays a strategic role in ensuring food security, generating economic growth and alleviating poverty.

In line with Governmentös priority for agriculture, SBP continues to facilitate enhanced outreach of formal credit to farmers. In this endeavor, a multifaceted approach has been used to sensitize banks to adopt agri. financing as a viable business line. To transform the benefits of these efforts at grass root, annual indicative targets are allocated to commercial, specialized, microfinance and Islamic banks.

Currently, 36 financial institutions including: 5 big commercial, 2 specialized, 15 private domestic, 9 microfinance, and 5 Islamic banks, and are providing an array of lending products to farmers through their 4,730 branches.

Agri. Credit Disbursements

Agri. credit disbursement in Pakistan has increased significantly during last five years. The credit disbursement has increased from Rs 263 billion in July-June, 2010-11 to Rs 515.9 billion in July-June, 2014-15, showing an increase of almost 100%.

The agri. finance outstanding portfolio has also shown an increase of 73.4% reaching at Rs 335.2 billion in July-June, 2014-15 from Rs 193.3 billion in July-June, 2010-11. A significant feature of the credit growth is the increased diversification of agricultural credit into non-crop and non-conventional agribusiness segments. The share of non-farm sector in agri. credit now stands at 46.8% compared to 32% in 2011. The number of agri. loan borrowers has also increased from 1.79 million to 2.15 million, recording an increase of 20.2% during the period. Encouragingly, agri. portfolio quality too has improved from 17.9% NPLs to 13.5%, in July-June, 2010-11 and July-June, 2014-15, respectively. A brief snap shot of agri. credit disbursement and outstanding for the last five years is tabulated below;

Table 1: .Agri. Credit Disbursement and Outstanding

(Rs. In billions)

Year	Agri. Credit Disbursement	Growth %	Outstanding Agri. Credit	Growth%
2011	263.0	6.0	193.3	5.4
2012	293.8	11.7	221.5	14.6
2013	336.2	14.4	257.1	16.1
2014	391.4	16.4	290.3	12.9
2015	515.9	31.9	313.4	7.9

source: State Bank of Pakistan.

Opening Branches in Rural Areas

State Bank of Pakistan (SBP) liberalized the Branch Licensing Policy (BLP) in 2002 with a view to enhance the outreach of banking services to rural/underserved areas of the country. Keeping the financial inclusion in view, SBP issued a circular in 2007 instructing banks to open 20% branches in rural/underserved areas.

C. Microfinance Banking

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. Current performance of microfinance is marked by growth in all key areas including outreach, loan portfolio, deposit base, profitability, and equities. Due to SBPȏs proactive role, the present total number of borrowers being served by the microfinance sector (Microfinance Banks ï MFBs, and

Microfinance Institutions - MFIs) is around 3.8 million, around 57% of which belong to rural areas.

Despite various challenges and tight liquidity positions in the microfinance sector, microfinance credit has shown a healthy growth of more than 30% over the last few years. The following table shows rural-urban percentage segregation of microfinance banking clients as of June 30, 2015:

Table 2:...Microfinance Outreach- Rural vs. Urban

Indicators	**Rural**	**Urban**
Number of Depositor	31%	69%
Deposits	36%	64%
Number of Borrowers	58%	42%
Gross Loan Portfolio	**65%**	**35%**

source: State Bank of Pakistan, MicroWatch

State Bank of Pakistan has played a leading role in the development of microfinance sector as an alternative to conventional banking to serve the lower end of market. The regulatory framework to enable commercial microfinance in Pakistan is well-developed. The most recent regulatory innovation includes the introduction of the Bank-led model for Branchless Banking which ensures compliance with international standards on Anti-Money Laundering (AML) and Combating Financing for Terrorism (CFT).

As a result of SBPǿs policy, regulatory and market development initiatives, the regulated microfinance banking sector has assumed a larger market share (57%) surpassing the unregulated sector in terms of gross loan portfolio. The ownership in MFBs has flowed in from both domestic and international investors including development agencies, banks, telcos, largest MFIs and global microfinance funds.

Since June 30, 2011 when there were eight microfinance banks, the sector has witnessed continued growth in terms of number of players, variety of services, aggregate clientele, enhanced outreach through digital access points and branchless banking, uptake of micro-financial services. At the close of period ended, June 30, 2015 there are ten MFBs operating in the country. Nine of them are operating at national level, while one at the provincial level (in

Sindh). All the MFBs are privately owned with both foreign and national investors. A snapshot of MFBsô performance during June, 2011-June, 2015 is provided in table below.

Table 3: Microfinance Banks' Performance

(Amount in '000' Rs.)

Indicators	As on					Growth (5 Years)	
	30-Jun-11	30-Jun-12	30-Jun-13	30-Jun-14	30-Jun-15	Absolute	%age
Equity	6,393,125	8,202,272	12,013,786	13,452,055	16,705,295	10,312,170	161%
Assets	26,497,238	34,622,345	51,673,146	62,419,012	82,837,958	56,340,720	213%
Deposits	11,167,174	16,609,330	28,605,007	36,923,130	52,016,287	40,849,113	366%
Advances	13,523,748	17,293,246	25,366,520	33,479,271	45,581,502	32,057,754	237%
Avg. Loan Bal.	19	23	28	31	35	16	84%
PAR > 30 Days	4.00%	3.52%	2.04%	1.55%	1.51%	0	-62%
No. of Borrowers	713,563	767,904	902,175	1,095,960	1,296,204	582,641	82%

source: State Bank of Pakistan

Since the close of FY11, SBP regulated (deposit-taking) microfinance banks have witnessed tremendous improvements in all areas. During the five year interlude MFBôs equity base witnessed a growth of 161% (or Rs 10.3 billion) to close at an aggregate level of Rs 16.7 billion. The industry assets have expanded threefold with an average annual growth of 43% to reach Rs 82.8 billion. To access low-cost funds and a stable base to support their on-lending operations, MFBs geared up their efforts to mobilize deposits. As a consequence, growth in industry deposits remained phenomenal with an average annual expansion of 73% to exceed Rs 52 billion, a sustainable funding source.

The growth in gross loan portfolio (GLP) of MFBs too increased at an impressive pace of 47% per annum to register growth of 237% (or Rs 32 billion) since FY11. The number of MFBsô depositors has reached 11.5 million at end of June, 2015 registering an incredible nine times growth (909%) from 1.1 million depositors in June, 2011. As a result of regulatory space provided for undertaking microenterprise lending, MFBs have been able to diversify and upscale their portfolios sustainably, consistently increasing their average loan size from Rs 18,952 in June, 2011 to Rs 35,165 at the close of June, 2015.

D. Mobile Phone / Branchless Banking

Since the issuance of Branchless Banking Regulations in 2008, several branchless banking models have been licensed by SBP. Currently, there are nine live branchless banking models operating in Pakistan. Importantly, all the five mobile network operators in Pakistan have partnership with some of the largest banks and have already launched their branchless banking services or are at the final stages of launching. As a result, the branchless banking current growth trajectory is expected to get further steeper in the years ahead. During the period June, 2011 to June, 2015, the number of agents, accounts and transactions rose by 1332%, 2376%, and 676%, respectively.

Table4: Branchless Banking Key Indicators

Indicators	June 2011	June 2012	June 2013	June 2014	June 2015
Number of Agents	17,588	29,525	93,862	168,615	251,865
Number of Accounts	439,425	1,447,381	2,642,941	4,238,178	10,881,378
Deposits as of date (Rs. in millions)	146	753	2,391	6,219	8,553
Number of transactions during the year (No. in '000')	12,500	90,102	153,102	245,740	310,668
Value of transactions during the year (Rs. in millions)	4,100	338,516	635,913	1,063,149	1,608,051
Average Size of Transaction (in Rs.)	3,280	3,746	4,178	4,323	5,176
Average number of transactions per day	138,889	250,282	425,284	682,611	851,145

source: State Bank of Pakistan-BB Newsletter

Today, Pakistan is considered as one of the fastest growing markets for branchless banking in the World owing to the policy approach which promotes market competition, technological innovation, new business models, transformation in customersô needs and behaviors, and regulatory proportionality. Branchless Banking is serving as a key alternate delivery channel by involving non-banking entities i.e. agents, to serve as points of presence in providing basic financial access to the public on nationwide scale.

Branchless Banking has also proved to be an effective instrument in channelizing the Government to Persons (G2P) payments in trying times like serving Internally Displaced Persons (IDPs), flood affectees during the last two years, and beneficiaries of the Benazir Income

Support Programme. In the coming days, this channel is expected to continue playing an important role towards the promotion of financial inclusion and the management of Government to Person (G2P) Programs like Salaries Disbursements, Pensions, Pakistan Cards and tax collections services, etc.

E. Small and Medium Enterprises

Small and Medium Enterprises (SMEs) are considered engine of economic growth in Pakistan due to employment generation, contributing in equitable distribution of wealth, and fostering entrepreneurial culture. In Pakistan, SMEs contribute more than 30 percent to GDP, employ 78 percent of the non-agricultural workforce and contribute 25 percent in the export earnings. In view of this, SBP has taken different initiatives with the objective of providing an enabling regulatory framework, introducing market development measures, and building a secured lending infrastructure. These efforts have undoubtedly assisted in broadening of financial services to the SMEs.

A key policy measure taken by SBP is the introduction of SME financing targets to banks/DFIs and complementary measures. SBP has also issued revised Prudential Regulations (PRs) for SMEs, defining S & M segment, with the objective to focus on Small Enterprises. Some other measures taken are: targeted refinance schemes for SMEs, introduction of Credit Guarantee Scheme for Small and Rural Enterprises, SME Cluster studies, Institutional Capacity Building, etc. Below table presents a brief financing profile of SME financing in Pakistan:

Table 5: SME Finance Key Indicators

Category (Amount in PKR Billion)	**Periods ending**		
	Dec-14	**Sep-15**	**Dec-15**
Outstanding SME Financing	288	261	305
Total Financing	4,599	4,712	4,976
SME Financing as % of total financing	6	6	6
SME Finance NPLs	87.05	80.17	77.17
NPLs as % of Outstanding SME Financing	34	31	25
No. of SME Borrowers	134,521	168,408	158,387

Source: State Bank of Pakistan

F. Financial Inclusion Program

SBP has partnered with the UKAID to implement a comprehensive ñFinancial Inclusion Programò in Pakistan which aims to promote inclusive economic growth through promoting market-based financial services for the poor and marginalized segments of our society particularly small and microenterprises. This program has strengthened Pakistanõs microfinance institutions resulting in the transformation of the largest MFIs (credit-only institutions) into regulated Microfinance banks providing a range of financial services to the lower segments of the market. The program has also catalyzed the emergence and phenomenal growth in mobile phone banking in Pakistan. The key initiatives of FIP are as follows:

a) **Microfinance Credit Guarantee Facility (£15m)** is a credit enhancement facility to attract long-term, market based funding for microfinance institutions. MCGF offers 25% first loss or 40 percent partial guarantee (*pari passu*) coverage to Banks.

b) **Credit Guarantee Scheme (CGS) for Small and Rural Enterprise Guarantee Fund (£13m)** aims to enhance credit to small and rural enterprises through commercial banks.

c) **Institutional Strengthening Fund (£4.37m)** is a capacity building grant facility for microfinance banks and institutions. The ISF grants are provided to enhance institutional and human resource capacity, develop and implement strategies for mobilization of savings, strengthen governance and internal controls functions, and launch branchless banking initiatives.

d) **Financial Innovation Challenge Fund (£4.65m):** FICF is an innovation grant facility launched in may 2011 to provide grants to foster innovation and test new markets, lower cost of delivery, enable systems and procedures to be more efficient and provide new ways of meeting the larger demand for financial services**.**

e) **Technical Assistance (TA)** worth £10 million was launched for providing support to improve market Information and Infrastructure.

SDGs and Financial Inclusion

The Government and State Bank of Pakistan are striving to enhance financial inclusion through microfinance for stimulating economic activities in the low income segments of the country. As such, microfinance services create opportunities for economic growth, employing work force and improving livelihood at grass root level. Doing so, they tend to contribute towards attainment of SDGs by reducing poverty, making easier the access to basic necessities like food & nutrition, education, clean water and sanitation, health facilities.

As microfinance services primarily focus on women and economically vulnerable/ disadvantaged segments under SBPõs framework, it tends to promote equality between genders and social/economic classes. Moreover, SBP also promotes MFBs to extend financing for clean/ renewable energy projects at household level. Sustainable access to financial services would ultimately contribute towards realization of other broad SDGs like responsible/sustainable communities, improved climatic and environmental conditions.

Some key NFIS actions supporting SDGs are:

- Increase formal access to at least 50% of adult population and 25% of adult female population.
- Financial literacy and capability in Pakistan is very low as 40% of the financially excluded population reported lack of understanding of financial products as the main reason for financial exclusion. Therefore, SBP aims to impart financial literacy to at least 1.1 million people.
- Agriculture credit outreach by [10% per annum] (disbursements) and 100,000 number of farmers annually.
- Increase agriculture finance's share to total banks credit to the private sector from 8.5 % to 13%.
- Microcredit outreach: Gross Loan Portfolio by (15% annually) and number of microfinance clients by 10% per annum.
- SME credit outreach to 300,000 SMEs in 5 years an (increase by 12% annually).
- Increase the proportion of SME lending to total bank credit to the private sector from 7% to 12%.

- Implement program structure and framework for renewable energy financingï development of conceptual frameworks for facilities with funding support from AFD JICA, Proparco, GIZ and KfW.

H. Sri Lanka

There is no universally accepted definition for financial inclusion. In simple terms, however, financial inclusion means to provide an environment in which people have accesses to the formal financial system, through the use of different financial products at affordable prices. Coverage of all segments of society with special attention to low income groups who are underserved or have been excluded from formal financial services is a key concern in financial inclusion. Accordingly it aims to extend the financial services to those who do not currently have access and deepen financial facilities for those who have only limited access while strengthening financial literacy and consumer safety. In the developing countries, financial inclusion is viewed as a means of both access to financial products and knowledge about their fairness and transparency as well as a strategy in poverty alleviation. In the developed countries, on contrary, it is more about the knowledge of fair and transparent financial products and a focus on financial literacy.

Table 1: Selected indicators of financial inclusion

Indicator of Financial Inclusion	2005	2010	2015
No. of bank branches	3,685	4,911	6,583
Banking density (No. of bank branches per 100,000 persons)	18.8	23.8	31.1
Total No. of ATMs	918	2,222	3,558
No. of ATMs per 100,000 persons	4.7	10.8	16.8

Source: CBSL

According to the Findex Database - 2014[15], financial inclusion improved greatly all over the world in the past few years. The number of people having an account raised by approximately 700 million in the period 2011 to 2014, worldwide. The worldôs adult population having an account has grown up to 62 % from 51 %,during the period from 2011 to 2014. In this period, half a billion adults opened bank accounts and today there are only 2 billion adults

[15]For details see, Findex Database 2014: http://www.worldbank.org/en/programs/globalfindex

remain without an account worldwide. In line with the world developments, Sri Lanka has also implemented several initiatives to enhance financial inclusion in the country. Financial inclusion in Sri Lanka has significantly improved over the past decade as reflected by the rapid increase in the corresponding indicators, as shown in the Table 1.

Technological advancements in the banking sector including mobile banking, internet banking, and credit cards largely help increase financial inclusion in a country, particularly by reducing the transaction costs of reaching out to those in remote areas. In Sri Lanka, a classic case is the National Savings Bankôs ópoint-of-sale depositsô where bank representatives visit rural homes with point-of-sale electronic devices that connect to a mobile phone network, in order to facilitate deposits and to confirm the receipt (Ratwatte 2012). Over the past ten years there is a sharp increase in the mobile banking, internet banking and the usage of credit cards, as given in the Table 2 below:

Table 2: Selected technology related indicators of financial inclusion

Item	2005	2010	2014
Mobile phone banking transactions	n.a.	184,180	717,622
Internet banking transactions	n.a.	4,264,065	10,817,849
Total no. of electronic fund transfer facilities at point of sales machines	7,013	27,588	34,904
Total no. of credit cards	628,989	769,182	1,032,833
Credit cards per 100,000 persons	3,202	3,724	4,996

Source: CBSL

The Trends and Approaches of Financial Inclusion in Sri Lanka

Among the South Asian peer countries, Sri Lanka leads in many indicators that measure the financial inclusion, according to Asian Development Bank Institute (ADBI). For instance, 68 percent of Sri Lankan adults have an account in a financial institution, compared to 38 percent in Bangladesh and 35 percent in India. However, in borrowing, Bangladesh led with around 23 percent of adults while Sri Lanka is second in line with over 16 percent of the same. There were 33 licensed commercial banks and license specialized banks operated in Sri Lanka at the end of 2012 with 6,487 bank branches and 2,538 ATMs. However, these figures have improved gradually over the past four years, as evident above.

In a recent study on inequalities in the financial inclusion in Sri Lanka, based on an assessment of the functional financial literacy, Heenkenda (2014) find that the socio-economic-demographic characteristics have a very strong association with the financial literacy of individuals. The results highlight that the majority of the household heads demonstrate a modest financial knowledge sufficient to access banks. Further he finds that functional financial literacy was quite diverse across households depending on factors such as the levels of education, income, gender, age, etc. Moreover, the study unveils the characteristics of the individuals with different levels of financial literacy for those who need the funding for policy actions. In addition it stresses the point that provision of financial education to minimize inequalities while increasing the financial inclusion in the country.

Over the past two decades, several steps have been introduced in the bank, non-bank and micro-finance sectors with the backing of new technology that largely facilitate financial inclusion in the country. Among other initiatives, emergence of virtual banking with the introduction of internet and mobile banking systems and electronic payment platforms, increasing the available number of automated teller machines (ATMs), particularly in the rural areas, 10% mandatory credit to agriculture by banking sector, upgrading of post offices to provide banking and financial services, establishment of a credit and debt management council by the CBSL to provide financial advice to both individuals and companies on their credit problems and denial of access to finance, preparation of a Micro Finance Regulatory Act by the CBSL and getting it implemented etc. can be regarded as important steps in enhancing financial inclusion. Granting permission to carryout agency banking through mobile phones facilitated several banking transactions, in particular, depositing and withdrawing money and receiving remittances abroad through these agents located throughout the country. In addition, the HSBC Bank has established links with post offices while upgrading them to provide banking and financial services. Being one of the grass root level financial institutions in the country with a wide network with over 3,400 sub post offices, postal department has a huge potential in enhancing financial inclusion in the country. Providing access to finance in terms of drawing customer pensions, monthly allowances and, where possible, remittances from abroad, are few such possibilities.

Recent initiatives of the CBSL in enhancing Financial Inclusion in Sri Lanka

Credit delivery through refinance schemes and interest subsidy/credit guarantee schemes, and delivered credit supplementary services to strategic sectors of the economy are some of the key steps that the CBSL continue to engage with that strengthen the financial inclusion in the country.

The focus groups under this scheme include Agriculture, Livestock and Micro, Small and Medium scale enterprises (MSMEs) sectors and accordingly, 13 credit schemes were operated through Participating Financial Institutions (PFIs) to provide credits for needy business ventures during 2015. Loans amounting to Rs. 16,678.8 million were disbursed among 141,298 beneficiaries through these credit schemes during the year and out of the total lending, 67.9 % was directed to the Agriculture and Livestock Sector, while SME and microfinance sectors received 19.3 % and 12.8 %, respectively (CBSL, 2015).

These concessionary credit facilities provided by the CBSL were channeled mainly to the Agriculture and Livestock sector through the New Comprehensive Rural Credit Scheme (NCRCS), Commercial Scale Dairy Development Loan Scheme (CSDDLS), Tea Development Programme (TDP) and Working Capital Loan Scheme for Tea Factories (WCLSTF). Being one of the main agricultural crop that provides the staple food in the country, paddy received the highest proportion of 66.0% of the total loan disbursements.

In addition, the CBSL introduced the Warehouse Receipts Financing System under NCRCS to address the collateral issue faced by farming entrepreneurs. As such it was expected to enable the small farmers to obtain short-term credit from the registered financial institutions, by pledging the warehouse receipts issued by the government owned warehouses, as a collateral.

With the aim of achieving self-sufficiency in milk production, CSDDLS continue to operate in the country to facilitate l dairy production in to a commercially viable endeavor without depending on government subsidy. Total lending under the scheme amounted to Rs. 1,229.8 million was distributed among 1,424 dairy farmers and entrepreneurs mainly for the dairy farm development, processing, transportation, storing and marketing. The CBSL has also involved in providing assistance to the registered tea factories to meet their working capital requirements by way of implementing the interest subsidy component of WCLSTF. According to this new scheme started in end-2015 the interest subsidy of 2 per cent is provided for twoyears by the CBSL and loans amounting to Rs. 2,943.8 million were disbursed to 79 participants under the Scheme(CBSL, 2015).

The CBSL identified SMME sector is as one of the key areas crucial for enhancing financial inclusion. Considering its strategic importance in fostering inclusive economic growth, supporting SMME sector and thereby generating employment, reducing inequality and poverty and stimulating entrepreneurship is regarded as a priority. Accordingly, the CBSL continued with its five credit schemes, namely, the Saubhagya Loan Scheme (SLS), Self-Employment Promotion Initiative Loan Scheme (SEPI), Small Holder Plantation Entrepreneurship Development Program (SPEnDP), Dry Zone Livelihood Support and Partnership Programme (DZLiSPP-RF) and Awakening North Loan Scheme ï Phase II (ANLS - II) and these schemes together disbursed loans amounting to Rs. 3,219.3 million for 14,832 beneficiaries.

In order to broaden the financial outreach among the masses and promoting poverty alleviation in the country, four microfinance loan schemes were in operation, namely, Poverty Alleviation Micro-Finance Project II-Revolving Fund (PAMP II-RF), Poverty Alleviation Micro-Finance Project-Revolving Fund (PAMP-RF), Poverty Alleviation Micro-Finance Project ï II (PAMP II) and Small Farmers and Landless Credit Project ï Revolving Fund (SFLCP-RF). These schemes collectively disbursed loans totaling to Rs. 2,139.5 million among 34,385 beneficiaries, in 2015. Out of the total number of loans, 52.3 % were granted for the Small Industries and the Agriculture sectors, followed by Trade and Services, Livestock and Fisheries with shares of 21.4 %, 18.3 % and 8.1% respectively(CBSL, 2015).

As highlighted by Kelegama and Tilakaratne (2015),pawning (gold pledged loans) is one of the key reasons for the widespread use of commercial banks among lower-income households. Pawning is widely used by low-income segments of the society in meeting their financial needs since pawning facilities can be obtained immediately without keeping guarantee or compulsory savings, and involves no regular repayment schedules. In view of the favorable monetary developments and movement of gold prices in both the domestic and international markets the Credit Guarantee Scheme for Pawning Advances (CGSPA), which was introduced in June 2014, was discontinued by the end 2015. From the beginning of the scheme, pawning advances totaling Rs. 29,248.1 million disbursed were guaranteed by the CBSL of which Rs. 17,757.9 million was pertaining to the year 2015.

Financial literacy is one of the key ingredients of financial inclusion and accordingly, the CBSL continued to conduct several programmes and workshops to promote financial literacy and inclusiveness of the country. These programmes broadly focus on strategic objective of skill development and capacity building and cover the areas of financial literacy, entrepreneurship development and training of trainers and project appraisal workshops for entrepreneurs, in addition to forming Self Help Groups and educating them about financial management.

Financial regulation and supervision of the microfinance sector

In low and lower-middle income countries, micro finance programmes play in important role in enhancing financial inclusion while eradicating poverty. Such programmes target and grasp the poor, women in particular, and small entrepreneurs and producers, who often have limited access to formal financial institutions.

As in many other developing countries, however, microfinance sector has not adequately regulated and supervised in Sri Lanka thus leaving the poor vulnerable to financial risks. Thus, the Sri Lankan Parliament passed the Microfinance Act No. 6 of 2016 on 20 May 2016 to provide for the licensing, regulation and supervision of companies carrying on microfinance business, the registration of non-governmental organizations accepting limited savings deposits as microfinance non-governmental organizations, for the setting up of standards for the regulation and supervision of microfinance non-governmental organizations and micro credit non-governmental organizations and to provide for matters connected thereof.

Subsequent to the end of the internal conflict of the country, many actions have been taken to boost financial inclusion in the Northern and Eastern Provinces, both directly and indirectly. Some of such actions include, quick restoration and creation of livelihood opportunities, disbursement of thousands of Bank Loans on a ñfast trackò approval basis in the Northern and Eastern provinces, opening up of CBSL Provincial offices in the North and the East while introducing innovative credit guarantee schemes, opening a large number of bank branches in the North and the East, provision of loans for projects under the Poverty Alleviation Loan Scheme, conducting of several education and awareness programmes, rapid and far reaching infrastructure restoration and upgrade, Initiating market linkages for small producers to reach the economic centres of the country, formation of self-help groups in the North and the East.

Key Findings of the Recent Financial Survey

With the objective of understanding the new developments in the microcredit sector and to assess financial literacy and financial inclusion of microcredit recipients in the country, the CBSL has conducted a survey on microcredit(CBSL, 2015).

Accordingly, a sample of 1,588 microcredit recipients from institutions registered with Lanka Microfinance Practitionersô Association (LMPA) and Non-Bank Financial Institutions (NBFIs) was surveyed. These beneficiaries were distributed among eight provinces in the country, covering fifteen districts, namely, Ampara, Anuradhapura, Badulla, Gampaha, Hambanthota, Jaffna, Kalutara, Kandy, Kurunegala, Mannar, Matale, Matara, Monaragala, Polonnaruwa and Trincomalee.The survey find that, out of the total number of 4,274 loans obtained by the beneficiaries, 44% were of the range Rs. 25,000 to Rs. 50,000 and the loan funds were utilized mainly for business activities, personal usage or to settle another loan. Further, the loan interest rates were in the range of 15% to 35%. It is also observed that the majority of the beneficiaries were having moderately high literacy level with up to G.C.E (O/L) educational qualifications.

The survey used several criterion including knowledge on loan details, facilities offered by banks and other microcredit granting institutions and how beneficiaries have benefitted from access to finance in measuring the financial literacy of the beneficiaries selected. Similar to many developing countries, the survey finds that majority of the microcredit loans were disbursed to females.

In terms of possessing a bank account and reasonably higher frequency of transactions conducted, financial inclusion observed to be high in the sample surveyed. In addition, for the quarries based on the knowledge of interest rates applicable for their loans, beneficiaries responded satisfactorily stating the details of their installments with documentary evidence in support of repayments. The survey also find that the clear majority of the loans were used for business purposes and some beneficiaries were able to improve their business activities with increased revenue/profit though a considerable share of the respondents were unable to enhance any such progress even with access to microcredit.

It is also unveiled that the majority of the loans were granted by the Non-Bank Financial Institutions (NBFIs) though the Licensed Commercial Banks (LCBs) and Licensed Specialized Banks (LSBs) contributed to a significant share of high valued loans. Annual interest rate for most of the loans offered by the NBFIs lie in the range 25-30% while LCBs provides slightly a better rate. Moreover, it is found that ease of obtaining loans, shorter processing time and collateral considerations attributed for higher preference towards obtaining loans from the NBFIs and other lenders such as money lenders, relatives, friends, etc.

As evident from several indices, Sri Lanka has made a significant progress in financial inclusion owing to the various policy measures implemented, particularly over the past two decades. Further, financial infrastructure including the branch network, ATM machines,etc. have grown substantially over the recent years while expanding financial institutions into remote/ rural areas and thereby encouraging banking habits among low-income segments of the rural population.The CBSL has been instrumental in strengthening financial inclusion in the country and recently established the Department of Supervision of Microfinance Institutions with a view to provide licensing, regulation and supervision for public companies carrying on microfinance business is a mile stone of it.

In spite of the progress made, there is much space for further improvement. Use of modern banking facilities including debit and credit cards, phone banking, and e-banking are still at a relatively low level in Sri Lanka it is partly attributable for lack of financial literacy among low-income groups. Enhancing financial inclusion will enable the country to achieve its growth objective in a more equitable manner while strengthening economic stability in Sri Lanka.

VI. Empirical Analysis of Factors for Financial Inclusion in the SAARC Region

The level of financial inclusion varied widely in the SAARC region. Many factors which affects the level of financial inclusion and a wide variation across the countries are identified by various studies . The major factors are: income level, banking infrastructure, inequality, poverty, financial literacy, and unemployment etc. The paper attempts to identify the factors which are mostly associated with the level of financial inclusion in the SAARC countries. The paper also constructs a panel data and urns regression on those data to provide estimation results.

The association between economic growth and level of financial inclusion shows that there is a moderate positive movement between economic growth and financial inclusion in the SAARC region reflecting R^2 value(0.26) (Chart 6.1). The association between human development index (HDI) and level of financial inclusion is plotted in Chart 6.2 which shows a strong movement between HDI and level of financial Inclusion reflecting higher R^2 value (0.7). From these association, we may expect that social factors ь life expectancy (year) and literacy (expected year of schooling) influence the level of financial inclusion more deeply than the factor of economic growth.

To confirm the relationship among financial inclusion, economic growth and HDI, the paper estimate a panel regression as follows:

$$\mathrm{Log}(FI)_{it} = \alpha_i + \beta_1 \mathrm{Log}(HDI)_{it} + \beta_2 \log(GNI)_{it} + \varepsilon_{it} \ldots\ldots\ldots (1),$$

FI= Level of financial inclusion measured by weighted ATM and bank branch per 100000 adults. Data are collected from Financial Access Survey, IMF.

HDI= Human development index. HDI is taken from Human Development Report, 2016.

GNI= Per capital national income in US dollars. GNI data are collected from World Development Indicators, World Bank .

Estimate Results show that pooled, Fixed Effect (FE) and Random Effect(RE) models confirm that HDI is an impotent factor for scaling up financial inclusion in the SAARC countries. The estimated results are reported in Table 6.1.

Chart 6.1: Trends in Scatter Plot between Economic Growth and Level of financial Inclusion

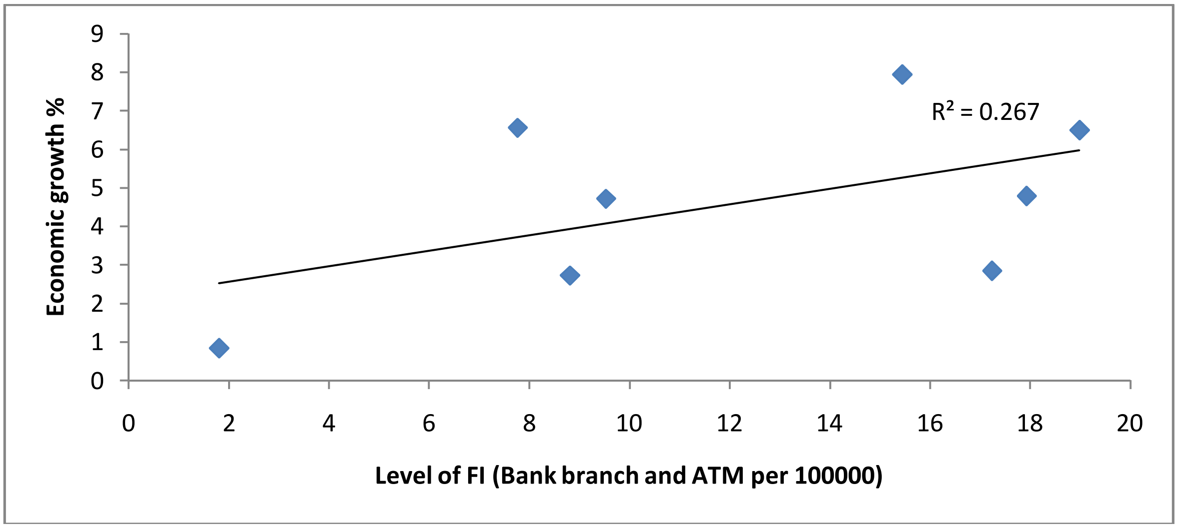


Chart 6.2: Trends in Scatter Plot between HDI and level of Financial Inclusion

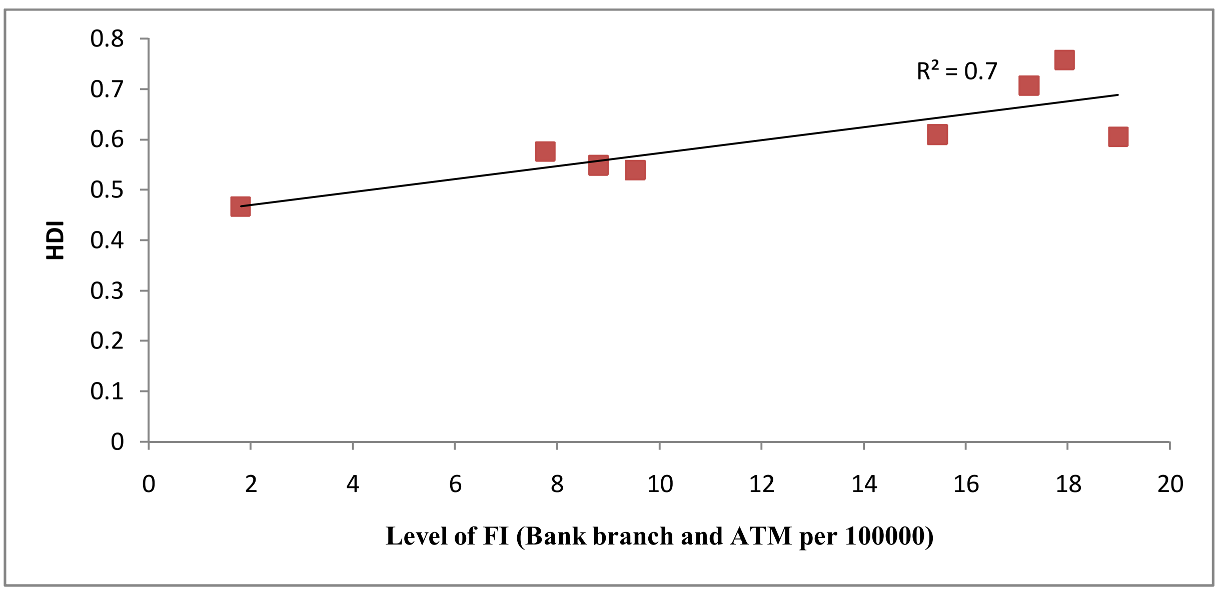


Table 6.1 : Estimate Results

	Financial Inclusion		
Variables	(1)	(2)	(3)
	Pooled	FE	RE
Log (HDI)	3.288***	5.577***	4.727***
	(0.842)	(1.347)	(1.159)
Log (GNI)	0.151	0.137	0.177
	(0.164)	(0.200)	(0.184)
Constant	2.847*	4.172***	3.423*
	(1.610)	(2.107)	(1.904)
Observations	48	48	48
Number of countries	8	8	8
Sample Period 6 years (2010-2015)			

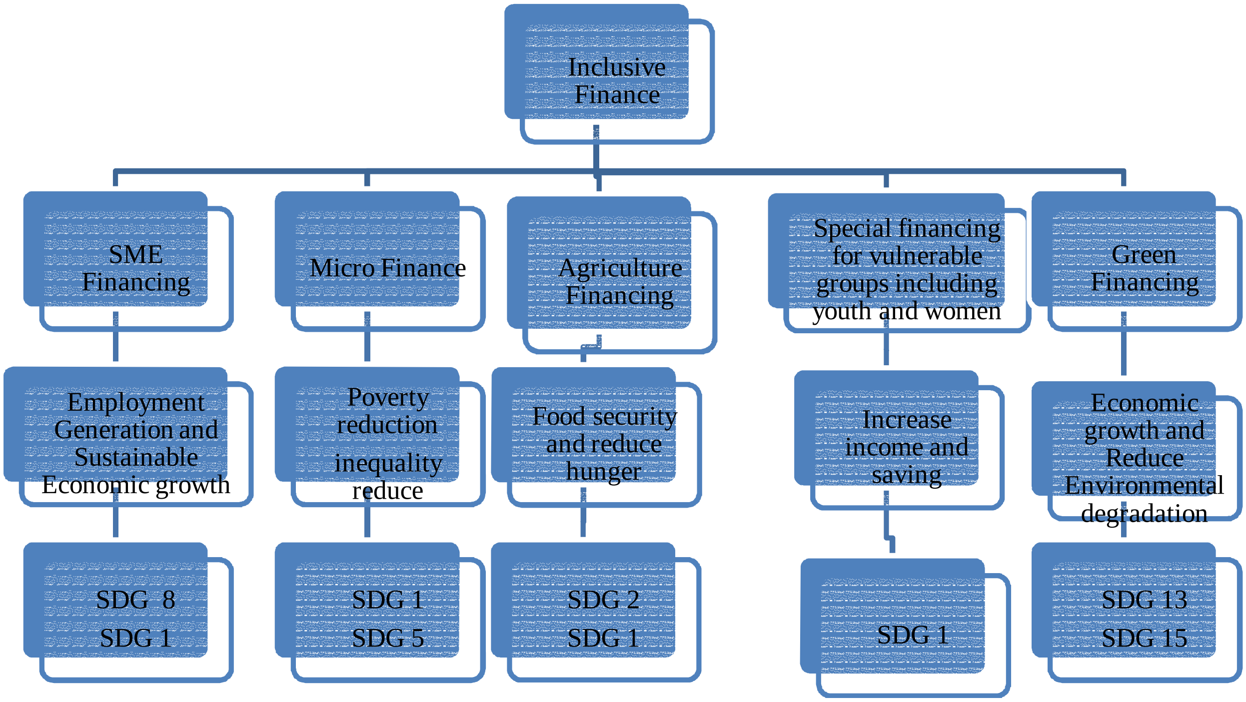
Note: Standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1. Hausman test has been performed which suggested random effect static panel estimator would be a superior estimator of our mode.

VII. Sustainable Development Goals and Financial Inclusion Strategies in the SAARC

Linkage between SDGs and Financial Inclusion

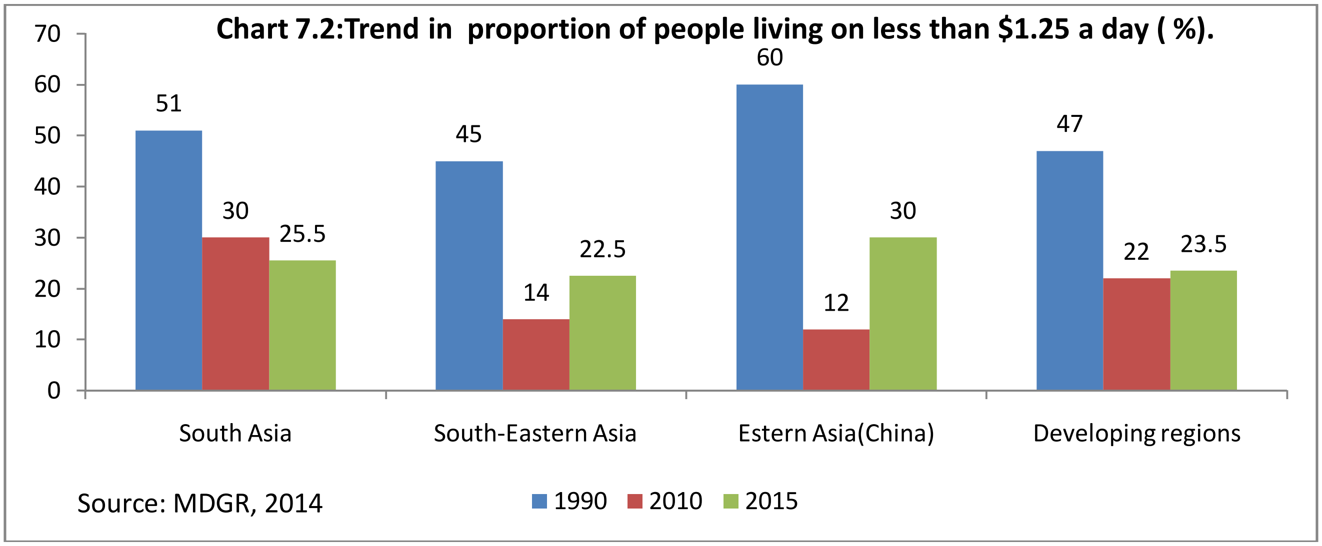
The broad based financial inclusion has emerged as an effective tools for achieving SDGs goals. Accordingly, the SAARC countries pursuing a broad based financial inclusion to meet these goals. Many goals of SDGs are directly linked with a greater financial inclusion. For example, the goals: (1) end poverty in all its forms everywhere, (2) end hunger, achieve food security and improved nutrition and promote sustainable agriculture, (3) ensure healthy lives and promote well-being for all at all ages), (4) ensure inclusive and equitable quality education and promote lifelong learning opportunities for all, (5) achieve gender equality and empower all women and girls (6) promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, (7) reduce inequality within and among countries , and (8) take urgent action to combat climate change and its impacts are linked with financial inclusion. Transmission mechanism of inclusive finance for inclusive growth and sustainable development goals are presented in Chart 7.1.

Chart 7.1: Transmission Mechanism of Inclusive Finance for Sustainable Development



Poverty trend in the SAARC Region

Poverty trends indicate that much progress has been achieved in poverty reduction during 1990-2015 in South Asia. Still about 25.5 percent of the populations remained below the poverty line (Chart 7.2). World bank data show that about 327 million people are living under extreme poverty in Asia. Out of this, 218 million live in India, 18.4 million live in Bangladesh and 12.7 million live in Pakistan . In this situation, expanding financial inclusion strategy may help to meet the first goal of SDF (SDG-1).



Outlook of Labor Market in the SAARC Region

According to International Labour Organization (ILO), in South Asia, unemployment will be 30.2 million in 2018.In 2017, youth unemployment reached 13.9 million. The gender gap of employment is much higher in the region compared to that of Eastern Asia and Latin America and the Caribbean region. Apart from this, about 20 million more will join the labor force, every year, for next two decades (Ghani, 2011). One of the major challenges is job creation for young and decent job for women. A broad based finance to MSMEs may create opportunity to absorb young labor force in the region. Right now, overcoming the obstacles towards financing MSMEs should be a top priority for the respective policymakers in the SAARC region.

Table 7.1: Labor market Trend and Outlook in South Asia

	2015	2016	2017	2018
Labor force participant rate (%)	56.2	56.3	56.3	56.3
Unemployment (Million)		29.5	29.8	30.2
Youth unemployed (Million)	13.7	13.8	13.9	
Gender Gap (percentage Point)			50.8	50.8

Source: Compiled from ILO, 2015, 2016, 2017.

MSMEs Financing and Contribution in GDP

Micro, Small and Medium Enterprises (MSME) have emerged as the engine of growth and development in SAARC region. The MSME play a major role in employment generation like agriculture sector. The contribution of MSMEs in GDP, export and employment are given in Table 7.2. Although various steps and policies have been taken to enhance credit to MSME in the region, many SMEs still faces credit constrains. World Bank enterprise survey data show that access to finance is one of the major obstacle in the region (Chart 7.3).

The Country level analysis shows that MSMEs mostly depend on bank financing. Banks follows the 'one size fits all" approach for financing to MSMEs. Available data show that financing in MSMEs by India, Bangladesh and Bhutan much higher than that of other countries (Chart 7.4).

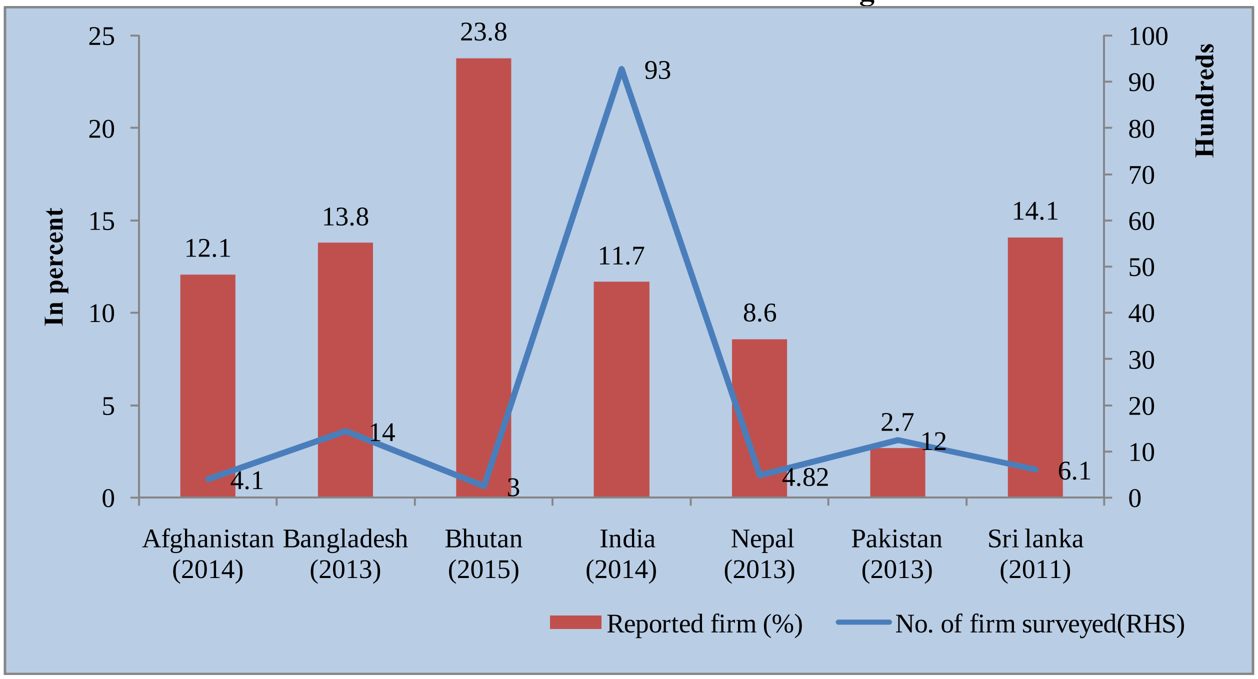
RBI(2015) reports that "... notwithstanding various policy support measures for MSMEs, access to adequate credit still remains elusive for the sector, calling for innovative solution". Providing long term financing opportunities such as capital market financing for growing SMES is an emerging agenda in SMEs financing. Policy and regulatory actions may be elaborated to respond to new areas such as crowd funding, asset-based finance, seed capital and early stage finance, and SME cluster financing.

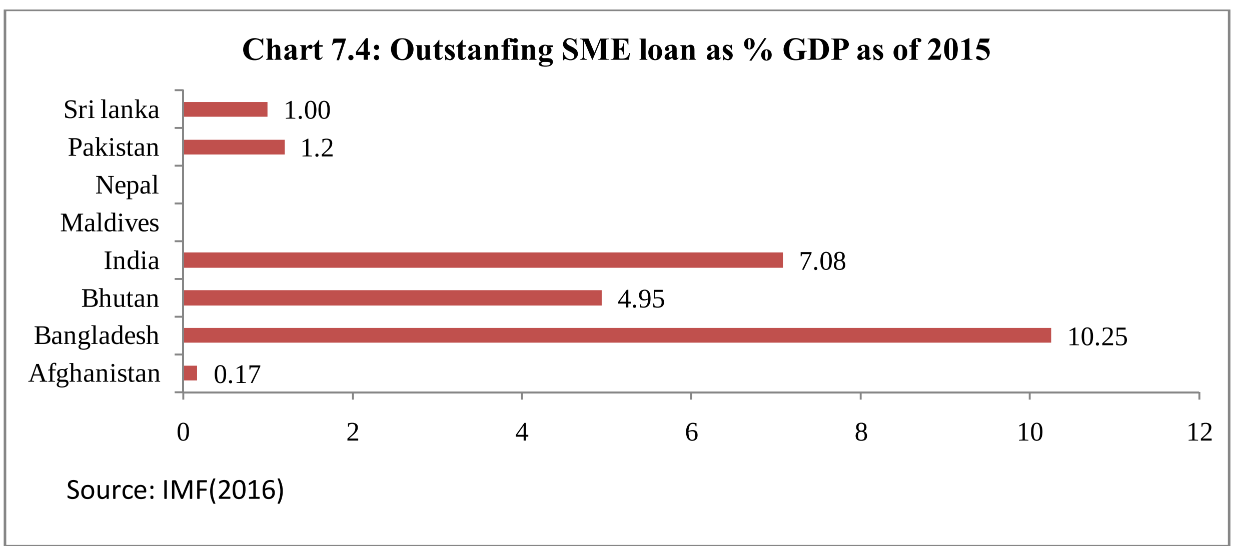
Table 7.2: Contribution of SME to GDP, Export and Employment

Country	Ratio of SME to Total Enterprise (%)	Contribution (%)			Ratio Employment to Total workforce/employment	Total MSME (in millions)	No. SME financing by banks
		GDP	Export	Manufacturing output			
Afghanistan	80	50			33		
Bangladesh	99	28-30			70-80		
Bhutan							
India			40	45	101 million	48	
Nepal							
Pakistan	98					3.2	0.188 million
Sri Lanka	80-90	30	20	30	35		

Source: The Asia SME Finance Monitor, 2013, Worl Bank Brief (SME),2015, and NFIS, Pakistan

Chart 7.3: Obstacle of access to finance for firms in SAARC region

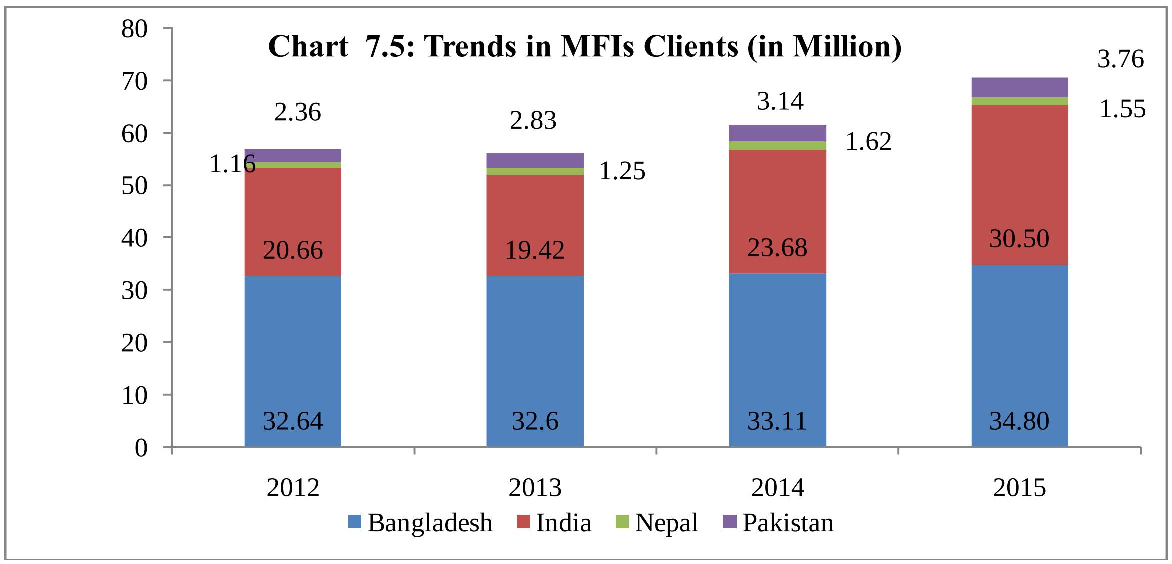




Microfinance and Financial Inclusion

Microfinance has emerged as an effective tool to enhance financial inclusion in SAARC countries to meet SDGs. It remained the most vibrant and effective platform for expanding financial inclusion because vast majority of poor adult population, microenterprise, landless and marginal farmers are excluded from financial services provided by the formal banking system. Most of the beneficiaries of microfinance sector would have remained financially excluded if there were no microfinance services. Therefore microfinance is considered as the primary agent of financial inclusion whereas other financial sectors are mainly secondary agent.

The central banks governments have taken various steps to nurture MFIs in the SAARC region. MFIs are providing microcredit, savings, payments and insurance services. The growth of clients , loan and savings by MFIs has been growing faster in the region (Chart 7.5). Although outreach by MFIs is impressive, the cost of services is very high . Micro-insurance penetration is very low which is one of the major concerns for the policymakers..



VIII. Conclusion

The paper reviewed the major trends and approaches of financial inclusion and attempted to assess the level of financial inclusion in the SAARC countries. The paper analyzed various issues of financial inclusion from different dimension at country level as well as aggregate level.

The analysis shows that the financial inclusion has been gaining momentum overtime across countries but varying widely . Although much progress had been achieved, a huge work remains to be done to foster financial inclusion for inclusive growth and disperse the benefit to mass people.

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The paper finds that account ownership for all adults, women, poor, young and rural area have been improving, while gender gap has been gradually diminishing. Despite improvement of account ownership, usage of financial services very low which is a major concern in many countries of the region. It is observed that many accounts which are opened under financial inclusion program remain dormant. The analysis of accessibility, availability and usage of financial services at country level shows an impressive development, reflecting in geographical and population penetration measured by ATM and bank branches per 1000km^2 and 100000 adults population.

The paper finds that the level of financial inclusion is associated more closely with social factors compared to income factors. The demand side phenomena i.e., education, health, and other social factors may be addressed for improving level of financial inclusion. The campaign of financial literacy is impressive initiatives for promoting a broad based financial inclusion.

Financing in MSMEs, allocating more credit to agriculture, and extending microfinance to unbanked poor have emerged as an effective transmission mechanism for achieving many goals of SDGs. Removing all obstacle in financing MSMEs sector is very important for job creation for young unemployment in the region to reap the benefits of population dividend.

The assessment of regulatory framework shows that although many regulation, supervision, and prudential guideline have been adopted for enabling environment for financial inclusion, the scores of regulatory framework indicate a gradual progress but a wide variation in the region. Revisiting the regulatory framework for promoting financial inclusion in the region may be a major immideate task of the policymakers to give further impetus to the ongoing progress of financial inclusion.

The main limitation of the paper is availability of data. The authors of the paper could not avail consistent time series data for evaluating the progress of financial inclusion. Data warehouse may be established in SAARC cell for monitoring and evaluation and also for easy distribution among member countries as per requirement.

In conclusion, a better coordination among different stakeholders (government, regulators, banks, MFIs, mobile phone operators, and donor agencies) is needed for broad based financial inclusion towards inclusive growth in the SAARC region.

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