

Making Access Possible



# Nepal

**Demand, supply,  
policy and regulation**

*Financial Inclusion Roadmap*

*2017–2022*

## PARTNERING FOR A COMMON PURPOSE

Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country diagnostic and stakeholder dialogue, leading to the development of national financial inclusion roadmaps that identify key drivers of financial inclusion and

recommended action. Through its design, MAP seeks to strengthen and focus the domestic development dialogue on financial inclusion. The global project seeks to engage with various other international platforms and entities impacting on financial inclusion, using the evidence gathered at the country level. The MAP methodology and process have been developed jointly by UNCDF, FinMark Trust (FMT) and the Centre for

Financial Regulation and Inclusion (Cenfri) to foster inclusive financial sector growth. At country level, the core MAP partners collaborate with government, other key stakeholders and donors to ensure an inclusive, holistic process.

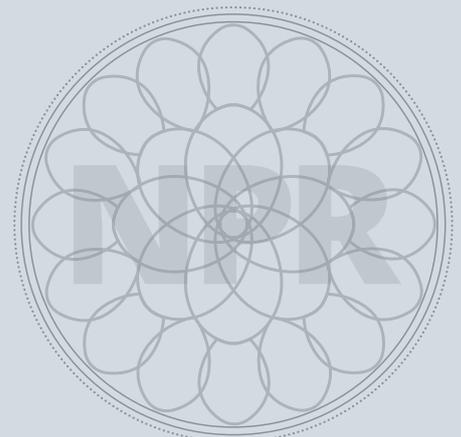
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Empowered lives. Resilient nations.

### The cover symbol

Through the MAP programme, we hope to effect real change at country level and see the impact of financial inclusion on broader national growth and development. The cover graphic features the Rhododendron, a flower synonymous with Nepal. The flower symbolises growth and development while the circle represents inclusive growth. Each flower is an example of the successful growth in a unique environment. By combining the flower with the currency symbol of Nepal we represent the characteristics of the country, linking financial inclusion with successful growth.



## ABOUT MAP NEPAL

MAP Nepal is managed under the overall UNNATI-A2F (Access to Finance) programme implemented by Nepal Rastra Bank (NRB – the Central Bank of Nepal) and funded by the Government of Denmark, DFID and UNCDF in partnership with the United Nations Development Programme (UNDP).

This Nepal financial inclusion roadmap is one of a series of documents produced as part of the Making Access Possible (MAP) Nepal initiative. Preparation for MAP Nepal was approved by the Central Bank of Nepal and the Ministry of Finance. The project is governed by a Project Executive Board chaired by the Central Bank of Nepal and consisting of eight members representing government and project sponsors.

Documents produced as part of the MAP Nepal initiative include: 1) *The MAP Nepal Financial Inclusion Country Report*, 2) *Making Access Possible: Nepal Diagnostic Report 2016*, and 3) summary report and presentation – *Nepal FinScope Consumer Survey 2014*. These are available as separate reports. The FinScope dataset is available at [map.uncdf.org](http://map.uncdf.org) for future research.

This roadmap synthesises the main findings and recommendations from the comprehensive demand-side, supply-side and regulatory analyses (*Making Access Possible: Nepal Country Diagnostic Report 2016*) and presents a way forward on the recommended action areas for financial inclusion in Nepal.

## AUTHORS

beed management Pvt. Ltd, Sujeev Shakya, Sudip Bhaju, Subrina Shrestha, Raju Tuladhar and Shayasta Tuladhar

Copy editing: Jacquie Withers

In-country support and stakeholder coordination: beed management private limited

Advisory inputs: Cenfri

MAP Nepal management, coordination and implementation: Henri Dommel, Hanadi Tutunji, Kameshnee Naidoo, Nomathemba Mhlanga, Anthony Githiari, Feisal Hussain, Rajeev Kumar Gupta, Ujjwal Pokhrel and Pragyan Joshi

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## List of Abbreviations and Acronyms

<b>A2F</b>	Access to Finance
<b>ADB</b>	Asian Development Bank
<b>AML</b>	anti-money laundering
<b>ATM</b>	automated teller machine
<b>CFT</b>	combating the financing of terrorism
<b>DFID</b>	Department for International Development
<b>FSP</b>	financial service provider
<b>GDP</b>	gross domestic product
<b>KYC</b>	know your customer
<b>LDC</b>	least developed country
<b>MFI</b>	micro-finance institution
<b>MFSP</b>	mobile financial service provider
<b>MSME</b>	micro, small and medium enterprise
<b>NRB</b>	Nepal Rastra Bank
<b>NTA</b>	Nepal Telecommunications Authority
<b>POS</b>	point of sale
<b>POT</b>	point of transaction
<b>RTGS</b>	real-time gross settlement
<b>SACCO</b>	savings and credit cooperative
<b>SDG</b>	Sustainable Development Goal

## US\$/NPR currency exchange rate

The local currency in Nepal is the Nepali Rupee (NPR). The United States Dollar (US\$) equivalents shown throughout the document were calculated using a 12-month average exchange rate (between 16 July 2013 and 15 July 2014, as per Nepal's fiscal year calendar) of NPR98.53/US\$.

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# EXECUTIVE SUMMARY

**The Nepal Financial Inclusion Roadmap (2017-2022) serves as an overarching guideline for the strengthening of financial inclusion in Nepal. The roadmap is drawn based upon the examination of the financial inclusion situation in the country by the *Making Access Possible: Nepal Country Diagnostic Report 2016*. The MAP Nepal research has been designed to serve as a resource to the Government of Nepal and private stakeholders by identifying and analysing existing challenges to financial inclusion and suggesting steps to be taken towards tackling them.**

The roadmap takes this initiative forward by outlining potential areas for measurable action.

There are many finance and financial access-related policy initiatives currently in process in the country, and a long-term development strategy for Nepal is still being formulated. A key government and stakeholder focus is on helping the country to graduate 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. There are also numerous fully fledged donor initiatives under way, often in partnership with relevant stakeholders, focusing on achieving a range of financial access and inclusion objectives. The Nepal financial inclusion roadmap will integrate the targets of the financial inclusion policies and projects currently being implemented, while helping to avoid duplication of effort. The roadmap should form the basis for a policy, strategic and implementation framework for financial inclusion in Nepal.

While financial inclusion is a challenge in Nepal, the country fares better than other MAP countries in terms of financial access, with 61% of the adult population having access to formal finance, and only around 18% of the adult population completely excluded from financial services (both formal and informal). Despite this relatively high level of financial inclusion, actual usage of some financial products is low or inappropriate, especially with regard to the product classes of transactions, insurance and credit.

Existing financial services and products are skewed in favour of salaried workers and micro, small and medium enterprises (MSMEs) – the population segments that are more urbanised and have the highest income and education levels. Those who are on average poorer, based in rural areas, and moderately educated – namely, farmers, dependants and irregular earners – are underserved. This is largely due to the absence of appropriate products and access points to suit their needs. The country has a large number of financial service providers but their financial product offerings are homogeneous, and there is generally a lack of innovation and variety in product features to service the different income structures and customer requirements.

With a high incidence of males migrating abroad, there is an increasing skew in the adult population towards the female population. This has resulted in a change in the composition of households with an increasing trend towards female headed households. However, while women have taken on the role of heading the household in day-to-day matters, key decision making in regard to financial services is still undertaken jointly or under direction from male spouses. A major challenge to improving financial literacy in Nepal is the low level of literacy and education among the adult population to begin with. This is particularly true for women with levels of literacy skewed in favour of men among the adult population.

The MAP analysis seeks to highlight the need for interventions in accordance with those opportunities that best meet the national objectives for growth and

improved livelihoods. Such interventions are documented in the form of this roadmap, which provides the structure for defining, prioritising, coordinating, measuring and tracking the interventions. The roadmap proposes a policy target, which gives vision and direction to the objective of improving financial inclusion, and towards which enabling intervention logic is organized and monitored:

**Increase formal financial inclusion in Nepal from 61% 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 payments 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.**

These six priority areas for intervention have been formulated on the basis of needs identified on the demand side, weaknesses identified on the supply side, and general impediments to increased financial inclusion as highlighted by the MAP research. The interventions will be implemented under the coordination of the MAP Steering Committee, with all stakeholders being responsible for the actual implementation: regulators, financial service providers, supporting ministries and donors will all play crucial roles.

## Introduction

Improved access to and usage of financial services can unlock the ability of Nepali adult consumers to mitigate risks, smooth consumption, accumulate assets and invest in productive activities. Access to affordable and appropriate financial instruments can improve the welfare of unserved and underserved households by helping them to conduct their financial lives more efficiently, increase income, manage risk and build wealth over time. Lack of access to financial services and to appropriate financial products restricts people's ability to manage their financial lives. Economic theory suggests that financial intermediation fuels real economic impacts by mobilising savings for investment, reducing transaction costs and increasing efficiency, in the process contributing to employment generation and growth.

The Government of Nepal and development partners recognise the importance of a well-functioning financial sector in reducing inequality and poverty. Financial inclusion has been adopted as a strategic priority by the Central Bank of Nepal – Nepal Rastra Bank (NRB). The bank's five-year strategic action plan (2012–2016) focuses on reforms that will facilitate financial inclusion in the country. One of the plan's seven strategic pillars is financial sector stability, under which enhancing financial inclusion is a strategic priority.

The Nepal financial inclusion roadmap aims to assist the government and private stakeholders to identify and implement actions to improve financial inclusion in Nepal.

Nepal is in a transition phase, in the sense that a number of financial Acts and policies are either in the process of amendment or being formulated anew. In addition, a long-term development strategy for Nepal is still being formulated. The financial inclusion roadmap should guide the formulation of effective, farsighted policies with the potential to nurture increased financial inclusion in the country, and should help the private sector and civil society actors when prioritising opportunities for actions in this space.

The roadmap is based on the diagnostic report *Making Access Possible: Nepal Country Diagnostic Report 2016*, which used the MAP diagnostic and programming framework to support broadening access to, and deepening provision of, financial services for individuals and micro and small businesses:

- The diagnostic presents a comprehensive analysis of the financial inclusion environment in Nepal through a focus on the Nepali adult population (aged 18+ years) in relation to four financial product markets: savings, payments, credit and insurance.
- The analysis draws on quantitative data provided by the nationally representative Nepal FinScope Consumer Survey 2014.
- The analysis is supported by 50 in-field interviews with representatives of the Nepali target markets, and information and data drawn from 132 supply-side stakeholder interviews – with financial service providers, regulators, third-party providers and policy makers – as well as 3 focus-group discussions with a range of stakeholder groups and associations.
- The analysis is also supported by published annual financial statements and reports and other relevant data.

The financial inclusion roadmap rounds up the main findings and recommendation from the diagnostic report and presents a way forward on the six recommended priority areas.

# Roadmap approach and methodology

The roadmap approach (see Figure 1) is founded on priority areas identified during the MAP research process. These priority areas represent the gaps and opportunities in the market that the MAP diagnostic has identified as having the greatest potential positive impact on consumer welfare if appropriately addressed.

Within the diagnostic report framework, each of the highlighted gaps and issues is analysed from the perspective of the user or potential user of the financial product or service, using the Making Markets Work for the Poor (MM4P) approach. This approach identifies the stakeholders, structures, laws, regulations and customary relationships that underpin the product or service.

In this process, issues – and especially enablers – have been defined and analysed at the macro, meso and micro levels. The

identification of the intervention areas is underpinned by extensive research, and the priority areas identified have the potential to change the market by increasing inclusion and making existing inclusion more resilient. In order to provide a vision and direction, a policy goal is proposed, towards which supportive intervention logic can be organised and monitored, indicating how the proposed interventions will contribute to the achievement of the goal and outcomes.

The final stage of the process is to build consensus from the key stakeholders for the interventions, and to place it in the format of a roadmap, including responsibilities, accountabilities and activities. At the start of the roadmap implementation phase, costs, timeframes and targets are estimated and firmed up for the purpose of prioritisation.

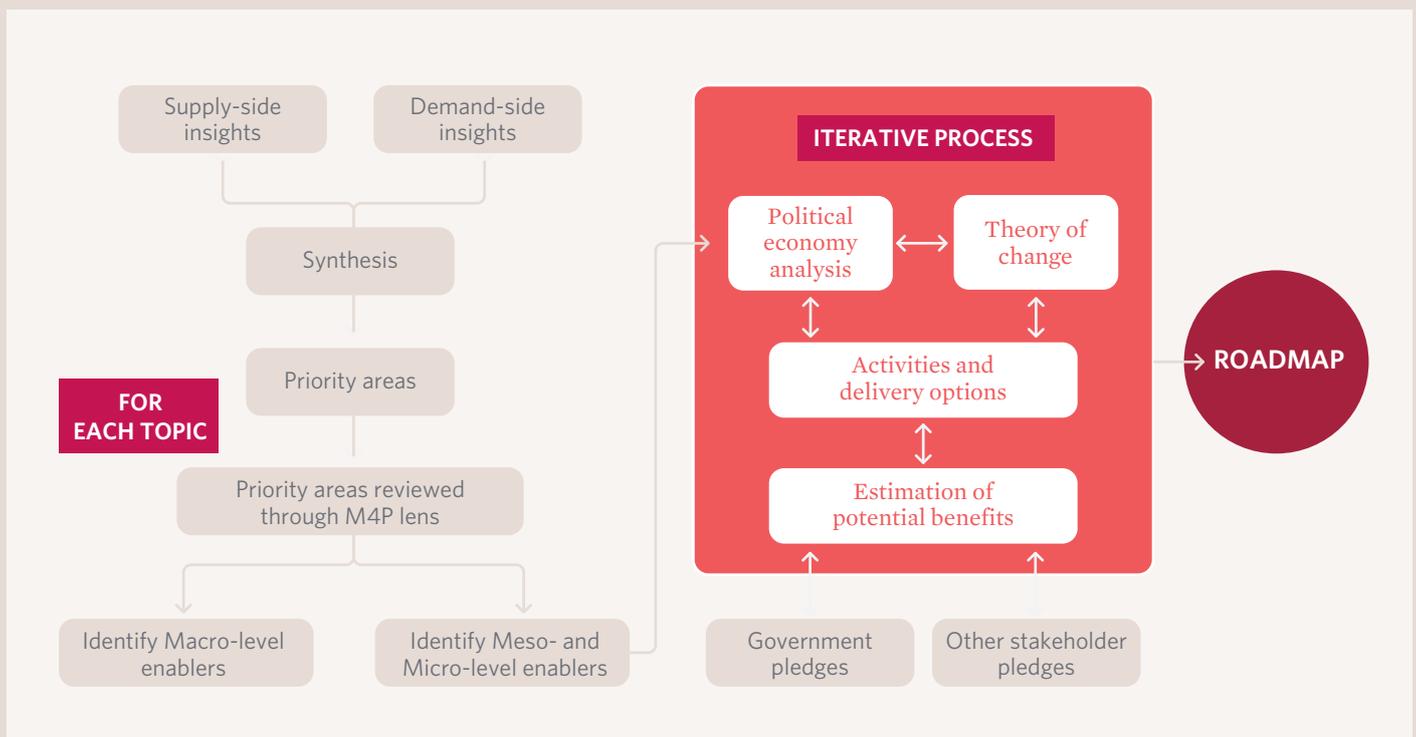


Figure 1: MAP roadmap approach

# Nepal financial sector context

## Country context

**Landlocked and geographically diverse country prone to natural disaster risks.** Nepal is a landlocked country that shares borders with two of the largest economies of Asia: India and China. Geographically diverse, the country rises from 59 m at its lowest level to 8,848 m at its highest point and is home to eight of the world's ten highest mountains, including the highest point on earth: Mt Everest. The southern region, Terai, is humid and fertile.

The capital city is Kathmandu. Having no ocean access, Nepal uses the nearest port at Kolkata in India, under the Convention on Transit Trade of Land-locked States (UN 2015).

The country is situated on the edge of a tectonic plate, which makes it highly vulnerable to earthquake risk. The April 2015 earthquake had a devastating impact on the country's infrastructure and overall economy, with losses amounting to NPR200 billion (US\$1.98 billion). This vulnerability not only affects the general economy but has a lasting impact on the livelihoods of the poor that are connected to industries vulnerable to these risks (Nepal Economic Forum 2015).

**Limited infrastructure and delayed implementation of development plans.** The topographical orientation of Nepal creates big challenges for infrastructure development – from the expansion of road networks to installation of transmission lines and telecom towers. Currently, the poor physical infrastructure delivery is a significant barrier to overall development. The World Economic Forum's Global Competitiveness Report 2015/16 ranked Nepal 132 out of 144 countries on the indicator of overall quality of country infrastructure. Since then, the 2015 earthquake has set the country's development back even further. Poor quality of infrastructure has been highlighted as the second biggest problematic factor for doing business in Nepal, coming second only to government instability (World Economic Forum 2015/16).

**Young, minimally educated population with growing trend of migration.** Nepal's population is 26.5 million in total: the adult population (18+ years) is estimated at approximately 15 million, with the number of people under 18 at approximately 11 million (Central Bureau of Statistics 2011, Nepal in Figures). Of those falling into the adult population, over 58% are younger than 40. The gender split of this adult population is 53% female and 47% male. In terms of geographical distribution, the majority of adults (81%) are located in rural areas (FinScope 2014). Of the adult population aged 15 and older, 60% were regarded as literate in 2011 (World Bank 2015). Over the past five years, an average of 69% of individuals enrolled in primary school and continued to lower secondary. However, the numbers that continue to and complete higher levels of education are much lower: only 52% of individuals that were enrolled in lower secondary continued to upper secondary level. There are two key drivers for this: a lack of financial resources to pay for education; and the high

opportunity cost that attaches to keeping children from engaging in income-generating activities for the household.

**High, but declining poverty levels.** The majority of the population is at a low income base. In terms of the international poverty measures, 25% of the Nepal population lived on less than US\$1.25 a day in 2010–11. However, this is a marked improvement from recent years (2003 and 2004), when over half of the population (53%) fell below this line (World Bank 2015). The current average monthly income for Nepali people is estimated at NPR6,669 (US\$68) (FinScope 2014). Overall socio-economic development is also improving, but remains at a low base. This is shown by the country's 2013 global human development index ranking of 145 out of 187 – an improvement on the previous year's position of 157 (UNDP 2013). Despite the fact that Nepal is an underdeveloped country, income distribution is fairly equitable by global and regional standards; in 2013, Nepal's Gini index was 32.8, while other South Asian countries such as India, Bhutan, Maldives and Sri Lanka scored 33.9, 38.1, 37.4 and 36.4, respectively (World Bank 2013). (The Gini index measures income distribution among individuals or households of a country, and the commonly used measure of inequality – the gap between the rich and the poor – is based on the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual and household.)

**Slow-growing economy, driven by agriculture and services.** Nepal has a gross domestic product (GDP) of NPR2,124 billion (US\$21.3 billion), with per capita GDP amounting to NPR74,992 (US\$762) (Ministry of Finance 2014/15). The economy is primarily driven by agriculture and service-based industries (such as trade, financial services, real estate, transport and communications). The country has averaged 4.1% economic growth over the past decade, with the growth rate exceeding 5% only in 2007/08 and 2013/14. Compared to the developing economies of South Asia, the country has historically lagged behind. In addition, for the past few years capital spending has remained significantly low despite budget allocation; for example, less than 75% of the total budget allocation was spent in 2014/15. This tendency has greatly suppressed economic growth.

**Informal MSMEs are a major constituent of the economy.** Accounting for about 80% of employment and 70% of the total value of all exports, micro, small and medium enterprises (MSMEs) are major contributors to the economy (Food and Agriculture Organization – FAO 2009). In all, 12% of the population rely on their own business as the main source of income, and the majority of MSMEs in Nepal are informal-sector enterprises. Most of the formal MSMEs are initiated by NGOs or government agencies with a view to creating a source of income for poor and underprivileged families. The informal MSMEs are generally initiated by individual families to make a living using their traditional craft and trading skills. The high level of informal operation means that the number of MSMEs in the country is likely to be understated. The MSME landscape, with the inclusion of the informal, is dominated by large numbers of micro-enterprises that are mainly involved in retail trade.

**Informal economy significant contributor to GDP.** Nepal's informal economy is estimated to contribute approximately 38% to GDP, and the country ranks 76th out of 120 countries on this measure. Of those 120 countries, the size of Nepal's informal sector earns it the label of country with the largest 'shadow economy' (Scheider et al. 2010).

**Remittances are key income source for Nepal.** Persistent political instability and lack of widespread job opportunities within the country have made foreign employment the best alternative for Nepalis. In the past five years, over 2.2 million Nepalis are estimated to be working abroad, with the number growing by about 12% a year (Department of Foreign Employment 2014). The shortage of white-collar jobs could lead to further migration of semi-skilled and skilled workers. This has led to a scenario where, over and above productive activity in Nepal, GDP is driven by income received from productive activity abroad; remittance flows contributed almost 28% to national GDP in 2014/15 (Ministry of Finance 2015). According to the World Bank (2015), this figure puts Nepal third among countries in terms of share of remittance contribution to GDP. This contribution has been growing at a high rate. Nepal received remittance amounting to NPR589.5 billion (US\$6.19 billion) in 2014/15, with average year-on-year growth averaging 22% over the past five years (NRB 2015).

**Adoption of new constitution, a move towards stability.** Nepal has undergone prolonged political crisis fuelled by a shift in political regimes from an absolute monarchy to a federal democracy. This occurred on the back of a 10-year insurgency followed by a prolonged period of transition to the new regime. These factors have resulted in a changing society with high levels of instability. Nepal adopted a new constitution in September 2015. This is a move towards a three-tier federal structure comprising federal, state and local government, and is a big step towards entrenching the new democratic regime and gaining a greater level of stability (Secretariat 2015).

## Status of financial inclusion in Nepal

### High level of financial inclusion (in terms of access).

Compared to other MAP countries, Nepal has relatively high financial inclusion (in the sense of access to formal and informal financial services), with only 18% of the adult population being financially excluded (see Figure 2). This financial exclusion figure is low compared to MAP countries globally and, in particular, is low compared to Asian MAP countries such as Pakistan (56% of adults are excluded), Myanmar (39% of adults are excluded) and Lao PDR (25% of adults are excluded). Thailand is one exception to this, with 1% exclusion.

**Financial access driven by both formal and informal financial services.** When analysed further, Nepal's financial access shows 61% of the adult population having access to formal financial services (40% formally banked and 21% using 'other formal' products). Of the remaining total, 21% of adults use only informal financial services, and 18% of the adult population use no financial services at all (formal or informal). However, when the overlaps in use of financial channels are considered, informal channels emerge as the most popular, with 57% of the adult population reporting uptake of products through informal channels.

**Portfolio of financial services taken up to meet needs.** In considering usage of financial services, it is important to look at usage not only in a linear, absolute way (termed 'breadth of usage'), but also in terms of the types of financial services and number of product classes used per person served (termed 'depth of usage'). Individuals often require a portfolio of financial services to effectively address their needs. For example, insurance may be the most appropriate instrument to mitigate high-impact, low-frequency risk events such as death; but savings may be more appropriate for low-impact, high-frequency risk events. Similarly, credit may be appropriate for productive uses, but not for risk-mitigation purposes. In Nepal, there is evidence

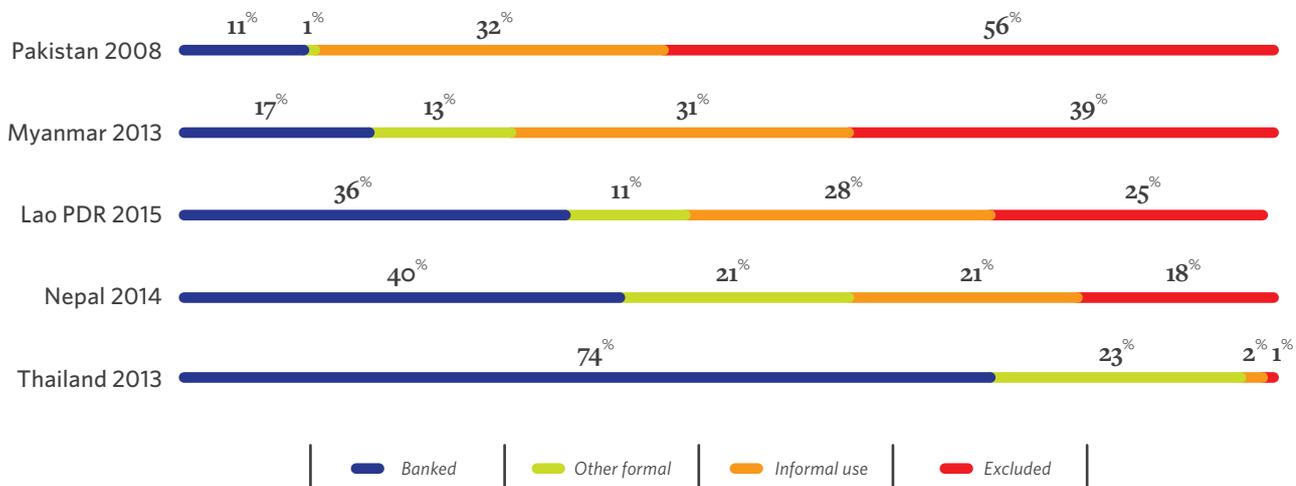


Figure 2: Financial inclusion in Nepal compared to other MAP countries

Source: FinScope 2014

of use of a portfolio of financial services; FinScope (2014) shows that 58% of adults use more than one type of financial service. Of those that use two financial services, the most popular combination is savings and transaction services (12% of adults). This uptake takes place over a range of providers, with a high level of overlap between products accessed from formal and informal providers.

#### **Majority of population underserved by formal players.**

Most of the adult population resides in rural areas; therefore, when absolute numbers are considered, rural adults (7.2 million) have greater financial access than urban adults do (1.1 million). However, when the percentages of rural and urban access to financial services are considered, both groups are equally included: 82% of adults in each of these areas. The providers that drive these figures differ in nature: a higher percentage of urban adults (71%) are formally financially included, compared to only 58% of rural adults; while a proportionally larger percentage of rural adults have access to informal financial services than their urban counterparts do (FinScope 2014).

**Similar overall access levels across genders.** When reviewing financial inclusion by gender, as shown by the FinScope (2014) survey, there are similar levels of access between females and males, with marginally higher access for males. It is worth noting that 45% of males access financial services via bank accounts compared to 36% of females. Conversely, females appear to substitute this with greater use of informal and ‘other formal’ services.

**Some surprises in terms of education levels – but higher levels of education correlate with higher levels of formal access.** While education levels are relatively low in Nepal, there is not a direct correlation between education levels and financial access. In fact, financial access is highest among those with only a primary education, with informal and ‘other formal’ channels playing a greater role than at higher levels of education. And the highest numbers of financially excluded adults in Nepal are among those with secondary education (16%). However, when it comes to formal access, the highest levels of ‘banked’ and overall formal access are among those with tertiary education.

**Savings and payments dominate financial service product markets.** Savings and payments are the most commonly used financial services, with 59% of adults saving (formal and informal), and around a third (33%) of adults using remittance products and digital transaction services (32% of adults), respectively. However, the majority of the adult population still use cash extensively to transact. In the savings space, both formal and informal access are key drivers of uptake. For the remaining product markets, just under half of the adult population (46%) access credit (formal and informal), while only 20% take up insurance (formal and informal) (FinScope 2014).

**Both formal and informal savings products are key.** Of those who do not save in a bank, 13% use other formal products, and a further 16% of adults without access to formal services take up informal saving. When overlaps between usage are taken into

account, though, 31% of adults overall use informal providers, making these the dominant channels for savings (FinScope 2014).

**Poorer, more rural target markets make up the majority of the population.** Farmers, dependants and irregular earners are the largest target markets in Nepal. They are on average poorer and more rural, and hold lower levels of education than other segments of the population. Salaried workers and MSMEs have the highest income and the highest education levels. Financial services usage is positively correlated with income: salaried workers and remittance receivers, who have relatively higher and consistent levels of income, are the best-served markets (overall); while the poorest target markets – dependants and irregular earners – are the least served, with the greater levels of exclusion. Informal financial services are used relatively widely across all of the target markets, while formal financial services show relatively less uptake among the more rural and lower-income segments (irregular earners, farmers and dependants). This is partly due to the invaluable financial support role played by community and family as favoured options in this highly collectivist society.

## **Barriers to financial inclusion in Nepal**

The MAP research identified a number of barriers to the increased use of formal financial services and products:

**1. Affordability, and regularity of income.** A key barrier to the uptake of formal financial services is affordability. The majority of people have low income levels, meaning that fees and contributions to financial services (e.g. payments into savings products) are a barrier to uptake. This is especially true given that the majority have irregular and unpredictable income flows, which makes commitment to regular payments difficult (e.g. traditional insurance, credit, commitment savings).

**2. Proximity barrier and ‘doorstep barriers’ associated with remote, formal FSPs.** Poor financial infrastructure in rural areas, low literacy levels and high transport costs are barriers that prevent rural adults from accessing formal financial services from remote financial service providers (FSPs). This is particularly the case for those concentrated in market centres in rural areas. The geographical terrain and low levels of infrastructure development exacerbate proximity barriers. This has resulted in low rural penetration by FSPs that work on a wide-reaching model that allows them to be placed wherever suits their business model best (referred to as ‘remote FSPs’), versus those that tie their business model to community connections (referred to as ‘locally based FSPs’). The traditional distribution model attached to remote FSPs is generally an expensive form of outreach; and given the higher costs of reaching rural regions, it is often particularly difficult to justify. The central bank has introduced policies mandating the opening of branches in key priority districts currently lacking access. The physical layout of these traditional branches can nonetheless act as a ‘doorstep barrier’, meaning that lower-income and rural consumers often feel intimidated to take up services from these access points.

**3. Collateral requirement.** Lack of assets, or assets deemed fit to be used as collateral, is a key barrier explaining the low uptake of credit. FSPs have specific collateral requirements, which the borrower is usually not able to fulfil and which generally tend to increase the cost of credit. For instance, all building and other assets used as collateral must be insured. Furthermore, the lack of registry to record collateralised assets complicates the lending process and undermines the borrower's ability to secure formal credit. It was found that 24% of Nepali adults had been refused loans due to lack of proof of sufficient income, while 19% were unable to provide collateral.

**4. Culture of avoiding formal channels.** Nepal has a large informal economy, and in general entering the formal channel is met with resistance. The higher costs attached to the documentation requirements and the potential for increased tax scrutiny act as a disincentive to associating with formal providers. Furthermore, on an individual level, social and cultural factors hinder uptake of financial services; communities – and this can include some informal providers – provide a safety net against risk events and serve as a source of financial services that can substitute for what could be sourced from external institutions.

**5. Awareness and low literacy rate.** In Nepal, 26% of the adult population are illiterate. Out of the total literate population: 54% have only basic education, 41% have secondary education and 5% have tertiary education. The figure for mean years of schooling in Nepal was 3.2 years in 2012. The low level of literacy impacts on people's ability to engage with financial services. There is an education differential regarding formal financial services, with usage increasing with higher education levels. FSPs communicate about their products via FM radio, which reaches the rural population. TV advertisements, newspaper and events are also used as channels to disseminate information. However, there remain low levels of appreciation of the usefulness of financial services; for instance, 35% of adults do not see the need to borrow.

**6. Eligibility barrier.** The central bank has introduced know your customer (KYC) requirements for deposit taking, remittance, cross-border transaction and credit extension activities. Only clients with transactions totalling less than NPR100,000 (US\$1,015) in annual deposits and withdrawals are considered to be low risk and thus eligible for simplified KYC requirements. Such low thresholds discourage individuals from entering the banking system, requiring them to fulfil the detailed KYC, which is a 'hassle factor'. In addition, the KYC requirement means that the quarter of the adult population without a citizenship certificate (FWLD 2014) are rendered ineligible to access formal banking channels.

**7. Inappropriate products for unique needs.** Studies have shown that financial products in Nepal are mostly designed to serve the needs of the urban and semi-urban populations. Lack of financial products and services tailored to the needs of the rural unserved market is one of the key barriers to uptake of financial services. Despite the large number of FSPs in

the country, there is an overall lack of innovation in product features, with a homogeneous product range. The market of low-income consumers with needs varying across different target markets calls for appropriate products, such as frequent access, low-value inputs, ability to negotiate appropriate repayment periods in a market with highly seasonal and irregular incomes, and so on. The lack of availability of such products serves as a barrier to uptake.

**8. Lack of strong consumer protection provision.** Consumer protection is mostly limited to theory, with inconsistent and contradictory guidelines being issued. NRB's five-year strategic plan looks into client protection through the expansion of the current coverage of deposit guarantees to protect small depositors. Under this plan, NRB is working to enhance the institutional framework for the deposit guarantee system and increase the coverage and limit of deposit and credit guarantees. Although the central bank has issued directives in line with promoting and implementing consumer protection, there is a general lack of awareness of customers' responsibilities, and the system for handling grievances is inefficient.

**9. Lack of financial awareness and customer education.** Consumers for the most part lack knowledge and awareness of financial products being offered in the market. While the locally based FSPs have played a role in increasing uptake, there is still lack of general understanding of how particular financial products function and which are most appropriate for different needs. For example, many MSMEs use business credit to cover family expenses and risk events, while many farmers exhaust their savings to meet operational expenses. Given that banks in Nepal offer a range of homogeneous products that are limited in terms of their usefulness to most of the population, increased levels of customer education and financial awareness could help to ensure that existing products are being used optimally by customers.

## Market drivers

As measures are put in place to remove the barriers to financial inclusion, there are also broader trends that need to be taken into account:

- **Proximate reach of formal providers to the majority of the population is limited.** Banks and other formal providers are concentrated in urban areas and market centres in rural areas. By contrast, MFIs and cooperatives have a strong presence and are more easily accessible. Given the sheer number of cooperatives (15 registered with NRB and 17,491 registered with the Department of Cooperatives), there is an overall ease of access to financial services from these institutions, and this has served to spearhead financial access and inclusion. Moreover, MFIs purposely target the financially excluded and operate in rural areas.
- **Locally based FSPs dominate provision.** MFIs and cooperatives tend to focus only on providing financial services in their immediate local communities. These providers make

up a key component of the ‘other formal’ provider channel in the FinScope survey – a provider base that serves 42% of the adult population overall and 23% and 9% of adults with savings and credit, respectively.

- **Informal sector players are significant.** As part of locally based providers, the informal sector – including informal savings and credit groups, self-help groups, dhukuties and local moneylenders, among others – has greater reach across the country. Significant volumes of financial service business are being carried out by the informal sector (although because such groups are not registered, concrete data on the volume of their transactions is not available).
  - **Relationship and community connections are a foundation for financial service function.** For financial service providers, formal and informal alike, relationship marketing has been an important competitive edge. This makes sense in this highly collectivist society, where community relationships and social status are prize factors, and has been a significant factor in the recent increase in provider numbers.
  - **Tiered banking sector creating a well-structured market, but in need of greater differentiation of licensed competencies.** Nepal has four tiers or classes of banks – A, B, C and D – that are differentiated in terms of their licensed competencies. This is designed to create differentiation in their target market focus and level of allowable product provision. However, this has not fully materialised in practice and the industry still has a large number of bank players with largely homogeneous product offerings.
  - **Informal and other formal providers overshadow banks.** Class A commercial banks are the largest FSPs in the savings, credit and transactions market in terms of value held or channelled. However, in terms of number of customers, these institutions are overshadowed in the various product markets by informal providers, and see significant competition from other formal FSPs. For example, 29% of adults use credit from informal providers, versus 6% from banks.
  - **There is a high level of dormancy and limited usage of bank accounts.** Around 20% of bank accounts are dormant with zero interaction over a year, and 30% of these accounts were found to be dormant in the sense of zero interaction over a month. Moreover, 52% of bank accounts are used primarily as ‘mailbox accounts’, which means that they are only used for the purpose of receiving funds that are then almost immediately and entirely withdrawn by the account holder.
  - **Commercial banks are mandated to provide deprived sector lending.** Through the credit policy of NRB, banks are mandated to provide deprived sector lending either directly through retail channels or via wholesale lending. Most institutions opt for providing wholesale funds to MFIs.
- This resource of cheaper capital has helped to increase the penetration of formal banking channels in rural areas. (‘Deprived sectors’ include extremely low-income people, especially socially deprived women, members of lower castes, disabled people, small and marginal farmers and landless people, who, by virtue of their low status, are excluded from formal banking services.)
- **Homogeneous product provision the norm.** The products offered by formal FSPs mostly only vary in terms of the rate of return. FSPs rely more for their competitive advantage on the relationship with consumers than on innovative product features. Introducing innovative products would be a drain on provider resources as it would require monetary investment and a deeper skills base. Without a strong motivation to take on such costs, it is unlikely that the status quo will change.
  - **Banks lack willingness and ability to serve a wider base of retail customers.** The dominant (in terms of value held) banking providers in the market are structured in terms of the business model of serving large corporate clients and high-value individual clients, with a lesser focus on retail. This business development and operational strategy makes it infeasible to serve a large-volume low-value clientele. By the same token, the lower classes of banks, which have a mandate to focus on a broader market basis, are currently unable to do so at scale because of low levels of capital.
  - **Consolidation and adjustments to capital requirements could have financial inclusion benefits.** Considering that there has been the introduction of a regulatory requirement to increase capital levels by a range of minimum 33% to maximum 500%, the total number of formal FSPs is likely to be reduced; institutions will either merge to meet the regulatory requirements, or fail to do so and effectively become absorbed into existing institutions. In order to maintain profitability at the increased capital levels, banks will likely look to expand market reach and leverage consolidation to increase economies of scale and achieve cost efficiencies; this could make it possible for them to sustainably service a broader market.
  - **There is a need for more and better insurance products.** Excess liquidity in the banking system and decreasing returns on investments have put additional pressure on insurance companies to widen their outreach by extending their services into rural markets, and increasing insurance awareness and product range.
  - **Across the board, the supervisory environment for FSPs is highly engaged in the finer details of market operation.** This includes activities and product aspects that in more market-led economies would be left to market forces. This can drive positive financial inclusion impacts, but also holds the potential to hinder outreach.

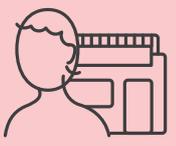
Segment	Estimated size	Characteristics	Identified needs
 <b>Salaried workers</b>	1.4 million	<ul style="list-style-type: none"> <li>Main source of income is salaries from private or public enterprises.</li> <li>Highest income earners.</li> <li>Majority are urban (most urbanised target market segment).</li> <li>Male-dominated target market.</li> <li>Best-educated target market.</li> <li>Best-served target market in terms of financial services.</li> <li>Majority (66%) use formal financial services.</li> </ul>	<ul style="list-style-type: none"> <li>Cost-effective transaction account for salary receipt, with functionality and affordable pricing that would enable digital transactions.</li> <li>Affordable, accessible and flexible credit and savings options appropriate for low-value amounts.</li> <li>Products that support long-term wealth building, such as long-term savings and credit products and risk-mitigation products (e.g. insurance).</li> <li>Insurance products, as this is the main potential market for insurance.</li> <li>Potential to use bundling of products to increase access further.</li> </ul>
 <b>MSMEs</b>	1.9 million	<ul style="list-style-type: none"> <li>Main source of income is owning/running an MSME.</li> <li>Second highest income earners.</li> <li>Majority are rural.</li> <li>Majority are males.</li> <li>Majority are young.</li> <li>Second most-educated group.</li> <li>51% use formal financial services.</li> </ul>	<ul style="list-style-type: none"> <li>Cost-effective and easily accessible payment mechanisms.</li> <li>Very big need for working capital; also need for investment capital to support business activities e.g. credit and savings products.</li> <li>Products to assist with mitigating risk attached to household and business – especially products that reduce key-person risk.</li> <li>Committed savings products to help in consumption smoothing.</li> <li>Viability-based financing models.</li> </ul>
 <b>Remittance receivers</b>	1.6 million	<ul style="list-style-type: none"> <li>Main source of income is inward remittance received either internationally or domestically.</li> <li>Third highest income earners.</li> <li>Majority are rural.</li> <li>Majority are females.</li> <li>Majority have low levels of education.</li> <li>52% use formal financial services.</li> </ul>	<ul style="list-style-type: none"> <li>Cost-effective, reliable and accessible remittance channels.</li> <li>Consumption-smoothing financial products (driven by quarterly remittance receipts).</li> <li>Products to facilitate wealth building and protect against risk, especially due to high-income nature of target market.</li> </ul>
 <b>Farmers</b>	4.6 million	<ul style="list-style-type: none"> <li>Main source of income is farming activities.</li> <li>Largest target segment, with low levels of income.</li> <li>Majority are based in rural areas.</li> <li>Gender split is more or less equal.</li> <li>Majority have maximum of primary education.</li> <li>65% primarily use informal financial services.</li> </ul>	<ul style="list-style-type: none"> <li>Both depth and breadth focus.</li> <li>Upfront capital and flexible repayment options to match seasonal income flows.</li> <li>Risk-protection mechanisms to mitigate agriculture risks and key-person risks (due to production link to human capital).</li> <li>Input financing services and storage-of-value accounts.</li> <li>Consumption-smoothing financial products (driven by seasonal income receipts).</li> </ul>
 <b>Irregular earners</b>	2.3 million	<ul style="list-style-type: none"> <li>Main source of income is piecework.</li> <li>Low, irregular earnings.</li> <li>Majority are in rural areas.</li> <li>Majority are males.</li> <li>Lowest literacy levels.</li> <li>Lowest access of all target market segments to formal financial services.</li> <li>33% primarily use informal financial services.</li> </ul>	<ul style="list-style-type: none"> <li>Consumption-smoothing financial products (driven by irregular income receipts).</li> <li>Products to facilitate investment in productive potential and skills training.</li> </ul>
 <b>Dependents</b>	2.4 million	<ul style="list-style-type: none"> <li>Main source of income is from family and friends, or government grants and welfare benefits.</li> <li>This is the poorest of the target market segments.</li> <li>Majority are rurally based.</li> <li>Majority are females.</li> <li>Majority are young.</li> <li>29% use formal financial services.</li> <li>33% remain financially excluded.</li> </ul>	<ul style="list-style-type: none"> <li>Consumption-smoothing financial products (driven by irregular income receipts).</li> <li>Products to invest in human capital, such as improving skills and ability to generate an income.</li> </ul>

Table 1: Financial service needs by target market segment

# Enhancing financial inclusion in Nepal

## MAP prioritisation process

In defining and prioritising measures to improve financial inclusion, the MAP diagnostic has identified six target market segments, namely: 1) salaried workers, 2) micro, small and medium enterprises (MSMEs), 3) remittance receivers, 4) farmers, 5) irregular earners and 6) dependants. The description and needs of each of these segments are set out in Table 1.

Given that a financial inclusion roadmap will not be able to bridge every gap and realise every opportunity, financial inclusion interventions should be prioritised according to those opportunities that best meet the national objectives for growth and improved livelihoods. This in turn is linked to how closely a particular intervention meets each of the segments’ needs, and hence the potential reach of the intervention given the number of people and average income of each segment. Selected priorities could help to reduce transaction costs, improve households’ opportunities to access goods and services, offer tools to mitigate risks, and enable accumulation of capital or aid allocation of such capital to productive opportunities.

In addition, while all institutions need to be leveraged to help to deliver the identified priorities, it is worth noting that some institutions are likely to deliver impact more quickly, given their (current or potential) scale, the incentive for them to go down market, and the extent to which consumer protection concerns arise. Based on the analysis, the shortlisted priority strategies are shown in Table 2.

It is important to note that these are not the only opportunities for enhancing financial inclusion in Nepal. However, these strategies present targeted interventions likely to have the greatest positive impact in the country.

## A proposed goal for financial inclusion in Nepal

In order to provide a vision and direction for financial inclusion in Nepal, the following national financial inclusion policy goal is proposed:

**Increase formal financial inclusion in Nepal from 61% 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 payments 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.**

The proposed policy goal identifies the six main priority areas in which objectives need to be achieved in order for the goal to be achieved.

In the course of the research, a number of preconditions for achieving the priority area objectives were identified; these need to be monitored and, where possible, addressed by the stakeholders during the roadmap implementation phase. These preconditions include:

- Stabilised political and macro-economic conditions.
- Timely approval of key financial sector policies and proposed amendments to key policies and acts.
- Political will and coordination among bureaucrats and stakeholders.
- Improved infrastructure and Internet connectivity.
- Improved education infrastructure and literacy levels.

Shortlisted priority	Key observations
<ol style="list-style-type: none"> <li>1. Unlock constrained credit and savings markets.</li> <li>2. Improve payments systems.</li> <li>3. Bolster risk-mitigation capabilities.</li> <li>4. Enhance and leverage locally based financial service providers.</li> <li>5. Enhance financial inclusion support in national governance.</li> <li>6. Strengthen consumer empowerment, protection and education.</li> </ol>	<ul style="list-style-type: none"> <li>• More than 53% of the adult population do not have access to any form of credit, while 43% use no saving mechanism. Informal providers are key FSPs for adults with access.</li> <li>• 64% of adult consumers use cash and other means (e.g. barter of goods and services) for transactions.</li> <li>• Key payments systems components are missing or not effectively applied.</li> <li>• 80% of a highly vulnerable adult population are excluded from insurance, and as a result vulnerable to risk events.</li> <li>• Key financial Acts are being amended and new Acts are in the pipeline. A long-term development strategy for the country is being formulated.</li> <li>• Relationship interaction is key in the Nepali market, and locally based providers with community networks have had success across all target markets.</li> </ul>

Table 2: Shortlisted priority strategies

## Implementation priority areas

The MAP diagnostic has identified **six priority opportunities** for increasing financial inclusion. Intervention in the six priority areas is believed to hold the potential to achieve the greatest impact on the greatest number of adult consumers, in terms of meeting needs for financial services and products.

This section of the report focuses on the key interventions necessary under each identified priority area. The interventions directly support the achievement of the proposed national financial inclusion goals.

### Priority 1: Unlock constrained credit and savings market

The main objective of this priority is to ensure wide-scale saving mobilisation and unlocking of credit, to improve the ability of Nepali adults to efficiently invest in assets and productive capacity.

**Constraints to realising total potential uptake of savings and credit.** Unlocking savings and credit markets will help households to better manage cash flow, smooth consumption, accumulate wealth and cope more effectively with risk. Furthermore, unlocking savings services can help institutions to build a relationship with their customers, possibly leading to greater demand for credit, insurance and payment services. On the demand side, low levels of income and low financial literacy constrain uptake of savings and credit. However, in Nepal, there are also supply-side constraints stifling a viable business model for savings and credit provision. The high levels of consumer uptake in informal markets are evidence of latent demand, suggesting that informal providers could work on improving the value already offered, and that formal providers could compete if they were able to unlock the correct value proposition for the market.

**Eligibility issues and limited ability to price in risk accurately are constraining credit.** The low access to credit from formal providers is attributed both to the requirement for collateral to back lending and to

information asymmetries, which mean that potential customers must show proper legal identity documentation and proof of income. Such requirements restrict many consumers to being able to borrow only from the informal sector, where eligibility barriers are much lower. Another issue constraining credit is the relatively high cost of personal screening and due diligence for even a modest loan amount; with limited access to inclusive and timely data, lenders are concerned that borrowers might accumulate many loans from multiple lenders, potentially resulting in their over-indebtedness. Regulatory caps on interest rates further reduce the ability of credit providers to accurately price in this risk, thereby limiting their ability to take it on.

**Constrained credit reduces the ability of formal providers to provide high returns on savings.** The ability to gain an adequate risk-weighted return from investing or on-lending available deposits is an important growth link between the savings and credit models. Without the ability to invest, or to invest at rates that promise a viable return, providers are limited in terms of providing attractive

Intervention	Activities
Product development	<ul style="list-style-type: none"> <li>Make available non-collateralised credit products tailored for specific target markets – namely, collateral free-loans – against credit score.</li> <li>Expand the product range to include a wider spectrum of long-term savings products, such as pension schemes, national saving schemes, and commitment savings products.</li> <li>Leverage existing digital payment channels to provide low-cost savings.</li> <li>Leverage agency models and mobile FSPs.</li> <li>Introduce customised products for the low-income target markets, to be mobilised through MFIs leveraging the deprived sector lending provision.</li> </ul>
Improved business models	<ul style="list-style-type: none"> <li>Resolve high barriers to entry on the capital markets to incentivise a deeper market that creates the supply of scripts for greater liquidity to become feasible.</li> <li>Reduce costs by increasing efficiency in application for and management of credit and savings products, as well as leveraging alternative distribution links.</li> <li>Explore further potential for linking remote, formal FSPs with support products from locally based FSPs.</li> <li>Maintain and share record of lending by MFIs and SACCOs, to prevent duplicate borrowing.</li> </ul>
Individual credit-rating system	<ul style="list-style-type: none"> <li>Ministry of Finance to set up the legal framework for establishing a credit-reporting service provider, which should then be licensed by NRB.</li> <li>Establish a credit-reporting service provider to administer a networked credit information exchange.</li> <li>Support credit information-sharing initiatives.</li> </ul>
Enabling regulation	<ul style="list-style-type: none"> <li>Review interest rate caps to assess potential for upward revision.</li> <li>Open up the possibility of non-collateralised loans in the market.</li> <li>Develop a national savings rollout plan with tax incentives and benefits.</li> <li>Ensure active monitoring of MFIs and SACCOs to ensure sustainable expansion in a manner that is proportional to the risk that they pose to the financial services sector while sympathetic to the vital role that they fulfil.</li> <li>Review existing provisions on disbursement of credit by FSPs in terms of flexibility on asset-based lending and realisation of collateral.</li> </ul>

Table 3: Potential actions to unlock constrained credit and savings market

returns to deposit customers. In the Nepali financial services landscape, a further reason for providers to seek out this return on investment is the lack of a liquid capital market. A constrained credit market has the knock-on effect of oversupply of short-term liabilities in financial institutions that are currently not willing or able to adequately intermediate. The resulting low rates of deposit in formal institutions, coupled with competition from the returns offered by non-financial assets and investment in the securities markets, act as a further disincentive to consumers to commit to longer-term savings products. Institutions are in turn unable to fulfil their crucial role of intermediation in support of the long-term asset financing market. Such a constrained credit and capital market makes it extremely difficult to unlock formal savings markets through increasing the attractiveness of potential returns.

**Culture of saving in assets provides customers with returns, but locks up capital that could have been used for intermediation.**

There is a long-established culture of saving in assets in Nepal. Where returns on monetary savings are limited, and where such assets promise a market-linked return, this is a viable alternative. Nevertheless, this option is still impacted upon by the constrained credit market, in the sense that consumers have limited access to credit to assist with asset purchases. Furthermore, capital locked up in physical assets is unavailable for intermediation. For this reason, it will be important to explore avenues that would allow customers to take up savings products (whether physical or monetary) that give a decent return, while maintaining the ability to intermediate these savings through avenues such as credit. This would include product offerings that monetise physical assets, such as placing these assets in the commodity trading market. Furthermore, addressing the affordability and accessibility of products will be a key driver in promoting the growth of these services in Nepal.

Table 3 sets out the proposed activities for realising this opportunity.

## Priority 2: Improve payments system

**The main objective for this priority is to develop a cost-effective, reliable and accessible payments system that can benefit the vast majority of the population.**

**Enhance payments to support both cash and digital transactions.** The improvement of the payments system will benefit two big product categories: remittances (a key income source in the economy); and transactions (to reduce the cost of doing business or running a household). Nepal is a highly cash-based economy, and improving the ability to transact in this environment holds the potential to facilitate both digital and cash-based means of payment. In the long term, movement towards digital transaction is key for increasing system efficiencies and opening up the ability to transact remotely; but in the short to medium term there is still a need to facilitate access to cash to support transactions with this tender type. This drives the need for increased access to cash-out points through increasing the spread of cash networks.

**Nascent and dysfunctional payments system.** Nepal's existing payments system and supporting infrastructure are limited, with many improvements needed. Usage of existing payments infrastructure in Nepal is largely inefficient. Point-of-sale (POS) machines are only available at a small number of institutions, which usually possess multiple machines, due to lack of interoperability and high commission charges for bank customers accessing another bank's POS device. Similarly, automated teller machines (ATMs) are limited in number and largely concentrated in urban areas. The lack of interoperability in the existing system is due to the presence of multiple switches, no mandated push for providers to be interoperable and no consolidated electronic clearing and settling institution. The result has been cumbersome functioning between the banks, which has in turn incentivised customers to make more use of existing remittance infrastructure (which is more developed) for remote payments (both business and personal). Given that banks make very little income from transaction fees on the POS devices and ATMs, there

is also little incentive to expand this infrastructure. Furthermore, the banks are mostly unable to increase their fees to a feasible level due to restrictions imposed by NRB. Development of alternative digital payments providers, such as mobile financial service providers (MFSPs), has remained limited.

**Low incentive to transact digitally.**

These system inefficiencies have reduced the value that digital transactions can provide to customers, which in turn reduces the incentive for merchants to take up the infrastructure to support digital transactions. This is a factor that is often driven by market demand, given that merchants must often absorb high costs for providing digital transaction options. In a country where the status quo is cash transactions, it will be important to shape a digital payments value proposition for merchants linking into the infrastructure and for the end customer alike.

**Remittances are one example of fairly optimal system functioning.**

The one system element that functions fairly optimally is the remittance network. This covers not only the easier-to-serve urban areas but also – largely through the use of agents – the rural areas. The higher level of development of these systems goes hand in hand with the fact that remittances are a key source of income for the population, but it is also worth noting that formal providers have developed sufficient value in their product offerings to create a market landscape where they can dominate over alternative providers.

**Widespread and reliable payments systems needed for successful uptake.**

To increase the overall utility and uptake of digital payment options, both a well-functioning business model and the development of infrastructure (encashment and transactional alike) are needed. Widespread and reliable coverage of infrastructure (including agents) is an important aspect of this for two reasons: firstly, income or capital held in cash will need to be deposited in order to be available for payments via a digital medium; and, secondly, trust in the ability to withdraw cash from this medium or transact on a ubiquitous basis will be important before customers are prepared to commit.

**Resolving payments system issues will assist with reducing barriers for other product markets.** Improving the functioning and coverage of the payments system would deliver wider systemic benefits, assisting with addressing general proximity issues and reducing the opportunity costs of accessing remote institutions. Both are considered key barriers to accessing formal institutions. Given the growing number of remittance agents (who handle remittance disbursement), the existing agent network could be used to provide basic banking facilities through branchless banking. In addition to providing for encashment, such networks could be used to increase the uptake of digital transactions. Existing banking infrastructure should also be leveraged – with the goal of expanding access through overcoming both geographical and business model-based barriers – through partnerships between different providers, for example.

Table 4 sets out the proposed activities for realising this opportunity.

### Priority 3: Bolster risk-mitigation capabilities

**This priority is focused on improving the capabilities of adults in facing risk events that will have a significant impact on their financial situation, both current and future.**

**Strong need for risk-mitigation measures.** In a highly vulnerable population, risk events have the potential to deplete financial resources in a manner that can reduce wealth overall. At low income levels, though, the results can be even more serious, pushing people deeper into poverty. Coverage of these financial impacts is limited in the current market. The penetration of financial products dedicated to risk mitigation – namely insurance – is low, and there is limited access to suitable alternative sources of capital to cover risks (e.g. savings and credit). There is a need to focus across product markets to assess the potential

for enhancing the risk-mitigation capabilities these products provide.

**A range of products can provide risk-mitigation capabilities.** Insurance is designed specifically to mitigate risk, but the downside is that it allocates funds with high opportunity costs to a single function (which is especially problematic at low-income levels, where such trade-offs are already high). The intangible and long-term nature of the product often further discourage uptake, particularly in target markets where disposable incomes are low and awareness of the value of insurance is limited. Furthermore, affordability and accessibility remain key issues. While the majority of adult consumers may not know of, be able to afford, and/or access insurance, they nevertheless experience innumerable risks and need access to effective risk-mitigation tools. For most, this will likely be in the form of savings, although there is also the potential

Intervention	Activities
Payments infrastructure	<ul style="list-style-type: none"> <li>Expedite establishment of proposed RTGS system, for intra-bank funds transfer in real time.</li> <li>Prioritise establishment of inter-operable card and retail fund transfers.</li> <li>Expedite proposed integration of government collection and disbursement into the digital payments channel, to provide volume and scale for sustaining infrastructure (especially in rural areas).</li> <li>Evaluate the potential of a third-party provider of POS and POT machines, which would enable sharing and efficient use of this infrastructure.</li> </ul>
Enabling regulation	<ul style="list-style-type: none"> <li>Bring MFSPs under the purview of NRB, thereby mandating interoperability between MFSP and local switches.</li> <li>Bring Nepal Telecommunications Authority (NTA) on board for a joint forward-looking regulation governing MFSPs and encouraging telecoms to lead provision of mobile financial services.</li> <li>Re-evaluate existing restrictions on transaction fees, to make investment in cash and retail digital payment infrastructure more lucrative for providers.</li> <li>Evaluate the existing transaction limit requiring full KYC under the AML/CFT requirement, ensuring the limit is not a barrier for uptake of formal services.</li> </ul>
Branchless, mobile and Internet banking	<ul style="list-style-type: none"> <li>Mandate and improve interoperability with banks, local switches and MFSPs.</li> <li>Provide incentives for providers and customers to increase the uptake of digital cash.</li> <li>Partner with MFIs and leverage their existing distribution networks while taking advantage of banks' payment infrastructure to extend networks into and across rural areas.</li> <li>Incentivise and scale up existing agent networks, making possible a greater range of services (e.g. government-to-person payments).</li> <li>Introduce innovative products to address the specific payment needs of households and businesses.</li> </ul>
Enabling regulation	<ul style="list-style-type: none"> <li>Review interest rate caps to assess potential for upward revision.</li> <li>Open up the possibility of non-collateralised loans in the market.</li> <li>Develop a national savings rollout plan with tax incentives and benefits.</li> <li>Ensure active monitoring of MFIs and SACCOs to ensure sustainable expansion in a manner that is proportional to the risk that they pose to the financial services sector while sympathetic to the vital role that they fulfil.</li> <li>Review existing provisions on disbursement of credit by FSPs in terms of flexibility on asset-based lending and realisation of collateral.</li> </ul>

Table 4: Potential actions to improve payments system

for use of credit products, in which case repayment can occur over time.

**Health and environmental risks big gaps to address.** A major need identified in the market is the ability to protect against health and environmental risks (including large-scale, widespread risks such as natural disasters). The greatest short-term opportunity in this space is to provide health and life insurance to salaried workers, as this group has the highest and most regular incomes.

**Also need for risk mitigation in less-easy-to-reach customer bases.** Given the high exposure to agriculture across the population, agriculture insurance and disaster risk protection products are a gap in the market that should be further investigated.

**Low-income consumers' needs are key.** In terms of generalised risk needs,

there is an opportunity to tailor current products specifically to the needs of low-income segments. This is particularly applicable for insurance due to its nature as a risk-mitigation focused product. It will be important to address key barriers, such as affordability and accessibility, while providing products that target the varying and unique needs of the different low-income target markets. Insurance is a grudge purchase for many consumers, and approaches such as bundling, including value-added benefits or simply mandating purchase (where necessary) will assist with increasing the value proposition of insurance. Products that combine savings and insurance elements could assist with providing added tangibility and the option of using the products for a wider range of needs if required. It would also increase consumer interactions with insurance (both directly and through linked products), which could increase the awareness of the value of this product class.

**Risk-mitigation support to FSPs needed.** Risk impacts are felt not only at the consumer level but also by financial service providers (FSPs), especially in the case of widespread events such as natural disasters. Risk-mitigation support can be a vital tool for ensuring that FSPs can sustainably provide services to the market. Insuring MFI loans against natural disaster risks may be an opportunity to help to mitigate the risks that MFIs face in extending credit, particularly to farmers. It might also be more viable for insurance providers to contract directly with an MFI rather than providing cover to each of its clients.

The primary actions required in order to realise this opportunity relate to improving awareness, and innovative product and business model design. Table 5 sets out the proposed activities for realising this opportunity.

Intervention	Activities
Increase general awareness of insurance as a risk-mitigation tool	<ul style="list-style-type: none"> <li>Use an awareness-generation programme to showcase case studies and success stories of effective risk mitigation or protection of incomes via insurance.</li> <li>Use financial literacy programmes to improve understanding of the multi-dimensional benefits of insurance and to increase readiness to adopt insurance products.</li> <li>Ensure that agent ambassadors are well trained, to function as the key insurance provider contact points in rural areas.</li> </ul>
Improve insurer business models	<ul style="list-style-type: none"> <li>Undertake product innovation (particularly in micro insurance), by introducing different products, such as health and insurance products, in underserved, high-risk areas, or tailored to the needs of low-income segments (e.g. group or bundled insurance; low-value health insurance products such as hospital cash plans and hospital vouchers).</li> <li>Undertake product development, including exploring potential for embedding insurance in other products, compulsory health insurance etc.</li> <li>Explore partnerships with MNOs, pharmacies, agro-dealers and SACCOs, to extend distribution.</li> <li>Expand options for payment of premiums, including allowing the option of paying via mobile phone, and seasonally rather than monthly/annually.</li> <li>Improve technical know-how on agricultural insurance.</li> <li>Ensure broader investment avenues for investment providers.</li> </ul>
Wholesale disaster insurance, especially through MFIs	<ul style="list-style-type: none"> <li>Investigate wholesale insurance for natural disasters, to improve sustainability.</li> <li>Install the necessary supporting infrastructure (e.g. weather stations).</li> </ul>
Regulatory environment	<ul style="list-style-type: none"> <li>Develop a health finance regulatory framework for medical insurance schemes.</li> <li>Monitor insurance data to ensure that value is provided to customers (e.g. claims ratio).</li> <li>Publish AML/CFT guidelines with exemptions for low-value insurance, to encourage access.</li> <li>Develop regulatory framework for medical aid schemes (a medical health framework is in place).</li> </ul>

Table 5: Potential actions to bolster consumers' risk-mitigation capabilities

## Priority 4: Enhance and leverage locally based financial service providers

The primary objective of this priority area is to note a key supply-side player in the financial inclusion space and explore how it might be possible to expand its impact.

### Proximity and local knowledge key advantages for locally based FSPs.

The proliferation in Nepal of locally based formal and informal FSPs – such as SACCOs and MFIs in the formal space, and savings groups, hundis and moneylenders in the informal space – has been among the key drivers of financial inclusion in the country. While more remote FSPs, such as commercial banks, insurance companies and retirement funds, face proximity barriers and lack of understanding of the dynamics of potential target markets, locally based players have been able to reach the majority of the population (across rural and urban areas). They have filled the gaps created by the inability and unwillingness of FSPs to reach some markets, partly because they have local community knowledge that overcomes the information asymmetry barriers that keep remotely based players out.

**Enhancing, partnering with and emulating locally based FSPs to increase inclusion.** There are three levels

of intervention that could further leverage the existing financial inclusion reach of locally based FSPs:

- Actions that assist with bolstering and enhancing the effective functioning of the FSPs.
- As part of this support: linking more remote FSPs with local FSPs through (i) product provision directly to the locally based player, or (ii) symbiotic potential through linking with the FSP as a partner or agent for channelling services.
- The remote FSPs could gain an understanding of viable business model factors for reaching a broader mass market base through observing the value proposition that the locally based providers offer.

Table 6 sets out the proposed activities for realising this opportunity.

## Priority 5: Enhance financial inclusion support in national governance

The implementation of financial inclusion effort requires support from the national governance, and therefore is a priority in supporting effective financial inclusion across the board. Policy and legislative frameworks are key determinants of action in the market by both public and private actors.

**Increasing financial inclusion focus in policy a key intervention area.** Financial inclusion initiatives are best supported when driven by an overarching financial inclusion policy agenda. This can be a directed financial inclusion policy, or the integration of a financial inclusion policy element in financial sector or economic development policy. In particular, policy and legislative frameworks are key determinants of action in the market by both public and private actors. Nepal's three-year interim plan, monetary policy, and financial sector development policy all include an integrated element of financial inclusion. Furthermore, the Central Bank of Nepal (NRB) is currently implementing a five-year strategic action plan (2012–2016) with financial inclusion as a strategic priority. A focus on implementing these policies and plans will help to drive the rest of the financial inclusion priorities in Nepal.

**Legislative support for financial inclusion stalled.** To be effective, policy needs to be applied, through legislative instruments and regulatory and market action. A legislative framework for financial services functioning is currently in place, but with multiple elements that are either outdated or inadequate in terms of their reach. Corrective action has taken place in the form of efforts to draft new bills and underlying instruments, but many of these remain in the pipeline for approval

Intervention	Activities
Product development	<ul style="list-style-type: none"> <li>• Encourage remote FSPs to work with MFIs and SACCOs, leveraging their local knowledge to develop localised, needs-based products.</li> <li>• Disseminate information on these products using the existing, on-the-ground networks of local FSPs.</li> <li>• Pilot-test customised products to assess their acceptability and scalability.</li> </ul>
Business model development	<ul style="list-style-type: none"> <li>• Remote FSPs and local FSPs needs to forge partnerships to push localised products.</li> <li>• Leverage existing physical and technical infrastructure of banks.</li> <li>• Leverage existing distribution network of MFIs and SACCOs.</li> <li>• Enhance the capacity and sustainability of locally based FSPs.</li> </ul>
Regulatory framework	<ul style="list-style-type: none"> <li>• Coordinate with the regulators to develop the environment for partnership among MFIs.</li> <li>• Expand on the existing deprived sector lending directive, to further strengthen local FSPs.</li> </ul>

Table 6: Potential actions to enhance and leverage locally based financial service providers

without final action. Updating this framework is a priority, to ensure that the best possible supportive foundation for financial inclusion is in place.

**Need to enhance capacity of private and public sector financial inclusion champions.** For financial inclusion to be enacted on the ground, it is necessary to have capacitated individuals with the commitment and mandate to focus on and drive such initiatives. In this regard, it is crucial to prioritise the creation of convening support bodies – within the public and private sectors – that will take responsibility for financial inclusion interventions. Furthermore, ensuring that regulators are sufficiently capacitated to perform their roles is an important aspect of keeping system champions functioning optimally. On the private sector side, there needs to be coordinated action in the market to articulate key challenges and foster collaboration to overcome such challenges. It will be important to have a body or system that promotes public-private cooperation towards achieving the financial inclusion priorities.

Table 7 sets out the proposed activities for realising this opportunity.

**Priority 6:  
Strengthen consumer empowerment, protection and education**

**Financial capability is critical to enabling consumers to extract optimal value from financial services. Prioritising empowering consumers in this respect can be a key factor in driving uptake of financial services.**

**Financial capability is broader than literacy skills.** By ‘financial capability’ is meant more than simply consumers’ literacy levels. It suggests consumers’ ability to engage confidently and appropriately with financial services, having effective communication skills, an understanding of how to engage with FSPs, and access to sufficient resources and information to be able to correctly assess financial services opportunities. Numerous stakeholders are already involved in attempting to improve the status of consumer empowerment and

Intervention	Activities
Policy development	<ul style="list-style-type: none"> <li>Conduct stakeholder consultation to identify issues to be addressed in financial inclusion.</li> <li>Analyse issues and recommend solutions.</li> <li>Develop relevant policies.</li> </ul>
Regulatory framework development	<ul style="list-style-type: none"> <li>Ministry of Finance and NRB to jointly propose the regulations for financial inclusion in line with proposed Acts.</li> <li>Develop guidelines and create a conducive environment for enactment of regulations.</li> <li>Identify overlapping and contradictory regulations, and introduce amendments for rectification.</li> </ul>
Create convening bodies	<ul style="list-style-type: none"> <li>Form a committee to ensure proper implementation.</li> <li>Create feedback mechanisms and evaluate the impact of interventions.</li> <li>Ensure a continual process of analysis and iteration.</li> </ul>
Strengthen the capacity of system champions	<ul style="list-style-type: none"> <li>Conduct a workshop to train the member representative of each of the stakeholder groups, to enhance their technical capacity and support them in being champions of the financial inclusion process.</li> <li>Improve the capacity of Ministry and NRB personnel, to ensure that the various processes are conducted efficiently.</li> </ul>

**Table 7: Potential actions to enhance financial inclusion support in national governance**

awareness in Nepal. Government agencies, donor organisations and NGOs have all been making contributions in this regard. As already mentioned, the country has a range of financial service needs, and a lack of good-quality, relevant financial products. There is also limited consumer protection legislation and an absence of consumer protection institutions.

**Lack of strong consumer protection provision.** There is a low level of awareness of the need for consumer protection rights in the country. What consumer protection there is exists more in theory than practice, with inconsistent and contradictory guidelines being issued. NRB’s five-year strategic plan has a client protection element in the form of expanding existing coverage of deposit guarantees to protect small depositors. Although the central bank has issued directives in line with the promotion and implementation of consumer protection, there is low awareness of the role of customers with regard to ensuring implementation of customer protection, and the system for handling grievances is inefficient.

**Limited consumer uptake points to both limited awareness and limited**

**choice.** There is a high degree of overlap between products accessed from formal and informal financial service providers. Of the total adult population, 25% use formal services to access only one type of financial product. This indicates both the need for awareness building regarding the availability and appropriateness of different financial products and services, and the importance of suitable financial products being made available to suit the lifestyle needs of consumers. These are important considerations in the market-building activities of both the financial service providers wishing to extend their services (particularly to lower-income segments) and donors using financial services as a tool.

**Communication in accessible format and language important.** In Nepal, on average literacy levels are moderately low, but growing; the fact that 60% of the population are considered literate presents an opportunity for building effective communication in terms of financial sector information. Empowering consumers through effective communication requires commitment to the use of accessible format and language, and avoidance of jargon.

**Build on consumers' existing**

**understanding.** Often consumers do not understand official financial terminology, and yet are familiar with the underlying financial concept. Respecting and leveraging the financial knowledge that consumers already have can help to increase consumers' financial understanding, build relationships with consumers, and better serve their needs by providing more appropriate products.

**Systems should be simple and**

**innovative.** The language of contracts can be kept simple, and the use of electronic and verbal contracts may be helpful. Requiring a thumbprint rather than a written signature is an option. Ongoing innovation that includes appropriate use of technology in combination with consumer education is key.

Table 8 sets out the proposed activities for realising this opportunity.

Intervention	Activities
Provider-led education	<ul style="list-style-type: none"> <li>▪ Incentivise providers to pool resources in developing and providing training materials.</li> <li>▪ Encourage providers to train their human resources to research target markets, for improved understanding.</li> <li>▪ Encourage providers to train their sales teams, for improved communication.</li> <li>▪ Ensure that products are affordable and simple to use, to encourage usage and trust.</li> </ul>
Consumer protection framework	<ul style="list-style-type: none"> <li>▪ Strengthen the existing consumer protection framework.</li> <li>▪ Train NRB officials to understand the importance of consumer protection and how it can be integrated across the financial sector.</li> <li>▪ Ensure that existing provisions for customer protection are implemented effectively.</li> </ul>
Financial literacy initiatives	<ul style="list-style-type: none"> <li>▪ Leverage existing village saving groups and other formal and informal groups in designing financial educational initiatives.</li> <li>▪ Improve coordination between FSPs, development partners and government stakeholders in the implementation of financial literacy initiatives.</li> </ul>

**Table 8: Potential actions to drive effective consumer empowerment, protection and education**

# Roadmap to reform

## Anticipated programme benefits

The FinScope Consumer Survey in Nepal concludes that the country has a good level of financial inclusion (in terms of access). However, the product market evaluation indicates a very low uptake of transactions, credit and insurance, which indicates that, despite access, financial product usage is low. Access to and usage of financial services has the potential to enhance individuals' welfare while assisting in the attainment of economic growth, employment generation and human capital development. By contrast, the current scenario in Nepal suggests that consumers have limited capacity to mitigate against risks, smooth consumption, accumulate assets and invest in productive activities.

The Nepal financial inclusion roadmap will address issues and help to achieve the overarching policy objectives. The proposed programme will contribute the following specific benefits:

- **Support for economic growth:** through capital formation, and through mobilisation of credit resulting from better saving habits and increased access to credit. This will also help to leverage the inflow of remittances for wealth accumulation and investment in the productive sector. Relevant, affordable products and improved distribution channels will help to achieve higher and better productivity in the various target markets. Farmers and MSMEs will be the main beneficiaries of better access to credit and payments, while remittance receivers, salaried workers, irregular earners and dependants will benefit from an appropriate mix of products. Furthermore, the government will be able to better implement social security schemes and distribution of subsidies.

- **Economic empowerment:** by enabling households to manage cash flows and smooth consumption. Individuals will become better equipped to mitigate risks and manage financial shocks, and will be able to direct funds towards investment in the human capital of their households. Affordable and relevant savings and credit products will help individuals to build a savings pool and better prepare them to smooth consumption and mitigate risks. Furthermore, if low-cost and efficient digital payment options are made more widely available, remittances, transactions and bill payments will be easier, enabling individuals to extract greater value. This will foster consumers' economic independence and support their economic well-being.

- **At the micro level – better service:** low-income individuals will be better served, while others will also be able to choose from an improved range of products and services that appropriately address their financial needs. New partnerships fostered between the stakeholders concerned, such as NRB and NTA, will assist in this regard.

- **At the macro level – economic growth and reduced inequality:** better financial inclusion will aid in the growth of the economy and also in reducing income inequality. The roadmap will also facilitate the establishment of legal and regulatory frameworks that would allow stakeholders to deliver lower-cost market-specific products addressing the needs of the market.

- **A financial inclusion measurement framework:** this will quantify and track parameters for measuring financial inclusion in Nepal, to ensure that the programme of action remains relevant to national objectives.

## The financial inclusion roadmap in the context of existing financial policy

Financial inclusion policy in Nepal is anchored on the following main policy documents:

- NRB's *five-year strategic action plan (2012–2016)* focuses on reforms that will facilitate financial inclusion in the country. One of the plan's seven strategic pillars is financial sector stability, under which enhancing financial inclusion is a strategic priority.

- Nepal's *three-year interim plan (2014–16)* is the third plan of the country. It has the core, long-term vision of graduating Nepal from LDC status to developing country status with an average annual growth rate of 6%. The plan emphasises the development of a sound banking and financial system to achieve the plan's priority sector objectives.

- The *monetary policy and financial sector programmes for 2015/16* aim to promote access to finance and financial inclusion. Very high priority has been given to the formulation of national financial literacy policy, in order to: promote usage of financial services, protect the rights of financial consumers and increase financial inclusion.

- The *Banks and Financial Institutions Act (BAFIA)*, which governs all activities of banks in Nepal, is a key route for promoting financial inclusion. NRB, under its deprived sector lending directive, has mandated class A, B and C banks to make available low-cost funds to micro-finance banks, thereby facilitating access to financial services on the part of the hitherto unserved sector.

- The *financial sector development strategy* proposed by the central bank is the overarching strategy of the country for 2014–2016. The strategy focuses on growth, access and inclusion, stability, governance, infrastructure and capacity development.

A long-term development strategy for Nepal is in the process of being formulated, and the international seminar 'Envisioning Nepal 2030', which was convened by the National Planning Commission on 28 March 2016, formed an important landmark in the process. This initial engagement included international development experts, development partners, policy makers and representatives of civil society

organisations. The seminar confirmed that, following the adoption of the country's new constitution, the focus is on empowering Nepal's people and ensuring higher, sustainable and equitable growth, helping the country to graduate from LDC status by 2022, and to achieve the UN SDGs and become a middle-income country by 2030. The seminar identified the need to include development strategies for key growth drivers. It will be important to ensure distribution of growth dividends to all Nepalis, help Nepal reap the demographic dividend of having a young population, and address sectors that have vast growth potential, including tourism and agriculture. At the same time, the development strategy will need to make provision for disaster risks, climate change, and vulnerabilities in the Nepali society and economy emanating from external shocks.

Financial inclusion is well placed to address these objectives. It can help to integrate efforts made by all sections of society, including the government, communities, civil society, and the private sector, synchronising existing policies and programmes, and further inspiring and motivating all to work towards achieving the long-term vision. Financial inclusion also offers the opportunity for Nepal to constructively collaborate with its bilateral and multilateral development partners to make its 2030 vision a reality.

The Nepal financial inclusion **roadmap** will integrate the targets of the financial inclusion policies currently being implemented, and should form the basis for a policy, strategic and implementation framework for financial inclusion in Nepal.

The Nepal financial inclusion roadmap:

- Is based on the comprehensive diagnostic of the entire sector, and thus identifies priority areas that will provide the greatest potential impact.
- Is the result of extensive consultation with stakeholders, which is why it is recommended that the roadmap be used to inform new strategy and provide input for current amendments being proposed to key financial policies and Acts (e.g. BAFIA, NRB Act).
- Will provide a platform to consolidate current efforts being made by multiple government agencies and development partners in the field of financial inclusion (see Table 9).
- Will help to guide future initiatives around the immediate priorities for financial inclusion.

The roadmap is not a static document, and will be updated over time as new research becomes available and as the financial inclusion landscape in Nepal changes.

Nepal has a long history of foreign aid and active development partner engagement in the growth and formation of the financial sector. The role of the roadmap steering committee will be to coordinate implementation and to engage with stakeholders, to ensure that key areas of the roadmap are implemented while avoiding duplication (which has been a key concern in the current scenario). The aim is to coordinate, forge partnerships and create synergies towards increasing financial inclusion.

Priority area	Ongoing work to be taken into account
Unlock constrained credit and savings market	<ul style="list-style-type: none"> <li>• ADB's <i>Capital Markets and Infrastructure Finance Support Project</i> – bridge gaps in infrastructure financing.</li> <li>• DFID's <i>Sakchyam Access to Finance (A2F) programme</i> – leverage access and facilitate financial sector development for SMEs and poor people.</li> <li>• UNCDF/Danida's <i>Access to Finance (A2F) project</i> – support financial institutions to improve their technical knowledge in agricultural finance and expand their products and services to rural areas.</li> </ul>
Improve payments system	<ul style="list-style-type: none"> <li>• DFID's <i>Sakchyam Access to Finance (A2F) programme</i>.</li> </ul>
Bolster risk-mitigation capabilities	<ul style="list-style-type: none"> <li>• ADB's <i>Raising Income of Small and Medium Farmers' Project</i> – reduce market and business risks for small and medium farmers.</li> </ul>
Enhance and leverage locally based financial service providers	<ul style="list-style-type: none"> <li>• ADB's <i>Improving Access to Finance Sector Development Program</i> – develop an effective micro-finance sector to improve access to finance for the poor and low-income population.</li> </ul>
Enhance financial inclusion support in national governance	<ul style="list-style-type: none"> <li>• ADB's <i>Rural Finance Sector Development Cluster Program</i> – improve the soundness, efficiency and outreach of the borrowers' rural finance sector through policy, legal, regulatory and institutional reform.</li> </ul>
Strengthen consumer empowerment, protection and education	<ul style="list-style-type: none"> <li>• Multiple projects have undertaken consumer empowerment and education as a complementary target for other specific goals.</li> </ul>

Table 9: Overview of ongoing financial inclusion donor work in Nepal

## Implementation and evaluation

The MAP Steering Committee will be responsible for coordinating the implementation of the financial inclusion roadmap. The Ministry of Finance, as chair of the MAP Steering Committee, will be the champion, and will provide leadership to the committee and all the stakeholders. All stakeholders will be responsible for actual implementation, wherein the regulators, financial service providers, supporting ministries and donor will play a crucial role.

The key stakeholders identified for the roadmap implementation are shown in Table 10.

## Measurement

Successful implementation partly depends on being able to measure progress, take corrective action as required, and communicate the outcomes of the interventions. A monitoring and evaluation (M&E) framework will need to be developed for measuring progress nationally, and should track activities, outcomes and outputs.

## Risks

Identified critical risks to implementation include the following:

- A number of key financial sector Acts are currently undergoing amendment, and approval and finalisation could be greatly delayed. In particular, the hearing on key financial Acts and policies needs to be prioritised, to ensure the best possible supportive foundation is in place for financial inclusion efforts.
- The current lack of framework for the payments system, and the general lack of overarching infrastructure in this regard, could greatly hinder the development of the national payments switch and the country's payments ecosystem. Lack of partnership in this regard between NTA and NRB creates an untenable situation for the operation of MFSPs. Instead of the two regulators imposing separate and conflicting regulations, a joint initiative is urgently needed if mobile money is to grow and its potential for increasing financial inclusion is to be realised.

	Categories	Institutions	Role and responsibilities
1	Regulatory authorities	<ul style="list-style-type: none"> <li>▪ Nepal Rastra Bank.</li> <li>▪ Securities Exchange Board of Nepal.</li> <li>▪ Insurance Board.</li> <li>▪ Ministry of Finance.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Regulatory and supervisory support for financial inclusion.</li> </ul>
2	Ministries	<ul style="list-style-type: none"> <li>▪ Ministry of Finance.</li> <li>▪ Ministry of Information and Communication.</li> <li>▪ Ministry of Education.</li> <li>▪ Ministry of Cooperatives and Poverty Alleviation.</li> <li>▪ Ministry of Industry.</li> <li>▪ Ministry of Agricultural Development.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Coordination and ownership of initiatives undertaken.</li> <li>▪ Budgetary and technical support for the initiatives.</li> <li>▪ Integration of initiatives into Ministry programmes.</li> </ul>
3	Associations and networks	<ul style="list-style-type: none"> <li>▪ Banking:               <ul style="list-style-type: none"> <li>o Commercial banks.</li> <li>o Development banks.</li> <li>o Finance institutions.</li> <li>o Micro-finance institutions.</li> </ul> </li> <li>▪ Insurance.</li> <li>▪ Cooperatives.</li> <li>▪ Credit information bureau.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Represent members' concerns and interests, and make proposals for increased financial inclusion.</li> <li>▪ Encourage best practice among members.</li> </ul>
4	Sector entities	Banks, cooperatives, MFIs, MFSPs, post office, national switch, insurers, reinsurers, MSMEs, NGOs, agro-dealers, retailers	<ul style="list-style-type: none"> <li>▪ Provide coordinating bodies with feedback and suggestions for improvement.</li> <li>▪ Implement best practices.</li> </ul>
5	Development partners	UNCDF, DFID, Sakchyam, ADB, World Bank.	<ul style="list-style-type: none"> <li>▪ Capacity-building technical support.</li> <li>▪ Financial support.</li> <li>▪ Coordinate among each other, government and private stakeholders.</li> </ul>

Table 10: Financial inclusion stakeholders in Nepal

## Conclusion

In Nepal, despite the proliferation of formal and 'other formal' financial providers, along with informal financial service providers, 18% of the adult population remain excluded from access to any type of financial service. Furthermore, at the product level, exclusion appears to be higher. For example, 80% of the adult population is excluded from insurance.

The lack of usage of a combination or portfolio of financial products undermines the ability of Nepali adult consumers to mitigate risks, smooth consumption, accumulate assets and invest in productive activities. There is a need for access to low-cost, more flexible and more diverse financial products, better tailored to the unique needs of different target markets, that can enhance the ability of individuals to manage their financial lives, increase income, manage risk and build wealth over time.

The Nepal financial inclusion roadmap can help stakeholders to address the challenges of financial inclusion, and to this end the roadmap proposes six priority initiatives: 1) Unlock constrained credit and savings market; 2) Improve payments system; 3) Bolster risk-mitigation capabilities; 4) Enhance and leverage locally based financial service providers; 5) Enhance financial inclusion support in national governance; and 6) Strengthen consumer empowerment, protection and education.

The implementation of the proposed initiatives is anticipated to deepen and broaden financial services and directly improve household welfare, through: the introduction of relevant products addressing key consumer needs; the introduction of sustainable business models; and the setting up of partnerships that more effectively and efficiently serve the different target markets identified. The implementation of the roadmap will also support economic growth and aid in the development of human capital.

The roadmap provides a framework for defining, prioritising, coordinating, measuring and tracking the impact of the financial inclusion programme in Nepal.

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Kameshnee Naidoo  
MAP Global Programme Advisor  
Kameshnee.naidoo@uncdf.org  
map.uncdf.org

