

Nepal is a newcomer to the digital financial services (DFS) space, with most efforts being small scale with branchless banking deployments. Most banks simply lack a long-term vision to create alternate distribution channels to reach the 'last mile,' and a large portion of their efforts to date have been driven by interventions from development agencies. Nepal's economy has been affected significantly by the earthquake of April 2015 as well as the political unrest that occurred during most of the second half of 2015.

Immediately after the 2015 earthquake, the Government expressed interest in digital payments for reconstruction grants. The Ministry of Federal Affairs and Local Development has expressed its intention to develop a fixed pricing system for social security payments, based on geography and cost. The Ministry of Finance has formed a multi-stakeholder committee as part of its commitment to the Better Than Cash Alliance. At the same time, Nepal Rastra Bank (NRB, Nepal's central bank) dedicated a department to payments systems that recently released its by-laws on payments and settlements and called on institutions to apply for a licence. This action opens the door to non-banks (i.e., mobile network operators [MNOs], money transfer operators) to operate wallet services in the market. There is tremendous opportunity in Nepal linked to remittances as a gateway to financial inclusion that remains untapped.

The United Nations Capital Development Fund (UNCDF) programme Mobile Money for the Poor (MM4P) uses a **theory of change** approach to DFS development, which focuses on making **shifts** between phases of market development, moving from Inception to Start-Up to Expansion and eventually to a mature market known as Consolidation. Through each phase, MM4P takes into account the entire DFS ecosystem. This means MM4P plans activities at the levels of Policy & Regulation, Infrastructure, Providers, Distribution, High Volume



Nepal Annual Monitor

2015



and Customers to improve market conditions and facilitate shifts. Nepal is currently in the Start-Up phase of DFS market development.

MM4P launched its programme in Nepal in 2013.

Since 2013, MM4P has supported market development through the following activities:

- Ensured placement of a full-time DFS expert
- Coordinated within the DFS market
- Conducted demand-side needs assessment and agent network research
- Provided technical workshops around building and strengthening strategy and agent networks
- Conducted user experience research
- Supported the central bank NRB on a regulatory study tour to the United Republic of Tanzania
- Provided internal training for NRB
- Supported NRB on data collection refinement and processes
- Organized public workshop on DFS
- Supported strategy and pilot development for banks and non-banks

Over the next three years, the aim of MM4P is to move the market from the Start-Up phase to the early Expansion phase. New players are crowding in and are driven by competition around service delivery. Market players are investing in scalable deployments with tested use cases around agriculture, energy, remittances and government payments. The central bank NRB is taking on data-driven decision-making for policy and programmes, with interoperability a major theme.

In 2016, MM4P has planned the following activities:

- Support the launch of on-the-ground services for International Money Express, Ncell and Prabhu
- Support NRB in setting up and launching data analytics system with a public interface
- Develop and pilot test a use case, focusing on agriculture and clean energy, with key players in the sector
- Undertake an agriculture digital linkage study for specific value chains
- Support Department of Civil Registration in launching procurement for five districts to transfer social security allowance payments
- Support the Ministry of Finance committee on digitization to function and guide market movement from a government perspective
- Support Department of Civil Registration in completing the strategy for digital payments for social security allowance benefits in a phased manner for all 75 districts, with 25 districts covered in the next five years

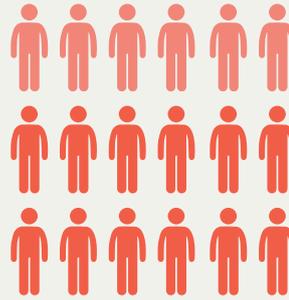
Facts and figures

Nepal

28,514,000

Population

UN World Population Prospects, 2015



19,198,000

Adult population

UN World Population Prospects, 2015

Where we were
2013

Where we are
2015



Active registered DFS users
90 days

0.2%^a

of adult population

25,387^a
total

0.6%^b

of adult population

112,334^b
total



Active agents
30 days

2.5^a

per 100,000 adults

404^a
total

5.0^b

per 100,000 adults

1,027^b
total

^a Scoping mission, 2014

^b Results Measurement Framework: Nepal 2015 (MM4P internal document based on data collected from banks, excluding over-the-counter [OTC] transactions) and UN Population Statistics, 2015



84%

Mobile penetration rate

GSMA, 2014



34%

Financial inclusion rate

Global Findex, 2014

Providers engaged in DFS



MNO

Ncell



Main banks

Laxmi Bank
Mega Bank
Nepal Investment Bank
NMB Bank
Rastriya Banijya Bank
Siddhartha Bank



Others

eSewa
FOCUSONE Payment Solutions
Hello Paisa
International Money Express
Prabhu Management
Prabhu Money Transfer

Opportunities

- Facilitating creation of a data-driven policy environment with central bank NRB and Ministry of Finance
- With government drive towards digitization, developing use case around government-to-person (G2P) payments and engaging different government ministries to take part
- Integrating agriculture, clean energy and education with DFS
- Converging the use of remittances from OTC-based model to deliver through formal mechanisms, thus driving productive sector use
- Linking up with cooperative sector to help mainstream members with formal financial system
- Current work around interoperability through Nepal Clearing House and NRB possibly paving way to lower costs in the future
- With financial literacy strategy developed at government level and endorsed by the Cabinet, further strengthening of the delivery mechanism through use of mobile and other electronic means

Challenges

- Delays in licensing policy for non-banks affecting channel creation
- Bureaucracy surrounding the work of central bank NRB and government ministries influencing ability to drive positive change quickly
- Some delays while working with other development actors in the country
- Continuous change in bureaucracy and political instability leading to delays in policymaking
- Funding availability for the programme to be able to continue long term

Where we were

2013

NRB still using 2012 electronic banking guidelines for DFS

A few branchless banking efforts by banks but none at scale

One partnership between eSewa and Nabil Bank testing the agent model based on wallet accounts and allowing for push/pull from different bank accounts

No existing operational pilot of G2P payments

Where we are

2015

Payments system by-laws passed by NRB, paving way for non-bank payment service providers to be licensed

NRB working on licensing procedure and guidelines for allowing payment service provider operations, with applications invited from potential players

Largest MNO and remittance companies applied for licence to operate with NRB and planning the launch of DFS

Department of Civil Registration adopted pricing principles for G2P payments

Two largest remittance companies put in place limited pilots on remittance cards

Where we want to be

2019

NRB adopts the system for data-driven policymaking and completes the geographic information system mapping of Nepalese financial infrastructure

New market participants drive inclusion agenda; know-your-customer requirements are eased; interoperability is promoted by NRB

Three to four major non-bank deployments take place, with services deployed across the country and competition driven by product and services

Non-banks and financial institutions work in partnership to co-create services; microfinance institutions and cooperatives test role transformation

Scalable deployments are completed, with tested use cases around agriculture, energy, remittances and government payments

Institutions move towards interoperable networks; cooperative, microfinance institution and other agency models are tested and scaled to be one-stop-shops for financial services

Government drives G2P and person-to-government payments across a large part of the country through digital channels

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