

Deploying Mobile and Branchless Banking in Bhutan

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SEEKING GROSS NATIONAL HAPPINESS

A small, mountainous, and landlocked country on the southern slopes of the eastern Himalayas,¹ the Kingdom of Bhutan has managed to ignite and sustain strong economic momentum by unlocking its hydropower potential. During 1981–2011 real gross domestic product (GDP) grew by 7.8% per annum on average and the country's per capita GDP more than quintupled. Bhutan is expected to reach middle-income country status as early as 2017.

Bhutan's largest export—hydropower to India—has fueled growth and will probably sustain it in the coming years² (only 5% of Bhutan's 30,000 megawatt hydropower potential is tapped: by 2020, the government hopes to boost hydropower generation capacity to about seven times the present level and it is already exploring energy exports to Bangladesh). From that bonanza, notably from the mid-1980s, a series of five-year plans set out a far-reaching development strategy as the government invested in key economic and social infrastructure and services.³ With strong revenues from hydroelectricity, investments in social and human development sped visible progress toward the Millennium Development Goals.⁴

Henceforth, however, Bhutan will face new challenges as it experiences rapid transition from a mostly agrarian society to one characterized by increasing levels of education and shifting expectations and changing demographics, particularly among youth for whom rural life and farming hold little appeal. With increasing urban drift and limited opportunities in public sector employment, the government will be challenged to diversify the economy to create employment and simultaneously ensure that underserved populations—both rural and newly urban—can access basic infrastructure and services.

SURMOUNTING ECONOMIC SHOCKS

In 2012, Bhutan faced a fiscal test: despite the country's high growth performance, a major Indian Rupee liquidity crunch exposed critical structural and cyclical imbalances

Highlights

- Bhutan continues to enjoy strong economic momentum from the sale of hydropower but is challenged to diversify the economy to create employment and simultaneously ensure that underserved populations can access basic infrastructure and services.
- In 2015, the Government of Bhutan and the Asian Development Bank (ADB) continued to partner under the ADB-supported Strengthening Economic Management Program II, aiming in particular to reach the underserved and raise financial literacy.
- In 2016, Bhutan initiated the rollout of mobile and branchless banking in all 205 *gewogs* (groups of villages) and conducted a financial literacy campaign in support.

in the economy related to (i) a narrow economic base from overreliance on hydropower development, (ii) credit-driven and import-dependent consumption growth leading to rapid depletion of Indian Rupee reserves, and (iii) policy distortions associated with weaknesses in macroeconomic management and financial intermediation.

In 2013, ADB financed the Strengthening Economic Management Program to stabilize the economy and avoid a prolonged slowdown. To help Bhutan make more effective use of its own financial resources in a predictable manner, the program successfully introduced measures to improve budget and debt management, revenue mobilization and administration, macro-prudential management, and external and internal audit systems. Notwithstanding, there was a felt need to (i) continue and deepen macroeconomic management reforms (to sustain economic recovery in the short term), (ii) strengthen financial institutions (to rebalance economic growth toward investment in the medium term), and (iii) develop enabling institutions for private sector and infrastructure development (to diversify the economy in the long term). Toward this, in 2015, ADB extended a policy-based loan and grant to Bhutan for the Strengthening Economic Management Program II (SEMP II). Technical assistance for Supporting Implementation of SEMP II was financed on a grant basis by ADB's Technical Assistance Special Fund to strengthen the capacity of key institutions responsible for implementing the reforms.

REACHING THE UNDERSERVED AND RAISING FINANCIAL LITERACY

To note in particular, in line with the government's priority under the Eleventh Five-Year Plan (2013–2018) to improve the business climate for the private sector—which is critical for employment generation and poverty reduction, SEMP II identified the possibility of high, nationwide impact from promoting mobile and branchless banking that extends the reach of financial services to remote areas. To strengthen financial inclusion, SEMP II also envisaged a financial literacy program to create awareness of access to formal financial

¹ Bhutan is home to about 757,000 people (2015 estimate) dispersed over some 38,000 square kilometers.

² Owing to the country's location, arrangements with India have played a critical role: India is the source of 84% of Bhutan's imports and the destination of 89% of its exports (free trade with that country prevails). Bhutan Trade Statistics: March 2016. www.mof.gov.bt/wp-content/uploads/2016/05/BTS_March_2016.pdf

³ The Eighth Five-Year Plan (1997–2002) surprised the world by popularizing the concept of "gross national happiness"—first coined in 1972 by King Jigme Singye Wangchuck—and its four pillars: sustainable and equitable socioeconomic development (Pillar 1), preservation and promotion of culture (Pillar 2), conservation of environment (Pillar 3), and promotion of good governance (Pillar 4). The pillars are further articulated in nine domains and 33 indicators (2–4 per domain) by which progress in Bhutan is now assessed: (i) living standards, education, and health (Pillar 1); cultural diversity and resilience, community vitality, time use, and psychological well-being (Pillar 2); ecological diversity (Pillar 3); and good governance (Pillar 4).

⁴ Since Bhutan became a member in 1982, ADB has helped enhance rural electrification, hydropower generation, road connectivity, urban infrastructure and services, and financial sector development.



services in Bhutan and promote a culture of savings and responsible personal financial management.⁵

Point of Sale Terminal



Source: ADB.

First, Bhutan Development Bank Limited (BDBL) was tasked to introduce at *gewog* level⁶ mobile and branchless banking technology in the community information centers of the 205 *gewogs* in Bhutan.⁷ With project management support from SEMP II, BDBL operationalized the branchless banking and trained agents and users of branchless banking technology in the community information centers. It also raised public awareness of mobile and branchless banking services under the planned financial literacy campaign. By June 2016, point-of-sale (PoS)

terminals including smart card printers and accessories had been delivered to community information centers in 180 *gewogs* to service over 8,000 enrolled customers.⁸ SEMP II funded the purchase of 100 PoS terminals. The 205 *gewogs* are expected to be fully integrated in BDBL's branchless banking system by September 2016.

Launch of the Financial Literacy Program by the Royal Monetary Authority



Source: ADB.

Second, a financial literacy program with a focus on gender equity was articulated and implemented, with strong backing by the Governor of the Royal Monetary Authority (RMA) of Bhutan, to equip the workforce, youth, and families with the introductory financial skills needed for success in today's economy.⁹

Targeting rural, adult, and school age populations, this involved (i) development of financial literacy materials for dissemination in media, six pilot schools,¹⁰ banks, and all urban and rural community information centers; (ii) raising awareness on the types of financial services and products offered by banks and capital markets; and (iii) provision of information on access to finance, targeting the needs of various socioeconomic, demographic, and gender groups, in collaboration with local and international nongovernment organizations in Bhutan.¹¹

Raising Financial Literacy in Rinchen Higher Secondary School



Financial Literacy Information Board

- Know your financial institutions
- Mind your money
- Saving
- Debt
- Insurance
- Investment

Note: With help from SEMP II, Rinchen Higher Secondary School maintains a financial literacy information board to raise awareness of the importance of good personal financial management. Each week, the financial literacy board features a new theme, contributed by students. Source: ADB.

Related Links

- ADB. 2013. *Proposed Policy-Based Loan and Grant to the Kingdom of Bhutan: Strengthening Economic Management Program*. Manila www.adb.org/projects/documents/strengthening-economic-management-program-rfp
- ADB. 2015. *Completion Report: Strengthening Economic Management Program*. Manila. www.adb.org/projects/documents/strengthening-economic-management-program-PCR
- ADB. 2015. *Proposed Policy-Based Loan, Grant, and Technical Assistance Grant to Kingdom of Bhutan: Strengthening Economic Management Program II*. Manila. www.adb.org/projects/documents/strengthening-economic-management-program-2-rfp

⁵ Financial literacy is the ability to use knowledge and skills to manage one's financial resources effectively for lifetime financial security.

⁶ Bhutan comprises 205 *gewogs*, which average 230 square kilometers in area. *Gewogs* form a geographic administrative unit below *dzongkhags* (districts).

⁷ With assistance from ADB, BDBL was established as a development financial institution on 31 January 1988 to cater to the credit needs of small entrepreneurs and farmers. It was granted a universal banking license on 2 March 2010, paving the way to mobilize savings and deposits across Bhutan by means of its 48 offices. The newly introduced *gewog* banking services help connect both the unbanked and underbanked to the core banking system through the internet on a real-time basis.

⁸ A PoS terminal is a computerized replacement for a cash register. Under the *gewog* banking services, PoS terminals enable enrollment of new and existing customers, cash withdrawals and deposits, loan payments and balance inquiry using smart card, fund transfer, account closure, utility bill payments, and pension disbursement.

⁹ RMA agreed also to showcase the Financial Literacy Program and related materials on its web pages. See Royal Monetary Authority of Bhutan. 2016. www.rma.org.bt. In March 2016, RMA celebrated the Global Money Week to advance financial education for young people in Bhutan, teaching children and youth about money, saving, creating livelihoods, gaining employment, and becoming an entrepreneur through fun and interactive activities. See Global Money Week. 2016. www.globalmoneyweek.org/regions/asia-pacific/bhutan.html

¹⁰ A PoS terminal will be provided to Rinchen Higher Secondary School in Thimphu.

¹¹ Under SEMP II, RMA is also improving the regulatory framework for branchless banking and deposit-taking microfinance to promote financial inclusion.

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