

## Access to Financial Services to Rural Poor in Nepal: Challenges and Way Forward

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**Abstract :** Nepal's financial sector has become deeper and wider, and the number and types of financial intermediaries have grown rapidly over the past two decades. However, access to financial services remains limited for many people in many parts of rural Nepal. While financial institutions have been expanding rapidly in an urban area in recent years, the access to the rural poor is excessively inadequate due to financial illiteracy and limited numbers of financial institutions that confined only to the district headquarters. Based on the focus group discussion, semi-structured interview of key people and literature review, this paper aims to examine the supply of and demand for financial services in Nepal and the constraints to increasing access to them, and offers way forward for making the financial sector work for all of Nepal's people, especially the rural poor. While Nepal's government has tried to increase access to formal financial services for small businesses and low-income households through directed lending programs for small businesses and low-income households, created specialized wholesale and retail institutions, and lowered market entry requirements, formal financial services are declining, and financial intermediation is stagnating. Supply and demand indicators show that, despite government efforts, formal financial institutions do not serve the needs of most of the Nepalese population. While access to and use of formal financial services are limited, in general, the problem is acute for small businesses and low-income households. Indeed, both access and use are closely correlated with business loan size and household income. This study concludes that banks and microfinance institutions with the use of mobile phones can connect hundreds of millions of unbanked and low-income people, especially rural poor to financial services at low costs. While there are many challenges ahead in expanding the service to rural areas, the mobile financial services will be beneficial that makes payments faster and cheaper, more convenient and accessible to a greater number of senders and recipients in rural areas. In rural areas, clients will benefit from money transfer and other mobile and online services.

**Keywords :** financial inclusion, financial enabling environment, microfinance, branchless banking, rural poor

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