

MEMBER SERIES: FINANCIAL INCLUSION JOURNEY

# THE KINGDOM OF BHUTAN'S FINANCIAL INCLUSION JOURNEY



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## ACKNOWLEDGMENTS

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We would like to thank AFI member institutions, partners and donors for generously contributing to development of this publication.

## INTRODUCTION

As a member-owned and driven global policy leadership alliance, our objective is to facilitate in country implementation of policy changes to increase access and use of quality financial services for the underserved and the unbanked. Through our cooperative, bottom-up approach that promotes peer learning and knowledge exchange we have witnessed immense achievements in financial inclusion from our membership, leading to over 680 policy changes and financial inclusion of more than 650 million people over the last decade.

Driven by practical policy solutions that draw lessons across the network, AFI members have been focusing on ways to support countries in designing and implementing high-impact, tailor made solutions that meet their needs and challenges. These country-led approaches have created ownership and a sense of empowerment and pride as ever more ambitious targets are set and achieved. It is imperative that such lessons are highlighted from each member's perspective on how AFI's peer learning approach and in-country implementation have been instrumental in facilitating transformation. Thus, we feature such practical lessons in this Members Series publication.

With enormous lessons from the network that need to be highlighted and amplified, the member series serves to elevate the members' financial inclusion achievements and bring to the fore, key policy lessons that will benefit other members who are pursuing similar objectives.

This member series publication shares the practical lessons and financial inclusion journey of Royal Monetary Authority (RMA) of Bhutan. AFI member since 28 October 2010, RMA Bhutan is offering a wealth of their knowledge on how they have addressed their unique financial inclusion challenges and opportunities.



I wish to take this opportunity to thank RMA Bhutan, for sharing their experience and financial inclusion journey. I greatly admire how Bhutan has set its vision of the future based on an innovative, digital-led advancements, as the country pioneers' inclusive green finance. Bhutan is paving the way for a greener financial inclusion which upholds the core Gross National Happiness (GNH), values of good governance, sustainable development, preservation and promotion of culture, and environmental conservation.

It is my sincere hope that Bhutan's journey will provide useful practical lessons to the AFI network.

Join me in this Series to gain deeper perspectives on the journey of our member RMA Bhutan as they champion the transformation of the financial inclusion landscape in the country.

**Dr. Alfred Hannig**  
Executive Director, Alliance for Financial Inclusion



## FOREWORD

With the high prevalence of poverty and the large rural populace in South Asian Countries, financial inclusion is a critical item on the agenda for all South Asian member countries. With this in mind, and in the era of the digital world, each country in the region must promote an effective and innovative policy environment for its own national growth as well as for expanding global trade and investment.

Bhutan too has aspired to enhance financial inclusion and financial literacy through the National Financial Inclusion Strategy (NFIS) and National Financial Literacy Strategy (NFLS) 2018 - 2023, implemented through a collaborative project called the Financial Inclusion National Action Plan (FINAP) 2019 - 2023.

While aiming to apply policies practically on the ground, considerable lessons were learned, leading to many opportunities being explored. Initiatives kept progressing, leading to newer, more ambitious and better goals.

The dynamic leadership of His Majesty the King, strong stakeholder collaboration and the upholding of core GNH values (such as equitable socioeconomic development, good governance structure, harmony with nature, preserving our culture and spiritual tradition) were some undeniable key fundamentals for Bhutan to pursue financial inclusion successfully in the drive towards equitable economic transformation.

**85%** Bhutan's pursuit of financial inclusion strives to achieve an overarching ambitious target of 85 percent financial inclusion by 2023 from the baseline of 64 percent in 2017.

The financial inclusion target's achievements are driven by four sets of key driving pillars and cross-cutting enablers. These are:

1. creating and enhancing appropriate financial products and services;
2. strengthening financial accessibility and proximity;
3. financing for priority sector growth;
4. strengthening financial capability and consumer protection.



Dasho Penjore's enroute visitation of the naturally grown turmeric products produced by the women's cooperative group in Zhemgang during the Financial literacy Roadshow program in 2017.

Financial inclusion in Bhutan to advance further and unlock future potentials is currently being re-enforced to capitalize on the current initiatives and to craft the 21st century financial inclusion roadmap, which focuses on more innovative, technology and digital-led advancements, coupled with green finance.

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AFI has played a significant role in shaping Bhutan's financial inclusion journey by providing both technical and grant assistance in areas of knowledge sharing, policy and survey support, peer advisory services and capacity building.

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To further improve on the regional cooperation through AFI's facilitating engagements, common areas of cooperation are connecting to international payment gateways with trading neighboring countries, accelerating and synchronizing e-commerce platforms, and balancing digital initiatives with effective cybersecurity mechanisms.

Given some of the data highlights, our focus on enabling and unlocking the next level of financial inclusion could be clustered around the some of the following areas of financial sector development, in addition to capitalizing our current efforts:

- > enabling digitized transformation in the Financial Service Providers' landscape;
- > re-shaping and introducing more innovative and technology led financial products and services;
- > leveraging digital financial services;
- > encouraging FinTech development;
- > enhancing inclusive green finance;
- > ecatalyzing Cottage Small Industries (CSI).

It is my greatest pleasure to endorse this reflection report for financial inclusion and financial literacy with initiatives ranging from improving the formal supply side financial service landscape to organizing financial literacy programs. Considerable efforts were also put in place to structure the facilitating platforms towards inclusive access to finance, backed by suitable regulatory interventions.

My greatest appreciation to AFI in partnering with RMA, Bhutan to pursue the collective goal of enhancing 'greater financial inclusion' in the 21st century.

**Dasho Penjore**  
Governor, Royal Monetary Authority of Bhutan



Dasho Penjore, Governor, Royal Monetary Authority of Bhutan.

# ABOUT BHUTAN

## 1. COUNTRY PROFILE

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The kingdom of Bhutan, also known as the land of thunder dragon (Druk-Yul) is a small, landlocked Buddhist country occupying the Himalayan land area of 38,394 square kilometers.

Nestled in South Asia, it has a population size of around 760,000. Thimphu is the capital of Bhutan and its currency is the Ngultrum (Nu.), which is pegged to the Indian Rupee (INR) at 1:1.

Bhutan is a constitutional monarchy, where the King is the head of state and the prime minister heads the government. Bhutan also has a religious head known as the 'Je Khenpo'. Democracy in Bhutan started only in 2008.

Bhutan is known for its development philosophy of Gross National Happiness (GNH), its rich culture and traditions, and a pristine environment with rich biodiversity. It is a carbon neutral country and by law, mandates that at least 60 percent of the country to be maintained under forest cover at all time.

Bhutan is an agrarian country and its economy is mainly driven mainly by hydropower, tourism and forestry. According to the World Bank, Bhutan's GDP stands at USD2.447 billion, GDP per capita at USD3,243.23 (2018), GNI at 6.98 million PPP dollars, GNI per capita at 9,250 PPP dollars. The kingdom observes an annual GDP growth rate of 3.0 percent. (2018).

## 2. ABOUT GROSS NATIONAL HAPPINESS (GNH)

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GNH is a development philosophy guided by measurement of the collective happiness in the Kingdom of Bhutan. The term was coined in 1972 by Bhutan's fourth Dragon King, Jigme Singye Wangchuck, and places GNH over GDP as the goal of the government. The United Nations passed Resolution 65/309, adopted unanimously by the General Assembly in July 2011, placing "happiness" on the global development agenda.

The collective happiness is emphasized in keeping harmony with nature and traditional values are

expressed with nine domains of happiness and four pillars of GNH.

The four main pillars of Gross National Happiness are:

1. equitable and sustainable socioeconomic development;
2. preservation and promotion of the cultural and spiritual heritage;
3. conservation of environment;
4. good governance.

The nine domains of GNH are psychological well-being, health, time use, education, cultural diversity and resilience, good governance, community vitality, ecological diversity and resilience, and living standards. Each domain is composed of both subjective and objective indicators to measure the ultimate GNH Index.

As a development paradigm, Gross National Happiness has driven inclusive policies bringing developments in remote areas while preserving the culture, tradition, rich natural environment and forest cover.

The concept of GNH has largely enabled the promoting of focus on self-sufficiency, self-reliance, reduction of the gap between the rich and the poor, good governance and key empowerment of the citizens of Bhutan.

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Financial inclusion in Bhutan is perceived as a means to achieving equitable and sustainable socioeconomic development - a key pillar to the GNH.

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Within the overarching banner of creating a just, equitable and harmonious society, access to finance is enabled to priority sectors and marginal segments of the population to ensure equitable economic development. Much efforts and opportunities of access to CSI finance are being promoted to enhance rural economic livelihood, encourage youth and women entrepreneurs, preserve Bhutan's sacred culture and environmental conservation. Collectively, financial inclusion thus aspires to advance financial inclusion within the equitable, sustainable and harmonious domains of the GNH.





Bhutan is known for its carbon neutral status and its constitution mandates Bhutan to maintain over 60% under forest cover at all time.



Bhutan is known for its rich and unique culture and tradition.



## BACKGROUND RATIONALE

The Royal Monetary Authority (RMA) of Bhutan spearheaded the formulation of the National Financial Inclusion Strategy (NFIS) 2018 - 2023 and the National Financial Literacy Strategy (NFLS) 2018 - 2023. The NFIS and NFLS were approved during the 139th RMA Board Meeting held on 21 July, 2018.

The RMA, together with financial institutions, embarked on the journey to enhance inclusive finance to meet the aspiration of His Majesty the King following the Royal Address delivered during the 109th National Day celebrations on 17 December, 2016.

*The formulation of the NFIS and NFLS 2018 - 2023 are the key outcomes of the inaugural conference of the Bhutan Economic Forum for Innovative Transformation (BEFIT) held in 2017 with the theme “enhancing financial inclusion in the country”.*

The rationale for Bhutan to pursue financial inclusion for equitable socioeconomic development was drawn from the following:

### 1. GREATER FI MEASURES AS A NATIONAL PRIORITY

The NFIS captures the current state of financial inclusion indicators as of December 2017 (the baseline) with: 64.47 percent of adults having a formal savings account; 16.08 percent of adults in Bhutan having access to credit, and 17.79 percent of adults in Bhutan having a life insurance policy. Bhutan therefore strives to improve these key sets of financial inclusion value store transaction accounts, including the enabling transition of delivery channels from traditional to innovative financial services.

### 2. USAGE OF INFORMAL FINANCIAL SERVICES

As reflected in the Demand Side Survey conducted by AFI in 2013, 94 percent accessed informal financial services in the rural areas and only 37 percent accessed formal financial services. These observations led policymakers to develop financial inclusion policy strategies to improve formal access to finance, particularly in rural areas.

## COMMON BARRIERS/CHALLENGES TO FINANCIAL INCLUSION

Traditional collateral-based financial products and services with strict KYC hampers the need, access and fulfilment of the customer’s demand of suitability, inclusiveness and affordability. Lack of specialized financial institutions, a low level of financial literacy, difficult geographical terrain, the scattered population, a lack of infrastructure and the lack of enabling regulations further add to the operational costs of financial services and related challenges for Bhutan.

Possible solutions to these identified challenges include:

- > enabling regulations;
- > reshaping the financial sector leading to financial resilience and empowerment;
- > creating innovative financial products;
- > enabling infrastructure;
- > modern channels leveraging on digital payments and financial products and services;
- > effective consumer protection;
- > leveraging Cottage Small Industries (CSI);
- > redress mechanism;
- > enhancing financial literacy.

As a way forward, five-year strategy documents were formulated based on a collaborative approach reflecting the importance of cross-sectoral stakeholders. The strategies are anticipated to guide the provision of inclusive opportunities and awareness to the unserved and underserved segments of the population.

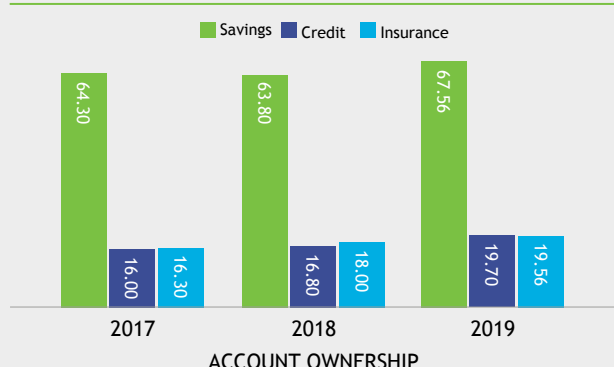
The Financial Inclusion and Literacy (FIL) Division, restructured and upgraded to the Financial Inclusion Secretariat (FIS) effective 1 July, 2018, has been fully equipped with reinforced human resource and funds to implement national-level financial inclusion plans and policies through multi-stakeholder collaboration. The FIS strives towards the beneficial nationwide outcome of reducing the percentage of excluded citizens, increasing citizens’ financial capability, building confidence and creating a conducive environment for economic transformation. This will in turn enable job creation/increased employment, poverty reduction and income inequality, and promote sustainable and inclusive economic growth.



# CURRENT STATE OF FINANCIAL INCLUSION IN BHUTAN: SUPPLY SIDE DATA

## 1. FINANCIAL INCLUSION AT A GLANCE (2019)

### FINANCIAL INCLUSION (PERCENTAGE)



### ACCESS POINTS

	TOTAL NUMBER			PER 10,000 ADULTS		
	2017	2018	2019	2017	2018	2019
<b>BRANCHES</b>						
Total Branches	170	170	174	3.43	3.36	3.38
Total Bank Branches	98	98	105	1.98	1.94	2.04
Total Insurance Branches	68	40	36	1.37	0.79	0.70
Total MFI Branches	29	32	33	0.58	0.63	0.64
Total Extension Offices	66	70	81	1.33	1.38	1.55
<b>OTHERS ACCESS POINTS</b>				0.00		
Total Agents	2,333	2,396	2,442	47.03	47.33	47.40
Total ATMs	188	246	274	3.79	4.86	5.32
Total POS	759	779	1,035	15.3	15.39	20.09

### BRANCHES/ POPULATION PER 10,000 ADULTS

496,044 506,220 515,224  
2017 2018 2019

### NUMBER OF FINANCIAL SERVICE PROVIDERS

BANKS	5
INSURANCE	3
PENSION	1
MICRO FINANCE	4
BROKERS	9
PRIVATE MONEY LENDERS	3

## 2. ACCOUNT OWNERSHIP: EXPANDING ACCESS TO AFFORDABLE AND APPROPRIATE FINANCIAL PRODUCTS AND SERVICES

Financial inclusion in general refers to access to useful and affordable financial products and services by individuals and businesses that meet the needs of performing transactions, payments, savings, credit and insurance - delivered in a responsible and sustainable manner. Having a bank account, credit and insurance is, in general, used by many institutions as an indicator of financial inclusion. Therefore, Bhutan has also adopted the same indicators to measure financial inclusion.

>67%

Of the 515,224 adult Bhutanese above the age of 18, 67.56 percent own a bank account in a formal financial institution.

Around 20 percent of the (adult) Bhutanese population has availed themselves of a credit facility which is currently active with one of the financial institutions in Bhutan. In terms of insurance, 19.56 percent have an insurance policy with an insurance company in Bhutan. From 2017 to 2019, credit ownership saw the highest growth of 23 percent, followed by insurance which grew by 20 percent. Savings accounts ownership recorded a growth of around five percent. Account ownership, credit and insurance has increased between 2014 and 2019 by both value and volume for each financial institution.

However, as in many countries around the world, there is a gender difference in account ownership of various financial products and services in Bhutan. While the gender gap is not wide in savings account ownership, the gap is wider with regard to ownership of non-life insurance and credit. In terms of credit, 7.4 percent more men have availed themselves of credit facilities as compared with women.

## 3. ACCESS POINTS: DEVELOPING INFRASTRUCTURE TO ENHANCE FINANCIAL ACCESSIBILITY

Access points play a pivotal role in enhancing access to finance as they facilitate and ease transaction costs given the distance that currently exists between these points and clients.

The number of physical access points has increased between 2017 and 2019. Among the establishment of branches and extension officers, the highest increase is recorded in the number of total bank branches. During the same period, Bhutan saw a significant increase in alternative delivery channels such as ATMs, POS and agents.

FIGURE 1: ACCOUNT OWNERSHIP BY PRODUCTS AND YEAR

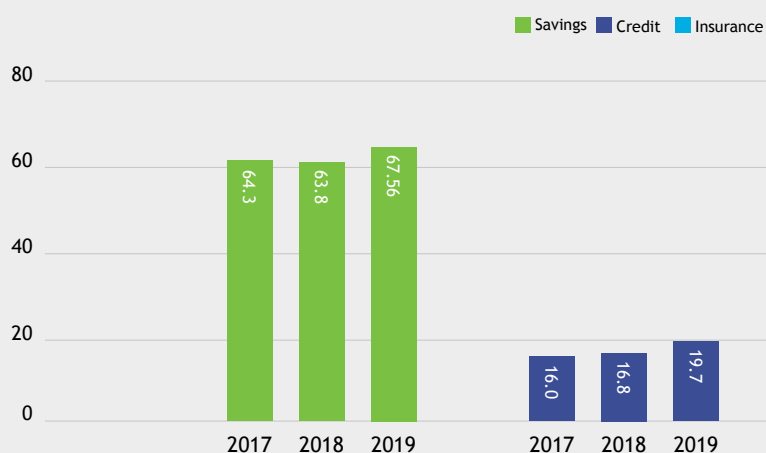
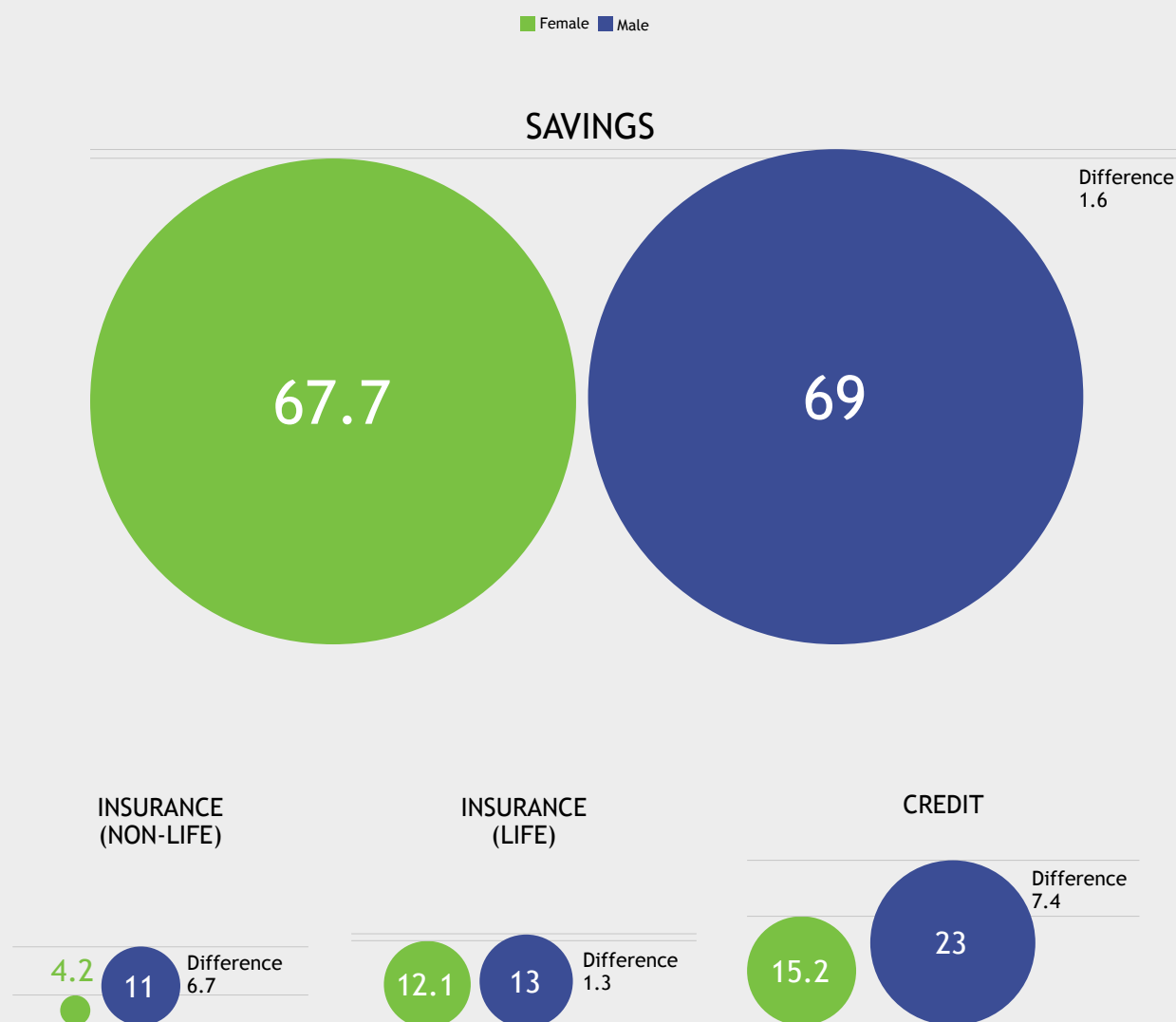


FIGURE 2: ACCOUNT OWNERSHIP BY GENDER TOTAL FEMALE AND MALE ADULT POPULATION, %





The total number of branches which includes banks, insurance and branches of other financial service providers remained same per 10,000 adults between 2017 and 2019. The number of bank branches and extension offices have seen some growth from 2017. There has been significant growth in the number of ATM and POS machines, and branch extension offices. Overall, there was an increase in access points per 10,000 adults in Bhutan between 2017 and 2019.

**FIGURE 3: ACCESS POINT PER 10,000 ADULTS FROM 2017 TO 2019**

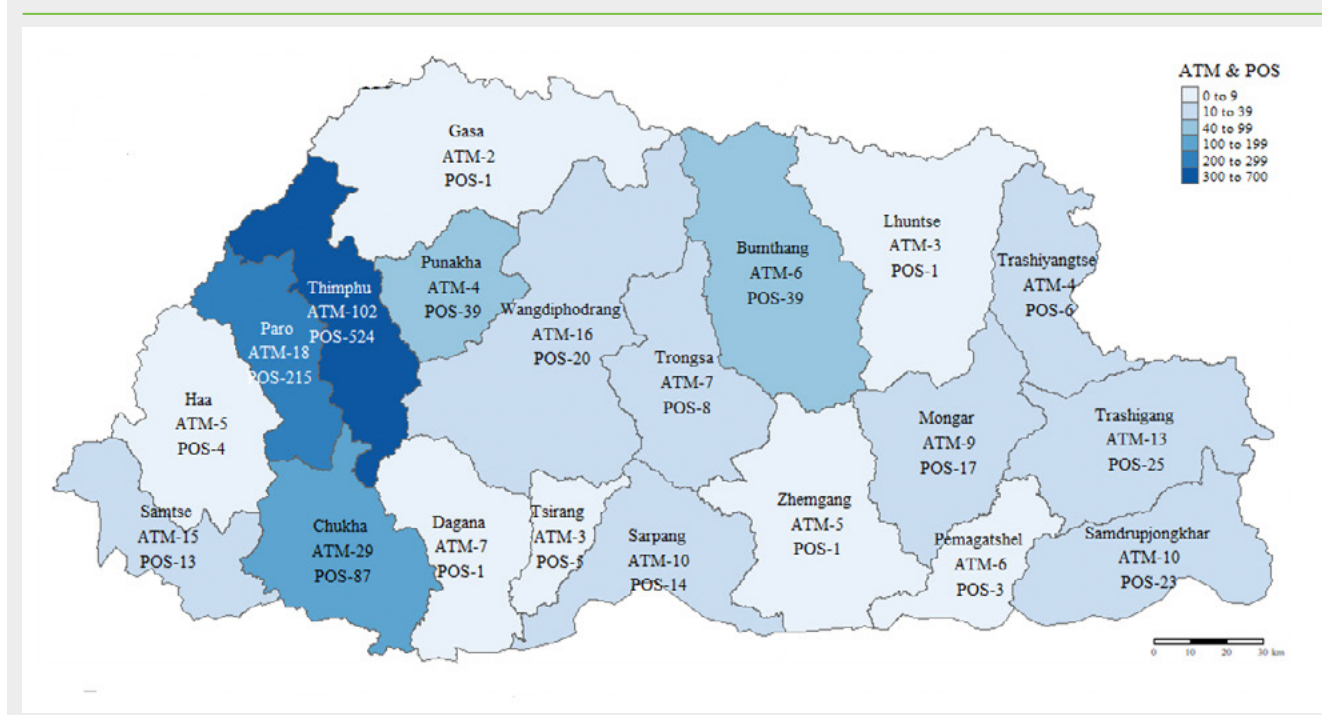
ACCESS POINTS	PER 10,000 ADULTS		
	2017	2018	2019
<b>Branches</b>			
Population	496,044	506,220	515,224
Total Branches	3.43	3.36	3.38
Total Bank Branches	1.98	1.94	2.04
Total Insurance Branches	1.37	0.79	0.70
Total MFI Branches	0.58	0.63	0.64
Total Extension offices	1.33	1.38	5.49
<b>Others Access Points</b>			
Total Agents	47.03	47.33	47.40
Total ATMs	3.79	4.86	5.32
Total POS	15.3	15.39	20.09

#### 4. ATM AND POS BY DISTRICT

The distribution of ATMs and POS shows a similar pattern to the distribution of bank and insurance branches. Thimphu has the highest number of ATMs and POS with 102 and 524 respectively, followed by Paro and Phuntsholing. Less densely populated districts such as Gasa and Lhuntse have fewer than three ATMs. Dzongkhags that are considered remote like Gasa, Lhuntse, Zhemgang and Dagana only have one POS machine each in the whole district.

Bhutan has made significant efforts in introducing enabling regulations, digital channels, new market players, new financial products and schemes, financial literacy curricula and programs etc. - this remarkable transformation, which began in 2017, seeks to address financial inclusion challenges. However, more effort, strategy and innovation still need to be pursued in order to advance in the inclusive usage of financial services and to better ensure quality impact beyond access. The introduction and launching of various financial inclusion initiatives are forward-looking, with great progressive potential aimed at benefiting the country and its people. Capitalizing on the current initiatives, Bhutan ambitiously targets to achieve 85 percent financial inclusion by 2023, deepening parameters and quality dimensions in order to continuously meet the economic aspiration of maintaining a just, equal and harmonious society at all times.

**FIGURE 4: DISTRIBUTION OF ATMs AND POS BY DISTRICT**



## FINANCIAL INCLUSION MILESTONES

Bhutan's financial inclusion milestones are built within the following key clusters of enabling regulations, programs and projects:

- a) **Financial Inclusion Strategy:** The National Financial Inclusion Strategy (NFIS 2018 - 2023) and the National Financial Literacy Strategy (NFLS 2018 - 2023) were launched in 2018 as an outcome of the Bhutan Economic Forum for Innovative Transformation (BEFIT) 2017. The Financial Inclusion Secretariat (FIS) was established at the RMA to undertake implementation of the NFIS and NFLS 2018 - 2023. The Joint-Financial Inclusion National Action Plan (FINAP 2019 - 2023) was also formulated to implement the NFIS and NFLS 2018 - 2023.
- b) **Access to finance and financial sector landscape reforms:** To enable new players in the financial market with the target of reaching the unserved and underserved, regulations for Micro-Finance Institution, Agent Banking and Private Money Lending were initiated and launched in 2016. The Cottage Small Industry (CSI) Bank regulation was also launched in 2018 to supplement the upgrading of deposit-taking MFIs and to enable focused lending to CSIs.

Alternate access to finance through Crowdfunding (regulation 2019), Priority Sector Lending (PSL 2018) and Jabchor - an initiative for angel investment through equity financing - were also initiated.

- c) **Digital transformation:** Bhutan now observes a shift towards digital banking. This can be attributed to regulations for e-money issuers (2016), the Payment and Settlement System (2018), the launch of Bhutan Financial Switch, the electronic Public Expenditure Management System (e-PEMS) and the Global Interchange for Financial Transaction (GIFT) payment system in 2019.
- d) **Financial Literacy:** Financial Literacy plans have been focused on: curriculum development and integration areas, that is, integrating into the formal, mainstream education system, non-formal education (NFE) and vocational institutes. The focus is also on program development areas such as Youth Ethics (YE) Banking, an incentive-based school program, Student Business Seedling (SBS) programs, Little CEOs sessions, FinLit talks and blogging, FL on Wheels, TOT programs and so on. Regulation for consumer protection was also developed in 2019 to complement the initiatives of financial inclusion and literacy.





In addition to the above enabling regulations, in 2020, RMA is set to introduce and endorse the Green Finance Roadmap, the Sandboxing Framework, regulations for P2P lending, credit cooperative guidelines and co-operative bank regulations.

## 1. EXPANDING SOURCES OF FINANCE: FINANCING FOR ECONOMIC DEVELOPMENT

One of the initiatives pursued for expanding alternative sources of financing is Priority Sector Lending (PSL). Following the launch of the initiative, committees were instituted and focal persons were appointed at the district level, including for financial institutions. A total of 1,561 projects were received from all districts after the launch of the initiative in 2018. Of the total projects received, 1,278 were approved by the Dzongkhag and recommended to the financial institutions.

**494** After a review of all the proposals, financial institutions approved 494 projects.

## JABCHOR

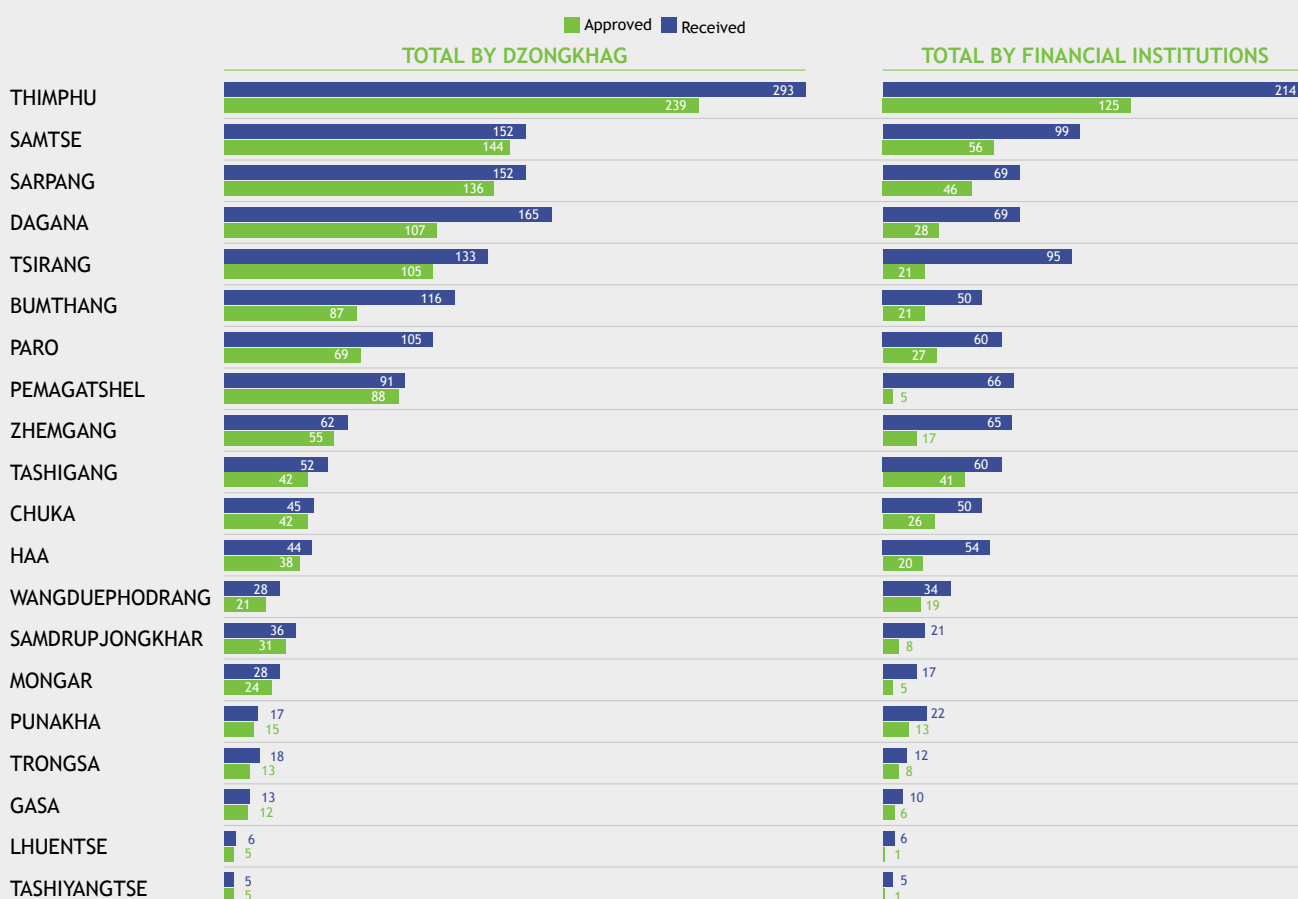
Jabchor is an initiative to partner with entrepreneurs and grow with them into a successful venture, based on trust and confidence, and supported by legally executed business partnership deeds, which are recognized by laws of the Bhutan. The second season of Jabchor was conducted on 17 July, 2019 during the second biennial summit of the Bhutan Economic Forum for Innovative Transformation (BEFIT). Of the five businesses that pitched during the conference, three secured a total funding of Nu.11.25 million (USD151,000 at the time of writing).



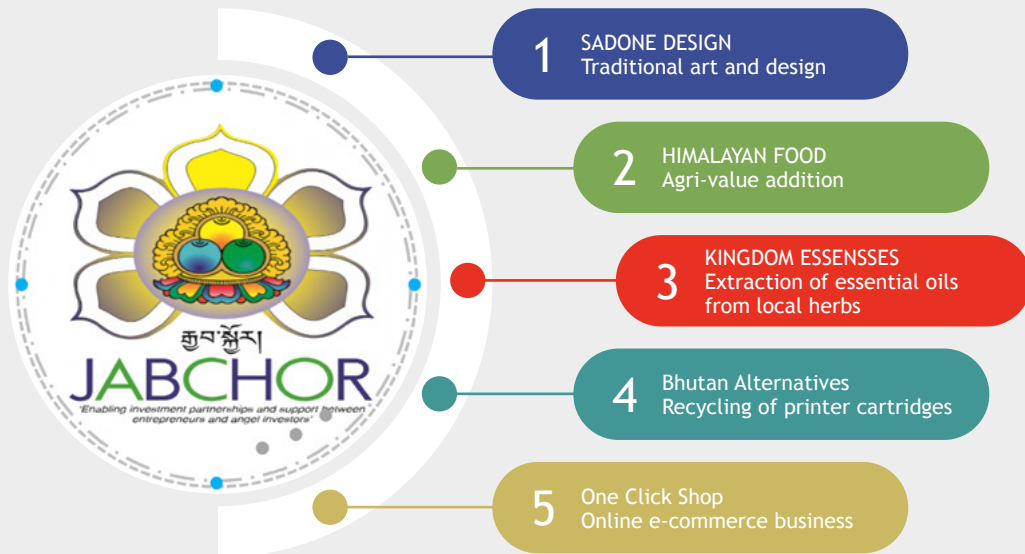
**Priority Sector Lending (PSL) Guideline 2017**

[> View here](#)

**FIGURE 6: PRIORITY SECTOR LENDING PROJECT APPLICATION AND APPROVAL BY DZONGKHAG AND FIS**



## JABCHOR INITIATIVE 2019



Project: housing.bt.

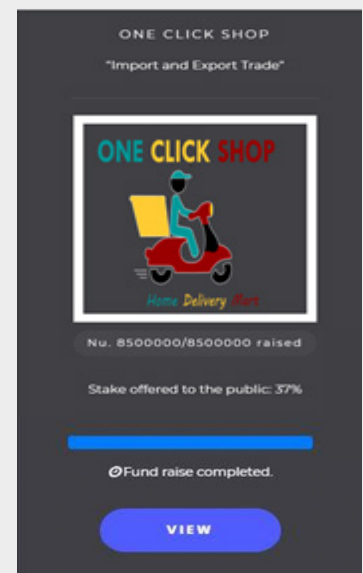
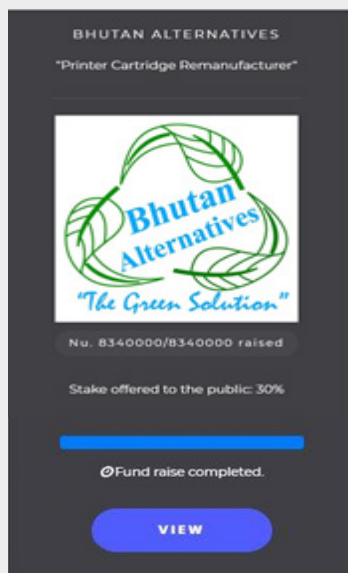


Project: One Click Shop .



Project: Chey Chey Sanitary Pads.

Following the issuance of Crowdfunding Rules and Regulations in July 2019, three companies accelerated from the Jabchor platform were able to successfully campaign through the Bhutan Crowdfunding Portal (BCP). The three companies raised a total capital of Nu. 24.23 million (USD324,253 at the time of writing) from 245 investors.





## SUMMARY OF THE NFIS AND NFLS 2018-2023

Financial inclusion is the provision of appropriate financial products and services at an affordable cost by formal financial service providers that meet the needs of the unserved and underserved segments of Bhutan's population. (NFIS 2018 - 2023)

The Royal Monetary Authority launched the National Financial Inclusion Strategy (NFIS) 2018 - 2023 and the National Financial Literacy Strategy (NFLS) 2018 - 2023 on 30 August, 2018 as approved by the RMA Board during its 138th Board Meeting held on 22 June, 2018.

Both strategies are the first initiative of the Authority aligned to RMA's vision, mission and strategic pillar of reinforcing stable and economic growth through its strategic priorities of promoting Financial Inclusion and Financial Literacy.

The strategy documents are an outcome of the international conference, the 2017 Bhutan Economic Forum for Innovative Transformation (BEFIT), themed towards promoting financial inclusion.

To fulfil the financial inclusion definition, the NFIS aims to enhance access to and usage of quality and affordable formal financial services by all Bhutanese through an inclusive financial system.

The first five-year strategy document aligns its focus to set clear agenda targets for improving inclusive savings, credit and insurance as priority areas. The strategy seeks to deliver its vision in the context of enhancing four pillars as follows:

1. appropriate financial products and services;
2. financial accessibility and proximity;
3. financing for economic growth;
4. financial capability and consumer protection.

The strategic pillars are further supported through the financial inclusion enablers of policy and regulatory frameworks, appropriate infrastructure and institutional coordination.

The NFLS 2018 - 2023 is a complementary document to support the NFIS 2018 - 2023 and promote financial knowledge, confidence and consumer protection.

The NFLS aims to strengthen financial capabilities and empower all Bhutanese towards greater financial inclusion focusing on four key focus areas:

- 1) entrepreneurial development;
- 2) financial access and usage;
- 3) financial management and responsible finance;
- 4) digital finance and consumer protection.

The strategic priorities focus on strengthening effective collaboration among relevant stakeholders, enhancing financial education, providing targeted support, and putting in place enabling policies and measurements.

Expanding access to affordable and quality financial service requires a coordinated effort between the government, the central bank, educational institutions, financial institutions, NGOs and individuals. To this end, the RMA initiated the development of National Financial Inclusion Strategy (NFIS) and the National Financial Literacy Strategy (NFLS) with the setting up of NFIS Governance members such as the NFIS Steering Committee and NFIS working groups. Implementation of the NFIS and NFLS are carried out and outlined under the Financial Inclusion National Action Plan (FINAP) 2019 - 2023.



Launch of the NFIS and NFLS 2018-2023 graced by Honorable Dasho Governor of RMA Bhutan.

## REFORMS AND INITIATIVES: ENHANCING FINANCIAL CAPABILITY AND FINANCIAL LITERACY PROGRAMS

In 2019, RMA revised the Private Money Lending Rules and Regulations 2016 and Consumer Protection for Financial Services Rules and Regulations 2019. The rules and regulations aim to expand access to finance and provides mechanisms to protect consumers.

In view of the increasing role of financial literacy and education, an MoU was signed between the Ministry of Education, the Royal Education Council, and the Royal Monetary Authority to integrate financial literacy and education in the mainstream school curriculum. As a result of the collaboration, textbooks for grade IV Social Studies, IX Economics, XI & XII Accountancy with components of financial education have been published for use in the 2020 academic session. Other subject integration is underway.



**YOUTH ETHICS BANKING, KNOWN AS YE BANKING** was designed and implemented in 2018 with an aim to bring young students into the banking system. In 2019, the annual YE-Banking incentive camp, was held in Goshing Primary School, Zhemgang on 30 October, 2019. A total of 5,382 students from 16 schools and 14 Dzongkhag benefited from the program. The same year, a total payout of Nu. 794,444 (USD10,630) was made to the schools to be further deposited into children's accounts.

The Royal Monetary Authority (RMA), in collaboration with relevant agencies, organized two entrepreneurship programs for school-going youth.



- > **STUDENT BUSINESS SEEDLING (SBS)**, an entrepreneurship program, was organized in Gelephu and attended by a total of 63 students - 35 girls and 28 boys.
- > **LITTLE CEO**, which is part of the SBS program, was organized in Thimphu where 24 students from across the country participated in the program. Of the students who attended the Little CEO program, 50 percent were girls and 50 percent boys.



The Honorable Dasho Penjore Governor of RMA Bhutan gracing one of the SBS programs.



Figure 10: MOU Signing with the Royal Education Council for Financial Literacy Integration graced by H.E. Finance Minister to the MOE.





YE Banking replication at one of the remotest school (Laya, nestled at 3800 m above sea level).



Little CEOs program with students from across the country.



Little CEOs program participants pose with H.E. the Prime Minister of Bhutan.



Global Money Week celebration, Bhutan.



## OUTPUT AND DELIVERABLES UNDER THE FINANCIAL INCLUSION NATIONAL ACTION PLAN (FINAP) 2019-2023

Capitalizing on the enabling regulations, infrastructures and partnership collaboration in place, FINAP 2019 - 2023 took off as an implementing action plan for financial inclusion at the national level, endorsed by the NFIS Steering Committee.

FINAP articulates actions aligned to the NFIS pillars, which are jointly formulated with all relevant stakeholders. FINAP has been given an independent status of 'joint project' with governance members represented from key organizations.

The FINAP project fund has been also mobilized with the committed contribution ration of 30:70, 30 percent by the RMA (central bank) and 70 percent by all financial service providers listed under the Financial Institutions Association of Bhutan (FIAB). In addition, international partner organizations such as AFI, ADB and SBFIC, Germany, also contributed to the FINAP project fund.

**85%** The overarching target for FINAP 2019-2023 is to achieve 85 percent financial inclusion by 2023 from a baseline of 64 percent in 2017.

The following table depicts the FINAP outputs and activities with set targets:

In addition to the annexure, separate columns on budget, Means of Verification (MOV), status progress and specific timelines are provided in the endorsed FINAP document.



Dasho Penjore spearheading the Financial Literacy 20 Dzongkhag road show program 2017 at Trashi Yangtse Dzongkhag accompanied by CEOs of Financial Institution.

## STRATEGIC PILLAR 1: ENHANCE APPROPRIATE FINANCIAL PRODUCTS AND SERVICES

### OUTPUT 1.1: ACCESS AND USAGE TO FORMAL FINANCIAL PRODUCTS AND SERVICES (BANK AND NON-BANK) INCREASED

ACTIVITY NO	DESCRIPTION	INDICATOR
1.1.1	Increase % of unique adult formal value store transaction accounts	% proportion of unique and formal FI value store transaction account to total adult population (age 18 and above)
1.1.2	Develop innovative schemes to promote value store transaction accounts	Number and type of new schemes introduced
1.1.3	Encourage value store transaction account opening for youth between the ages of 18 and 24	Number of value store transaction accounts opened for those aged 18-24
1.1.4	Introduce and implement rural insurance related to life/ crops/livestock etc.	Number and type of rural insurance schemes introduced (life/ crops/livestock)
1.1.5	Introduce and implement voluntary provident fund saving scheme	Number and provident fund schemes introduced
1.1.6	Leverage digital identity to enhance e-KYC effectiveness	Number of agencies leveraging the usage of digital identity
1.1.7	Improve financial transaction forms with bilingual input	Number and type of bilingual forms/templates initiated
1.1.8	Expand number of shareholders	Number of unique shareholders to total adult population

## STRATEGIC PILLAR 2: STRENGTHEN FINANCIAL ACCESSIBILITY AND PROXIMITY

### OUTPUT 2.1: FINANCIAL ACCESS POINTS, PHYSICAL SET UP AND EXPANSIONS

ACTIVITY NO	DESCRIPTION	INDICATOR
2.1.1	Expand agent network establishment with improved and diversified services	Number of agents established by banks and non-bank FSPs with geographical penetration
2.1.2	Expand POS terminals	Number of POS terminals
2.1.3	Expand brokerage firms/agents across the country	Number of brokerage firms/agents set up across the country in collaboration with relevant intermediaries

### OUTPUT 2.2: DIGITAL FINANCIAL SERVICES LEVERAGED

2.2.1	Introduce value addition financial services focusing on the visual and hearing -mpaired target groups	Types of services and number of users
2.2.2	Supportive sandboxing regulations to be introduced to promote Fintech initiatives	Amount of innovative digital based lending registered under sandboxing framework
2.2.3	Ensure merchant payment interoperability option services for all payment features, focusing on QR code and wallet payments	Number of payment services (features) with interoperability options and number of users

## STRATEGIC PILLAR 3: PROMOTE FINANCING FOR PRIORITY SECTOR GROWTH

### OUTPUT 3.1: LENDING EXPOSURE FOR PRIORITY ECONOMIC ACTIVITIES ENHANCED

ACTIVITY NO	DESCRIPTION	INDICATOR
3.1.1	Increase % of domestic MCSI credit exposure portfolio	% of overall domestic MCSI credit exposure to total loan portfolio
		% of domestic MCSI credit agriculture exposure to total loan portfolio
3.1.2	Formulate and pilot public support schemes for strengthening priority lending	Number of players/clients involved and rolled out

### STRATEGIC PILLAR 3: *continued*

#### OUTPUT 3.2: INNOVATIVE ALTERNATE FINANCING SCHEMES PROMOTED AND ENABLED

ACTIVITY NO	DESCRIPTION	INDICATOR
3.2.1	Expand alternative collateral instruments for access to finance	Number and type of alternative collateral instruments registered for financing and total number of clients accessing finance under the new instrument
3.2.2	Formulate and implement financial guidelines as capacity enhancement for credit cooperative and self-help groups (SHG)	Number of credit cooperative groups and self-help groups registered and sensitized for alternative lending
3.2.3	Develop and reinforce Fintech Investment and Banking Accelerator (FIBA) collaboration programs focused on rural areas, youth, agriculture etc.	Number of projects groomed and financed under the Entrepreneurial Fintech accelerator program

### STRATEGIC PILLAR 4: STRENGTHEN FINANCIAL CAPABILITY AND CONSUMER PROTECTION

#### OUTPUT 4.1: STAKEHOLDER COORDINATION, COMMITMENTS AND CAPACITY STRENGTHENED

ACTIVITY NO	DESCRIPTION	INDICATOR
4.1.1	Stakeholder commitments to develop annual FSP's financial inclusion and financial literacy plans	Number of stakeholders involved in developing annual financial literacy plans including number of programs, target groups and outreach
4.1.2	Plan and celebrate Global Money Week (GMW) annually in March	Number of programs and outreach
4.1.3	Joint FINLIT talk programs, held quarterly	Number of programs conducted and outreach
4.1.4	Initiate a half-yearly newsletter (e-FINLIT Newsletter)	Number of outreach and number of volumes issued
4.1.5	Financial Inclusion and Literacy Joint Learning workshops on thematic contents	Number of workshops conducted
4.1.6	Enhance consumer protection mechanisms/capacity focused on establishing dedicated consumer protection cells in the financial sector	Number of FSPs adopting dedicated CP cells with trained officials

#### OUTPUT 4.2: FINANCIAL EDUCATION FOR CHILDREN AND YOUTH STRENGTHENED

4.2.1	Develop and integrate the endorsed financial literacy curriculum in mainstream education from grade Key Stage I - V (5 - 18 years) Mapping, integration into textbooks and TOT of teachers in phases	Number of subjects integrated and implemented (phase-wise)
4.2.2	Enhance digital financial literacy at formal schools	Development of self-learning apps and number of users
4.2.3	Strengthen and institutionalize the Youth Ethics (YE) Banking program	Number of schools, FSPs and other agencies implementing the program
4.2.4	Financial Literacy on Wheels I: Conduct TOT programs for teachers on general thematic components of financial literacy (20 Dzongkhags) to then be rolled out to students	Number of TOT programs rolled out and rate of outreach

#### OUTPUT 4.3: TARGETED OUTREACH, ENGAGEMENT AND EMPOWERMENT PROGRAMS FACILITATED

4.3.1	Develop and integrate the master financial literacy curriculum for the Non-Formal Education (NFE)	Number of NFE centers and NIZC Institutes implementing the financial literacy curriculum
4.3.2	Train master trainers through TOT on general FL for identified target agencies	Number of TOT programs rolled out
4.3.4	Financial Literacy on Wheels II: targeted for cooperative groups, farmer's groups and self-help groups	Number of Dzongkhags reached



## GENERAL ENABLERS, SUPPORT AND MISC. SERVICES

ACTIVITY NO	DESCRIPTION	INDICATOR
E/S 1	Conduct an Access to Finance (A2F) demand-side survey, including external audit exercises	Number of surveys conducted
E/S 2	Develop a national financial literacy capability measurement tool and financial literacy program evaluation templates	Number and type of measurement and evaluation tool developed
E/S 3	Develop FINAP monitoring and evaluation tool	Number of agencies adopting the monitoring tool
E/S 4	Initiate financial inclusion-related knowledge product development (case studies, guidelines, publications etc.)	Number of knowledge products developed
E/S 5	Conduct Annual Financial Inclusion Forum	Number of Forums conducted with number of participants
E/S 6	Conduct SC and WG meetings	Number of meetings conducted
E/S 7	NFIS Governance member sensitization/exposure workshop/ tour	Number of NFIS Governance members trained
E/S 8	Financial literacy-related media resources (AV clips, brochures, teaching resources, media promotion etc.) on a needs basis	Number and type of FL resources developed
E/S 9	Internal audit exercise of the FINAP Fund 2019 - 2023	Number of audits conducted
E/S 10	Hiring of experts (designers, statistical analysis officers etc.) on a needs basis	Number of experts hired



# IMPLEMENTING AFI'S 2011 MAYA DECLARATION COMMITMENTS

## **AFI NETWORK COMMITMENT 1: FORMULATE AND IMPLEMENT FINANCIAL INCLUSION POLICY/FOSTER INCLUSIVE SOCIOECONOMIC DEVELOPMENT BY IMPROVING ACCESS TO FINAN- CIAL SERVICES WITH A FOCUS ON SMES**

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### **PROGRESS:**

The National Financial Inclusion Strategy (NFIS) 2018-2023 was approved during the 138th RMA Board Meeting in June 2018. The Financial Inclusion National Action Plan (FINAP) 2019 - 2023 was subsequently endorsed by the NFIS steering committee.

Rules and regulations for deposit-taking MFIs were launched in 2016.

Priority Sector Lending (PSL) Guidelines for promoting access to finance for Cottage and Small Industry was officially launched in December 2017.

Fund Management Rules and Regulation was launched in 2019.

Crowdfunding Rules and Regulation was launched in 2019.

Rules and Regulations for Cottage and Small Industry (CSI) Banks was launched in 2018.

**STATUS:** Completed

## **AFI NETWORK COMMITMENT 2: CONSUMER PROTECTION AND EDUCATION: DEVELOP FINANCIAL LITERACY MASTER PLAN AND EXPLORE DEVELOPING A COMPREHENSIVE CONSUMER PROTECTION SCHEME**

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### **PROGRESS:**

The National Financial Literacy Strategy (NFLS) 2018 - 2023 was approved along with the NFIS 2018 - 2023 during the 138th RMA Board Meeting in June 2018.

Consumer Protection for Financial Services Rules and Regulation was launched in 2019.

Private Money Lending Rules and Regulation was launched in 2020.

**STATUS:** Completed



## **AFI NETWORK COMMITMENT 3: PROPORTIONATE REGULATORY FRAMEWORK: CREATE FINAL LEGAL FRAMEWORK FOR DRAFTING MFI REGULATIONS, AGENTS, BRANCHLESS BANKING AND E-MONEY**

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### **PROGRESS:**

MFI Regulations- January 2017

CSI Banking Regulations - July 2018

E-money Issuer Regulation -October 2017

Agent Banking Regulation - November 2016

Regulation on Micro-loan institutions -September 2014

Payment and Settlement Systems Rules and regulation 2018 launched

E-money Issuer Rules and regulation 2019 launched

**STATUS:** Completed

## **AFI NETWORK COMMITMENT 4: IMPLEMENT THE BHUTAN MOBILE PAYMENTS SYSTEM**

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### **PROGRESS:**

Bhutan Immediate Payment Services (BIPS) was launched in January 2017.

Druk MicroFin (A core banking solution integrated software for MFIs and CSIs) was launched in May 2017

REMIT Bhutan (enhancing foreign currency inward remittances) was launched in October 2016.

**STATUS:** Completed

# AFI-RMA COLLABORATION HIGHLIGHTS

## 1. PROJECT GRANTS

### PROJECT GRANT 1: FORMULATING THE NFIS

- > **Overall Goal:** To produce a National Financial Inclusion Strategy for Bhutan
- > **Outcome:** Facilitating access to finance for the unbanked populace by way of policy interventions
- > **Project grant:** USD20,000
- > **Project grant period:** 2017 - 2018
- > **Status:** Completed

### Output 1: Pre-Formulation and Formulation

- > Activity 1.1: Peer Advisory on In-Country Implementation of NFIS at Abuja, Nigeria
- > Activity 1.2: Formulation of the NFIS

### Output 2: NFIS Implementation

- > Activity 2.1: Formation of the Financial Inclusion Secretariat-FIS with strengthened HR
- > Activity 2.2: Formation of the NFIS Governance groups: Steering Committee and Working Groups
- > Activity 2.3: Sensitization of the NFIS and NFLS 2018 - 2023: launch and introductory meeting
- > Activity 2.4: Development of the FINAP 2019 - 2023
- > Activity 2.5: To establish the NFIS Budget

### PROJECT GRANT 2: IMPLEMENT THE FINAP 2019-2023

**Overall Goal:** To formulate and implement the cross-sectoral FINAP 2019 - 2023

- > **Outcome:** Advancing financial inclusion initiatives in Bhutan by formulating and implementing the cross-sectoral FINAP 2019-2023
- > **Project grant:** USD103,000
- > **Project grant period:** 2019 - 2020
- > **Status:** Work in Progress

### Output 1: Develop effective measurements and other enablers to enhance financial inclusion

- > Activity 1.1: Conduct A2F demand-side survey
- > Activity 1.2: Technical Assistance in formulating the cross sectoral FINAP 2019 - 2023
- > Activity 1.3: Executive-level sensitization workshops (in-country or overseas) on the 'Roles and best practices of policy makers and financial service providers towards advancing inclusive access to finance agenda relevant to Bhutan'

### Output 2: Formulation of the Inclusive Green Finance Strategy/Scheme/Guidelines

- > Activity 2.1: Peer advisory services or exchange learning (capacity building)
- > Activity 2.2: Preliminary study for developing the concept note
- > Activity 2.3: Formulation of the IGF strategy/guidelines/scheme

### Output 3: Miscellaneous

- > Activity 3.1: Conduct an external audit and assessment on the overall AFI grant



Figure 14: Honorable Dashed Penjore, Governor of RMA Bhutan and AFI Executive Director, Dr. Alfred Hannig.





## 2. BIENNIAL BHUTAN ECONOMIC FORUM FOR ECONOMIC TRANSFORMATION (BEFIT) 2017 AND 2019 INTERNATIONAL SUMMIT

The BEFIT 2019 International Summit themed ‘equitable growth through financial inclusion’, brought together a wide range of knowledge expertise from 30 reputable international participants, who shared valuable experiences with regard to micro-finance, SME and Agri-financing, and digital financial services. The entire Summit was aimed towards formulation of the National Financial Inclusion Strategy for Bhutan and open doors for networking. AFI actively supported the Summit by facilitating speakers on behalf of AFI. They also provided technical team assistance for the overall proceeding recordings of the summit.

### BEFIT 2019:

The BEFIT 2019 International Summit was themed ‘catalyzing Cottage Small industries (CSI) towards economic diversification’. The critical area of focus was to expand CSIs through policy reforms, enabling e-commerce platforms and partnership between CSIs and foreign investors. AFI provided its support to RMA through mobilizing key resource speakers and moderating the SME panel discussions.



## 3. AFI JOINT LEARNING WORKSHOP ON IGF

The RMA and AFI, co-hosted the country’s first ever 2020 Joint Learning Program on Inclusive Green Finance (IGF) in Thimphu bringing together country sharing experiences, knowledge exchange and experts from various regional and international central banks. The program was initiated to support RMA in gearing towards developing the Green Finance Roadmap for Bhutan.

Bhutan is dependent on agriculture and renewal energy hydropower for its development, and climate change poses a critical threat to the country. Government policies emphasize conserving its rich natural resources and conservation of the environment is one of the four pillars of Bhutan’s Gross National Happiness philosophy. Given that the effects of climate change can impact the economic stability of a country significantly, the Royal Monetary Authority, Bhutan has taken the lead in developing green banking guidelines, in collaboration with other national stakeholders.

This Joint Learning Program (JLP) is a unique initiative of AFI to assist RMA in this lead role. This three-day program is for the staff of RMA and local stakeholders who will play a critical role in developing and implementing green banking guidelines. The JLP will build their awareness and capacity on inclusive green finance (IGF) and facilitate the development of the green banking guidelines for Bhutan. Following the peer learning model of AFI, the JLP will be led by selected speakers from other AFI member institutions

At the end of the training, the participants will develop an action plan that brings together RMA Bhutan and national stakeholders to develop Green Banking Guidelines for Bhutan

## KEY LESSONS

The entire financial inclusion journey consists of identifying the priority need areas and challenges so that policymakers can address these issues with smart solutions and delivery channels. There were many lessons learned in terms of low level of literacy, lack of infrastructural support combined with cost issues, data and measurement challenges etc.

### 1. DYNAMIC AND VISIONARY LEADERSHIP

Bhutan is blessed to have a visionary, dynamic and compassionate leader, His Majesty (HM) the King Jigme Khesar Namgyel Wangchuck, who places his country and his people's wellbeing above everything else. The RMA derives great passion and aspiration from HM's National Address, on the 109th National Day (2017) of Bhutan. In it, HM talked about initiating inclusive finance with reinforced strategic directions. HM clearly articulated the potential of the financial sector to create opportunities and improve access to finance for youth and the rural populace. Consistent with His Majesty's aspiration, financial inclusion has been acknowledged as an important national tool to ensure access to affordable formal financial services for all citizens.

During the 112th National Day address in 2019, His Majesty further articulated the crucial need for technology advances in Fintech, Big Data, AI, Blockchain, Robotics, Quantum computers to keep pace in a rapidly changing world. He highlighted that a collective 21st Century Economic Roadmap with clear respective roles would create a significant impact towards the common national objective. Additionally, building capacity among youth to attain high standards of capability, discipline, integrity, a 21st century education, unity and solidarity through the introduction of National Service was expressed as another important enabler.

All Financial Service Providers, including the RMA, continuously undertake several initiatives to meet HM's aspiration. The cooperation and the enthusiasm for enhancing access to finance was placed at the forefront of the agenda. The 21st century financial sector development roadmap is currently underway with priority strategic focus areas on digital and technology transformation, stimulating green finance and reinforcing financial inclusion and literacy. The introduction of financial literacy modules for the National Service is also being pursued.

This collective drive sparked by HM is constantly inspirational, timely and effective for pursuing financial sector developments.



His Majesty the Fifth King of Bhutan.

“

There is a great opportunity for the financial institutions and banks to make a positive impact by improving access to credit for our youth and rural people.

We can gauge the extent of the impact by considering that today, in Bhutan, the total loan stock that has been lent out is Nu. 85 billion, but out of this, only 4.5 billion, or about 2.5% has been utilized in the agriculture sector. This must change...

”

His Majesty the King, Jigme Khesar Namgyel Wangchuck  
(109th National Day Celebration, 2017)



## 2. COLLECTIVE EFFORT AND COLLABORATION

While translating HM's aspiration to ground realities, collective efforts and collaboration remains a crucial and challenging task. Since financial inclusion is a long-term goal, multi-stakeholders beyond the financial sectors need to be involved. With the guided leadership of the Honorable Governor, Dasho Penjor of the RMA, extended networking arms through identifying 20 focal contacts in all the Dzongkhags and counter focal officials fully responsible for representing the 20 Dzongkhags, were also set up and appointed within the internal team of RMA. The network of focal points was set in order to harmonize and connect in order to enhance quick communication, monitoring, and building financial inclusion profiles of every Dzongkhag. Soon after, the Honorable Governor led the team delegation to visit all 20 Dzongkhag in the form of a roadshow, meeting with all State Governors and sector heads to raise awareness about the decentralization support, network and infrastructures. This roadshow enabled the Financial Inclusion Secretariat (FIS) to implement and work closely with every Dzongkhag.

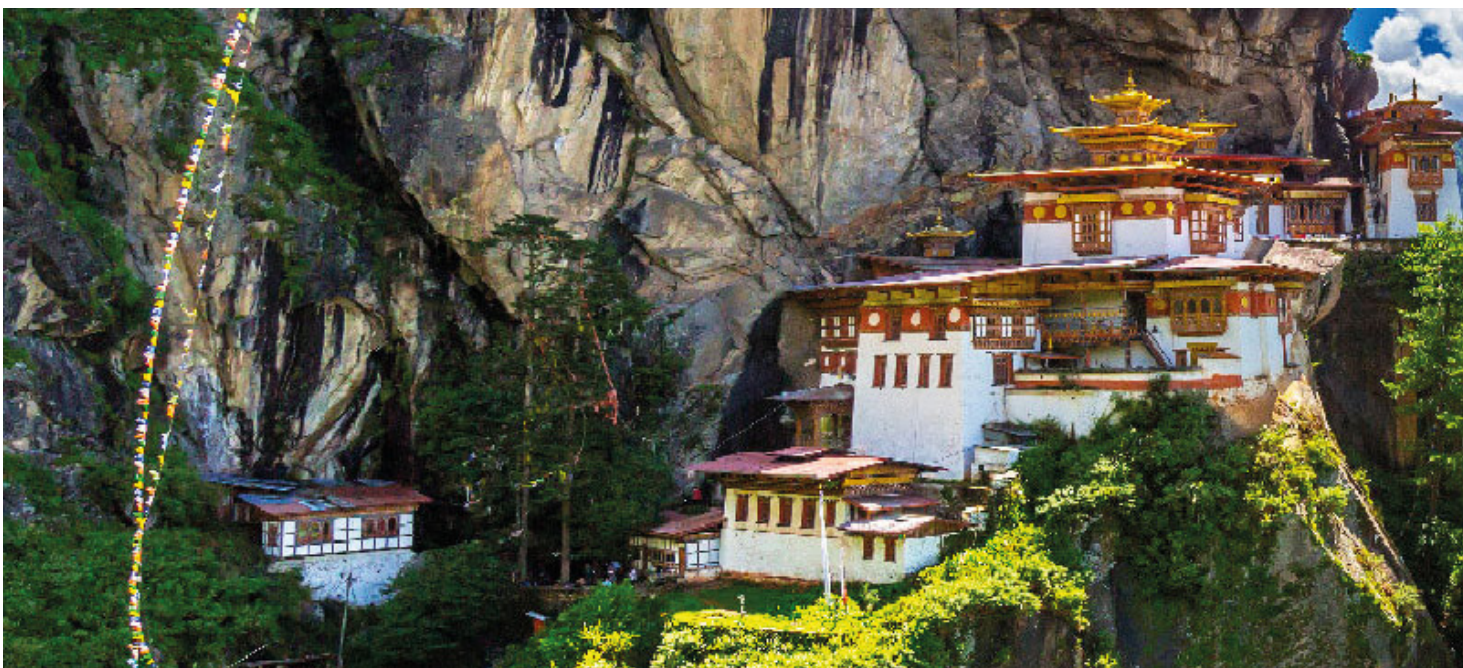
In addition to the above collaboration, the high-level NFIS Steering Committee (SC) was formed with representations from the financial sectors, key government agencies and telco(s). Two cross-sectoral working groups were also formed to formulate and implement the Financial Inclusion National Action plan (FINAP) 2019 - 2023. With strategic directions from the NFIS SC, FINAP was set up as a collective project. The financing of the FINAP collaboration would follow a

30:70 ratio of fund contribution; 30 percent from the RMA and 70 percent to be mobilized from all financial institutions under the Financial Institutions Association Board (FIAB). International organizations (AFI, ADB and SBFIC, Germany) have also extended their technical and fund support to the FINAP Project. FINAP is now a Nu.111 million (USD1.5 million) project with multi-stakeholder's roles and engagements until 2023. FINAP partnership MOUs have been initiated to disburse funds within the collaboration of FINAP stakeholders.

## 3. UPHOLDING THE GNH VALUES

Bhutan's philosophy of development in any area are always linked to the GNH values. Any development pursued is screened through the GNH lens for social, environment and economic resilience. In line with the GNH values, the overarching drive for RMA is to pursue 'economic transformation towards creating a just, equal and harmonious society'.

With the progress that has been initiated for financial inclusion in socioeconomic development, upholding values with standard principles is clearly an enabling and complementing factor. Financial inclusion, which upholds the values of equitable socioeconomic development and sustainable and harmonized environment practices, are key to attaining inclusive and quality results. Financial inclusion in Bhutan has now been reshaped and reinforced for 21st century economic development. The development goals are to further equitable technology advancements and pursue inclusive green finance.



The popular Taktshang (Tiger Nest) Monastery in Bhutan.



## FUTURE OUTLOOK

The member series highlights Bhutan's financial inclusion journey in terms of supportive regulations promoting financial inclusion, infrastructural access points, access to basic financial products and services, digital channels, alternative sources of financing, financial literacy, RMA-AFI engagements and lessons learned.

Financial inclusion efforts have been prioritized at the national level with joint support from the key government agencies and financial service providers. The RMA has taken several measures to diversify and enhance financial inclusion towards strategic socioeconomic development. The NFIS provides a road map for Bhutan to collectively plan and strategize financial inclusion initiatives to enable regulatory interventions, enhance appropriate financial products and services through digitally defined solutions to the unreached and underserved population in the country.

The report also explores opportunities for furthering and unlocking financial inclusion in the next three to five years that includes the following:

### RECREATING TECHNOLOGY-LED APPROPRIATE FINANCIAL PRODUCTS

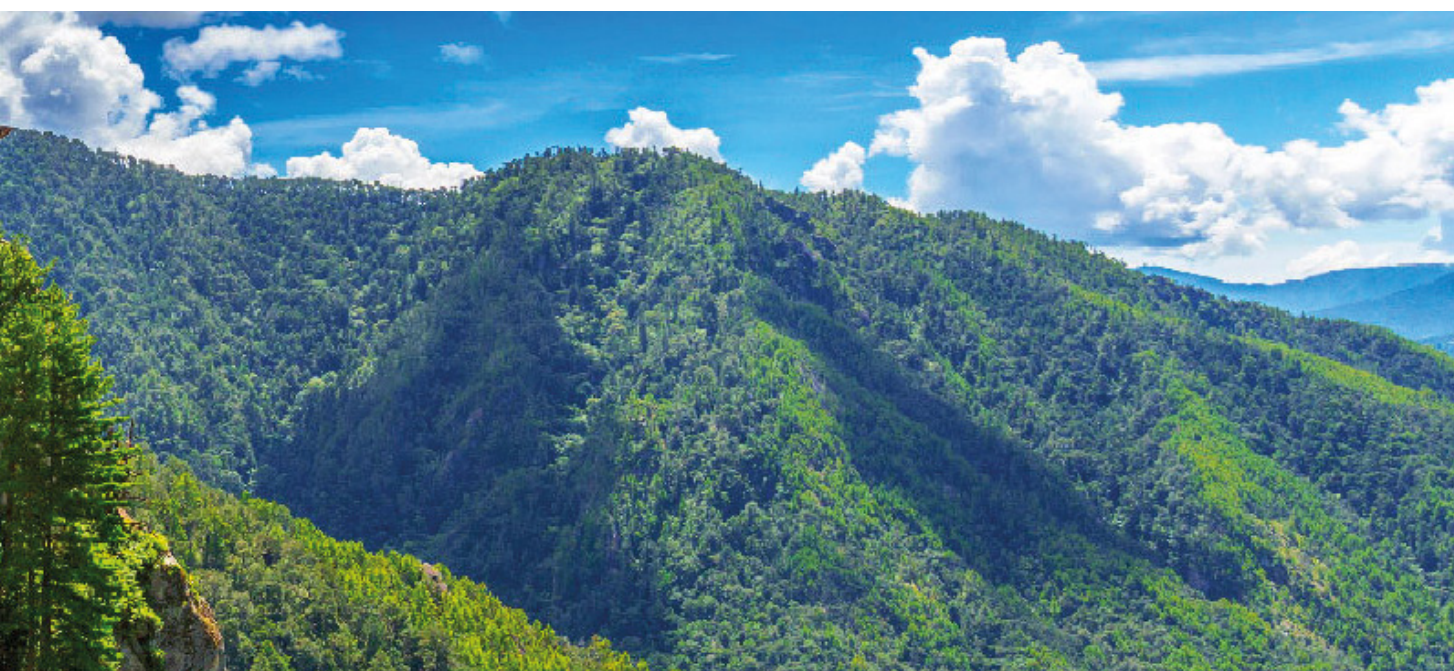
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Financial inclusion in Bhutan currently measures at 68 percent. With regard to basic financial products, the scope of deepening inclusion will relate to creating technology-led products and increasing more access to formal savings, credit and other financial products and services. All FSPs must collectively focus on adopting digitally enhanced infrastructure for effective 21st century financial service delivery. This will enable deeper geographical penetration and meet the overall national financial inclusion target of 85 percent of the population by 2023.

### INTRODUCING NEW MARKET PLAYERS AND PLATFORMS

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Bhutan currently has smaller but adequate numbers of financial players catering to a segment of adult population. There is scope for introducing creative players and facilitating platforms strategically to increase and open up access to finance. A critical factor welcome private sector involvement, particularly in areas of agri-value addition, Fintech developments, green-tech initiatives and traditional culture and arts. Additionally, existing agencies could redefine its respective roles towards facilitating innovative financial services. There is also wider scope for guiding the informal credit cooperatives and Self-Help Groups (SHG) to new and advanced financial system.



## LEVERAGING FINTECH AND DFS

Fintech is another area that can accelerate digital initiatives and technologies for financial inclusion. Sandboxing regulations could further incorporate and open up new Fintech products and schemes from private FinTech firms. Additionally, there are untapped potentials in fostering interoperability, particularly with QR code and wallet services. The use and wide acceptance of digital identities, digital credit and smart cards, could bring the digital revolution to Bhutan's payment system.

## ENHANCING FINANCIAL LITERACY AND CONSUMER PROTECTION:

Financial literacy is necessary to complement any digital and technology-led financial inclusion. While promoting financial inclusion, all policies must focus on balancing growth with consumer protection. The policies must provide for effective redress mechanisms, fair market conduct and inclusive treatment, consumer information privacy, and extending the rights and responsibilities of both consumers and service providers. For the next few years, financial literacy will be aimed at supporting digital-led financial products and services. The setting up of a Fintech academy through established organizations/institutions could further promote technology-led financial inclusion.

## ENHANCING EFFECTIVE MEASUREMENT

There is indeed a need for new measurements and KPIs. Bhutan is currently in the reprocess of conducting a demand side survey to gauge the financial inclusion penetration in the underserved and unserved population. Additionally, a financial capability measurement tool is also under progress to be developed in order to compute the financial literacy index for specific target groups. The current initiatives could now re-focus more on digital financial inclusion.

## PIONEERING INCLUSIVE GREEN FINANCE

Bhutan has identified green finance as one of the 21st century financial sector development pillars to enhance socioeconomic development and is gearing towards sustainable financing. This would be done by exploring national green funds, develop a national Environment and Climate Change (ECC) taxonomy, introduce relevant IGF financial products and advance specific enabling regulation and policies for Inclusive Green Finance (IGF).



The National Flower of Bhutan -The Blue poppy.

The scopes and opportunities listed above can extend to many other areas of requirement and demand, considering the country's situation, potential and development policies.

Overall, in order to meet the financial inclusion objectives, effective collaboration are key to drive access to inclusive finance. Individuals and private business enterprises are highly encouraged to partner towards supplementing government initiatives for the overall attainment of the country's sustainable economic goals.



# GLOSSARY OF TERMS & ABBREVIATIONS

<b>Agent Banking</b>	Any third party acting on behalf of a bank, a financial institution or a non-bank institution (including an E-Money issuer or other payment services provider) to deal directly with customers, under contractual agreement. <sup>1</sup>
<b>BCP</b>	Bhutan Crowdfunding Portal is the first digital platform developed by the Royal Securities Exchange of Bhutan licensed under the Crowdfunding Regulations issued by the Royal Monetary Authority of Bhutan. Bhutan Crowdfunding aims to provide an alternative financing model for start-ups, new business ventures and cottage & small Industries in Bhutan to access funds from the general public. The platform offers entrepreneurs the opportunity to raise funds for their new businesses and at the same time provides new investment avenues for the public. <sup>2</sup>
<b>BEFIT</b>	Bhutan Economic Forum for Innovative Transformation is a national platform for Bhutan to bring together a wide range of expertise to share best practices and discuss innovative solutions to emerging national and regional economic challenges, with the overarching objective of transforming and bettering lives. <sup>3</sup>
<b>CSI</b>	Cottage and Small Industry
<b>Dzongkhags</b>	A geopolitical subdivision in Bhutan, akin to a province. There are 20 dzongkhags in total.
<b>Environment and Climate Change (ECC) taxonomy</b>	“Taxonomies are definitions of sustainable finance that aim to be comprehensive classification systems.. When appropriately designed, sustainable finance definitions and taxonomies can bring potential benefits and serve as a basis for legal and regulatory reform, which would aim to advance sustainable finance.

<b>e-PEMS</b>	Or electronic Public Expenditure Management System is an online accounting and payment system of the Royal Government of Bhutan implemented from July 2019 (FY 2019-20). The e-PEMS was developed by Department of Public Accounts (DPA), the Ministry of Finance (MoF) in collaboration with the Royal Monetary Authority (RMA), Bank of Bhutan Ltd. (BoBL), the Department of Revenue and Customs (DRC) and the Department of Information Technology & Telecom (DITT). <sup>4</sup>
<b>FIAB</b>	Financial Institutions Association of Bhutan
<b>FIL</b>	Financial Inclusion and Literacy
<b>Financial capability measurement tool</b>	“Measuring financial capability is recognized as an important part of financial education policy. It provides both a baseline for elaborating national strategies on financial education and a tool for monitoring its effectiveness. Thus, the Organisation for Economic Co-operation and Development (OECD) and the World Bank, major international players in financial education policies, have elaborated methodologies for measuring financial capability that many countries use.” (AFI, Financial Capability Barometer)
<b>FINAP</b>	Financial Inclusion National Action Plan
<b>GIFT</b>	Or Global Interchange for Financial Transaction payment system launched by the RMA is a payment platform developed to complement and support the settlement of interbank transactions for e-PEMS and the general public. <sup>5</sup>
<b>GMW</b>	Global Money Week is an annual financial awareness campaign built to inspire children and young people to learn about money matters, livelihoods and entrepreneurship.

1 AFI. 2016. Guideline Note 19: Digital Financial Services (DFS) Basic Terminology. Available at: <https://www.afi-global.org/publications/2344/Guideline-Note-19-Digital-Financial-Services-DFS-Basic-Terminology>

2 Bhutan Crowdfunding Portal. 2020. Available at: <https://bhutancrowdfunding.rsebl.org.bt/>

3 BEFIT. 2019. Available at: <http://www.befit.bt/about/>

4 MOF. 2019. Available at: <https://www.mof.gov.bt/news/e-pems-launch-22-july-2019/>

5 Ibid.



<b>GNH</b>	Gross National Happiness
<b>GNI</b>	Gross National Income
<b>Jab-chor</b>	An initiative to partner with entrepreneurs and grow with them into a successful venture through equity financing adopting the ‘angel investment’ concept, based on trust and confidence supported by legally executed business partnership deed, recognized by laws of the Bhutan.
<b>KPI(s)</b>	Key performance indicator(s)
<b>KYC</b>	Know Your Customer
<b>MOV</b>	Means of Verification
<b>MFI</b>	Microfinance institutions
<b>NFIS</b>	National Financial Inclusion Strategy
<b>NFLS</b>	National Financial Literacy Strategy
<b>P2P</b>	Person to person payment
<b>PSL</b>	Priority Sector Lending
<b>RMA</b>	Royal Monetary Authority of Bhutan (the central bank of Bhutan and the country’s minting authority)
<b>SHG</b>	Self-Help Groups
<b>TOT</b>	Training of Trainers



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