

Connecting the Disconnected: Coping strategies of the financially excluded in Bhutan

by Cecile T Niang with Mihasonirina Andrianaivo, Katherine S Diaz and Sarah Zekri. Washington DC: The World Bank, 2013, 85pp., 5 Figures, 3 Tables, ISBN 978-0-8213-9834-0

Reviewed by Richard Whitecross

This research report provides an important baseline for our understanding of financial capability in Bhutan. The banking and financial services provisions in Bhutan were very limited until 2009. Prior to 2009, banking was provided by the Bank of Bhutan Limited and the Bhutan National Bank Limited. The Royal Insurance Corporation of Bhutan was the main provider of insurance and, unusually, was able to engage in lending activities. More recently, three new banks have been created: Druk Punjab National Bank Ltd, T Bank, and the Bhutan Development Bank Ltd (BDBL). With the exception of BDBL, the other banks, according to the report, concentrate on the urban areas, for example, Thimphu and Phuenstholing.

The report is set out in six chapters. Chapter 1 outlines the objectives and the context of the study. The research was undertaken to inform the development of Bhutan's Financial Inclusion policy. The report summarises the findings of the research and provides a snapshot of household financial management practices across the country. Four sites were selected: Thimphu, Mongar, Paro and Samste. Chapter 2 outlines the current provision of financial services in Bhutan. The overview of the rapid changes that have taken place since 2009 provide the reader with a clear understanding of the new formal provision of financial services. The section on the informal financial service providers is of particular interest, especially to social scientists.

Building on this background information, the report turns to examine financial literacy, financial inclusion and consumer protection. These are interlinked concepts and it would have been useful for the general reader to have a brief explanation of what these terms mean. Research reports aimed primarily at a policy audience need to be concise, but some definitions would have been helpful to ensure a shared understanding. The chapter plunges straight in with this opening sentence, 'Financial

literacy and consumer protection are low in Bhutan, reducing trust in the financial system' (p. 19). Financial literacy is a key life skill. However, to develop financial literacy requires an individual to have other skills, notably functional literacy and access to information. Literacy rates continue to improve in Bhutan, yet, as this study shows, women, especially rural women, are affected by financial exclusion and this reflects the limited literacy among adult women in rural areas. The third chapter also highlights key issues around financial literacy, financial exclusion and consumer protection. Rural communities are less able to access financial services and the research found that there is significant disparity in financial inclusion among economic groups. Poor respondents 'reported greater difficulty in obtaining credit because of a lack of collateral' (p. 21) and this is developed in Chapter Four. The report sets out clearly the challenges facing rural Bhutanese. Furthermore, two groups are highlighted by the research: women and young Bhutanese aged between 18 and 24. These two groups are very important to understand.

The report finds that women, including rural women, are adaptable and knowledgeable; therefore, breaking the barrier to their financial inclusion could be beneficial. Young people were found to self-exclude, on the basis that they lacked the necessary collateral for bank loans. In addition, hesitancy based on the lack of personal connections with a bank or bank staff illustrates the importance of social networks. The absence of stronger consumer protection mechanisms is noted as a major barrier and one that links low financial literacy or capacity to low levels of public legal capacity. In order to be able to develop trust in financial institutions, ordinary people have to understand their rights and how they can seek redress, for example over an administrative error.

The lack of a culture of customer service further undermines confidence in financial institutions. Although the authors comment on the use of English for many forms in the banks and point out that 'many rural and elderly people do not speak, read or write' English, some context on the linguistic complexity of Bhutan should have been noted. This is a challenge for any institution operating in Bhutan, so perhaps consideration about how the financial service providers can overcome this problem would have been appropriate.

Chapter Four considers the formal and informal means by which people save money and their reasons for doing so. From my own experience, as

detailed in my doctoral research, the reasons for saving money range from covering school expenses, buying food and preparing for emergencies to buying land, building a house or for celebrating key life events such as childbirth, weddings or funerals or sponsoring religious ceremonies or going on pilgrimage. Where they save tends to reflect the nature of what they are saving for—in a bank for a major purchase or longer term savings, or at home in cash for short term goals. The authors note the continued importance to Bhutanese of semi-liquid assets such as textiles (notably *kiras*) and jewellery. The respondents comment that these items can be sold in an emergency. However, as the authors note, the amount people receive for these items may vary, and because they are difficult to value they are not able to be used as collateral to leverage investments or loans.

Chapter Five focuses on formal and informal lending. This is an invaluable chapter for the information it provides on the level of household borrowing. Formal lending is limited and restricted to those able to provide collateral. Therefore informal lending arrangements are important. This was very evident during my own research when it was clear that families acted jointly to support the purchase of land or the construction of a new house. Trust and social networks were and are important. The report highlights the limitations of the existing formal lending provisions and the emphasis on collateral based lending. It found that the process for seeking and obtaining a formal loan is both complicated and slow. Crucially, this chapter discusses informal lending in some depth and concludes with a section on lending by religious institutions. The role of religious institutions as a source of informal lending is well established and generally they charge a lower rate of interest than other informal lenders. However, for religious reasons, loans may not be given for pig, fish or poultry farming. The report suggests that there is a potential for lending by religious institutions to contribute to over indebtedness and therefore mean higher costs for financial services. This section raises a range of interesting questions about the role of the religious institutions in the economic life of Bhutan and one that would be, if treated in a historical study, of broader academic value.

The final chapter considers remittances, insurance and technology. The level of remittances out of Bhutan remains higher than remittances sent to Bhutan. However, the latter have been increasing and this highlights an area that has as yet not been studied: the role of economic

migration outside of Bhutan. However, the main focus is on how urban and rural Bhutanese send money out of the country, usually to support their children attending schools and colleges in India. Knowledge of and about insurance remains low and is an area that needs to be addressed. Finally, the role of technology to improve access to financial services is briefly discussed, though it does not address issues of IT security.

Over half of the volume comprises eight appendices. Four set out the tools used in the research, allowing the reader to assess its robustness. There is a brief bibliography. On reviewing the bibliography, only 14 titles are on Bhutan and the majority of those are official publications highlighting the limited amount of research undertaken on financial literacy and inclusion in Bhutan. Overall, this is an important, well written report that provides an accessible baseline for further research.