UN CAPITAL DEVELOPMENT FUND
Programme Document Annex

SUPPORT TO FINANCIAL INCLUSION IN NEPAL 2014-2018 THROUGH THE "ACCESS TO FINANCE" (A2F)

Region	Asia
UNDAF Outcome(s):	Outcome 2
Expected Outcome(s)	Enabling smallholder farmers and MSMEs to invest into their agricultural (value chain) activities leading to the sustained improvement in competitiveness of selected value chains creating an inclusive financial system that will support pro – poor private sector driven growth.
Expected Outputs	Additional 250,000 small holder farmers, and MSMEs out of which at least 55% are women actively use appropriate and affordable financial services to support their value chain activities on a national level, out of which 55,000 are located in Ilam, Paanchthar, Terhathum, Bhojpur and Dhankuta (located in the mid – hills) and Taplejung and Sankhwasabha;
Implementing Partner:	Nepal Rastra Bank, Government of Nepal
Responsible Parties:	UNCDF

Brief Description

Financial and technical support to financial institutions to improve their technical knowledge in agricultural finance and expand their products and services to rural areas and agricultural activities.

Programme Period:	2014 - 2018
Atlas Award ID:	
Start date:	1 Jan 2014
End Date	31 Dec 2018
PAC Meeting Date	20th Nov 2013
Management Arrangements	NIM

Total resources required $ 9,473,339
Total allocated resources: $

- Regular
- Other:
  - DANIDA Nepal $ 7,385,525
  - UNCDF (mm4p) $ 1,022,875*
  - DFID Nepal (map) $ 1,064,996*

Unfunded budget:
In-kind Contributions

- Parallel funding contribution through global UNCDF projects

Agreed by UNCDF:

Marc Bichler
Executive Secretary
UNCDF

Date: 25/04/2014

Agreed by Government of Nepal:

Narayan Prasad Paudel
Executive Director
Micro-Finance Promotion and Supervision Department,
Nepal Rastra Bank

Date: 25th March 2014

Tables and Figures

UN ex rate as of Nov 1, 2013: DKK 5.416

LIST OF ABBREVATIONS

A2F	Access to Finance (UNCDF Project in Nepal)
ADB	Asian Development Bank
AusAid	Australian Agency for International Development
BFIs	Banks and Financial Institutions
BIFA	Banking and Financial Institutions Act
BMGF	Bill and Melinda Gates Foundation
DCED	Donor Coordination and Enterprise Development standards
EAFS	Enhancing Access to Financial Services (UNCDF Project in Nepal)
EDR	Eastern Development Region
F4VC	Finance for Value Chain Fund
FI	Financial Institution
FINGO	Financial Intermediary NGO
FMDB	First Microfinance Development Bank
FSP	Financial Service Provider/s
G2P	Government to Persons
GDP	Gross Domestic Product
GON	Government of Nepal
LDCs	Least Developed Countries
MAP	Making Access to Finance Possible (UNCDF Global Project)
MC	Management Contractor
MIS	Management Information Systems
MFS	Mobile Financial Services
MM4P	Mobile Money for Poor (UNCDF Global Project)
MSME	Micro Small and Medium Enterprises
NCDF	National Cooperative Development Board
NEFSCUN	Nepal Federation of Savings and Credit Cooperative Unions Ltd
NGO	Non-governmental organization
NORAD	Norwegian Agency for International Development
NRB	Nepal Rastra Bank
RMDC	Rural Microfinance Development Centre
SACCOs	Savings and Credit Cooperative Organizations
SFCL	Small Farmers Cooperative Ltd
SIDA	Swedish Agency for International Development
UNCDF	United Nations Capital Development Fund
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNNATI	Inclusive Growth Programme in Nepal (GON and DANIDA Programme)
USAID	United States Agency for International Development
VCs	Value chains (tea, ginger, dairy)

1. EXECUTIVE SUMMARY

Agriculture is the largest economic sector in Nepal contributing to more than one third of GDP (32% - 36%) and employment and livelihood opportunities to more than two thirds of its population (76%)[1]. Given that many Nepalese depend on agriculture for their livelihoods, the investment into the development of the sector can make a difference in the lives of millions of people[2]. The sector, however is largely dominated by the smallholder farmers hence an accelerated growth of agriculture and its multiplier effects will require market oriented production, value addition and equitable distribution of benefits. While opportunities exist, the agricultural sector faces some major challenges such as weak governance, limited capacity and human resources, access to quality input and market access as well as constraints to access suitable financial products and services. Hence, the current competitiveness of Nepal agricultural products is low and declining.

The expansion of financial services to low-income households across Nepal is a high priority for the government. GON seeks to expand financial services particularly in rural areas. UNCDF guided by the priorities of GON conducted a rapid assessment of the financial sector that highlighted the following:

- Nepal's formal financial sector has grown rapidly over the past two decades. The number of financial institutions has increased from only two in 1980 to 272 in 2011. Governed by the Banks and Financial Sector Institutions Act – BIFA (2006) and regulated by the Nepal Rastra Bank (NRB) the banking sector compromises of four types of institutions: Class A commercial banks, Class B development banks, Class C finance companies and Class D microfinance development banks (MFDBs). Despite, this growth the financial service providers (FSPs) are still mainly concentrated in the urban or semi – urban areas where geographical access is relatively easy. As a result, **urban areas are often over – saturated with FSPs while there is a lack of FSPs in rural areas**. Further, only 26% of households have deposit account in formal financial institutions, and only 25% borrowed from formal financial institutions (World Bank, 2006)[3]. In hills and mountains, around 80% of the people have no access to formal financial institutions, and **predominately depend on the informal sources**;
- Commercial banks serve large and medium exporters, wholesalers, larger producers (for example "Dolka" dairy) and it is not uncommon for a commercial bank to have a partnership with a larger producer or exporter. Producers/exporters commonly issue a corporate guarantee for a loan that would then be on-lend to value chain actors. For example, a smallholder farmer used a Dolka dairy guarantee to purchase a cow. Given that males are more engaged within export and wholesalers business, the commercial banks serve more males and females;
- MFIs and cooperatives serve agricultural occupations, enterprises and small holder farmers to some extent. However, their products and services have a number of limitations;
- In the **Eastern Development Region (EDR) of Nepal, financial services are more easily accessible in the urban and semi – urban areas**, for example there is abundance of service providers in Ilam. However, as one moves further away from urban centers the access reduces. Here, **attention must be paid to an important distinction between access and use**. "Access" refers to availability of service in the area, while

[1] DANIDA, Component Description MLVA, September, 2012, page 1.
[2] Ibid
[3] The last Access to Finance Survey was conducted by the World Bank in 2006. Since then there were no other assessment of access to finance. However, 2010/2011 NLSS reports that around 38% of Nepalese have access to financial services.

"use" refers to actual utilization of a financial product. **Access is linked to existence of providers in an area, while use is linked to existence of suitable and affordable products to meet specific needs. Often these two do not come in pair.**

- The demand for agricultural finance varies across the different areas of Nepal. There is a general **lack of data and information on demand and needs of consumers making it difficult** to predict the size of the demand. Additionally, **lack of understanding of financial products and services, differentiation between institutions and their roles and offerings is acute in Nepal**. In instances where formal financial institutions are present users of those services are not familiar with terms and conditions. They lack understanding of different forms of financial products, financial planning, budgeting and the like.
- **MFDBs, SCCs, FINGOs, and semi-formal financial institutions are the most important credit providers in rural areas especially for low-income households**, they too for the most part **suffer from weak capacity, and limited outreach and scale of operations, especially in more remote areas**[4], that adversely affects their viability and sustainability.
- Use of mobile banking is in beginning stages in Nepal however **commercial banks are increasing their investment and involvement in the area.**
- On the value chain side, **fragmented value chains result in lack of confidence among lenders to support value chain activities**. The lack of confidence coupled with limited understanding of financial requirements to support value chain activities leads to lack of action and innovations in financing value chains.

In summary, Access to Finance (A2F) for commercialisation of the agricultural sector is a major constraint. The lack of rural accessibility to financial services providers, insufficient collateral for the amiable financial products, lack of understanding of agricultural business by the financial sector and lack of appropriate financial products and services suitable for agricultural finance all contribute to limited expansion of financial services. To address these issues, UN Capital Development Fund's (UNCDF) jointly with the Nepal Rastra Bank and DANIDA will work on improving access to financial services in the agricultural sector.

The purpose of the A2F project is **to support financial service providers to more effectively serve the agricultural value chain actors with appropriate financial products thereby enabling smallholder farmers and MSMEs to invest into their value chain activities leading to the sustained improvement in competitiveness of selected value chains.** Thereby creating an inclusive financial system that will support private sector driven, pro – poor growth. The programme interventions will have national impact with a specific focus given to the EDR region of Nepal, under umbrella of UNATTI, specifically in the seven districts of Mechi and Kosi corridor - Ilam, Paanchthar, Terhathum, Bhojpur and Dhankuta (located in the mid – hills) and Taplejung and Sankhwasabha (located in the mountain region).

A2F project results will be:

- Additional 250,000 clients are reached where:
    - 150,000 smallholder farmers and MSMEs (out of which at least 55% are women) actively use appropriate and affordable financial products to support their value chain activities on a national level. Out of these 150,000 clients - 100,000 are located in the EDR UNNATI districts;

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[4] ADB, Assessment of Agricultural Finance, 2011

  - Additional 100,000 clients enroll in mobile and branchless banking service out of which 45,000 are located in EDR. Out of 100,000 at least 25,000 are actively using mobile banking services. Out of 25,000 at least 15,000 are located in the EDR UNNATI districts;
- Out of 150,000 clients at least 75,000 disadvantaged caste/ethnic groups actively use financial services and 50,000 are located in the EDR UNNATI districts;
- Additional 10 bank and/or microfinance branches points are operational in the EDR UNNATI districts;
- Additional 15 branchless access points (e.g. agents) are operational in EDR UNNATI districts;
- 150,000 smallholder farmers and MSMEs have improved financial competencies nationally, and 80,000 are located in the EDR UNNATI districts;
- The amount of agricultural portfolio of financial service providers shows positive growth;
- Five agricultural products are developed and used;
- National Financial Inclusion Road Map is developed and at least 3; recommendations are implemented by the NRB.

UNCDF in collaboration with NRB will achieve these results through the activities organized around three outputs:

Output 1: Deepened Financial Services for Smallholder farmers and MSMEs
Output 2: Improved Capacity of Financial Institutions
Output 3: Broadened Financial Services for Smallholder farmers and MSMEs

The activities under **Output 1: Deepening Financial Services** will focus on improving product value proposition by developing and offering appropriate financial products that meet the financial needs of smallholder farmers and MSMEs supplemented by strengthening of their financial capabilities to make best use of the financial services on offer. In effect, activities under this output will not only improve access to financial services but will, also lead to improvement in the use of these services.

The activities under **Output 2: Improved Capacity of Financial Institutions** will focus on strengthening the management systems and skills needed by financial institutions to take new products to market and to manage banking operations sustainably.

The activities under **Output 3: Broadened financial services** will focus on establishment of branches and agent networks needed to take new products to market. This will be done through a competitive fund in the form of direct grants, and loans to enable financial institutions to expand their financial services

Access to Finance project will be implemented in partnership with DANIDA's UNATTI programme. To address issues within the agricultural sector, the Danish Government has made an allocation of DKK 400 million (approx. US$ 73.8 million) for support to an Inclusive Growth Programme in Nepal (UNNATI). The proposed objective of UNNATI is "*Promotion of sustainable inclusive growth that reduces poverty and raises living standards.*" UNNATI has three components each comprising three sub-components as follows:

- <u>**Component 1: The Value Chain Component:**</u> 1.1: Commercialisation of selected value chains (ginger, tea and dairy); 1.2: Access to financial services. Total budget: DKK 105 million (approx. US$ 19.39 million);

- **Component 2: Infrastructure Component**: 2.1: Rural transport infrastructure; 2.2: Public Market related infrastructure. Total budget: DKK 190 million (approx. US$ 35 million);
- **Component 3: The Enabling Environment Component**: 3.1 Public-private dialogue and 3.2: Advocacy for rights and good corporate governance. Total budget: DKK 35 million (approx. US$ 6.5 million);
- **Technical Assistance**: Total budget: DKK 35 million (approx. US$ 6.5 million);
- **Reviews, M&E, Research**: Total budget: DKK 18.3 million (approx. US$ 3.3 million);
- **Unallocated Funds**: Total budget: DKK 16.7 million (approx. US$ 3.1 million).

The total budget is US$ 9,473,396 (DKK 51, 307,909) where DANIDA's contribution is US$ 7,385,525 (DKK 40,000,000), and the remaining US$ 2,087,871 (DKK 11,307,909)** is funded partially by DFID US$ 1,064,996 (DKK 5,768,018) and UNCDF US$ 1,000,000 (DKK 5,416,000).

SUMMARY	Total in US$	Total in DKK	BUDGET PER DONOR US$		BUDGET PER DONOR DKK	
			DANIDA	UNCDF	DANIDA	UNCDF
PROGRAMME COSTS						
OUTPUT 1: Deepening Financial Services for Smallholder Farmers and MSMEs	559,450	3,029,981	559,450	-	3,029,981	-
OUTPUT 2: Improved Capacity of Financial Institutions	1,083,000	5,865,528	1,083,000	-	5,865,528	-
OUTPUT 3: Broadening of Financial Services	5,345,242	28,949,831	3,303,121	2,042,121**	17,889,703	11,060,127
Monitoring & Evaluation	443,131	2,400,000	443,131	-	2,400,000	-
Publications	76,460	414,107	76,460	-	414,107	-
TOTAL PROGRAMME	***7,507,283***	***40,659,447***	***5,465,162***	***2,042,121***	***29,599,320***	***11,060,127***
SUPPORT COSTS	-	-	-	-	-	-
PROJECT SET UP AND RUNNING COSTS	346,685	1,877,646	346,685	-	1,877,646	-
MANAGEMENT COSTS	1,619,427	8,770,816	1,573,677	45,750	8,523,034	247,782
TOTAL SUPPORT	***1,966,112***	***10,648,462***	***1,920,362***	***45,750***	***10,400,680***	***247,782***
GRAND TOTAL	9,473,396	51,307,909	7,385,525	2,087,871	40,000,000	11,307,909

** Joint DFID and UNCDF

In line with the DANIDA monitoring and evaluation guidelines, the A2F project will comply with the Donor Committee for Enterprise Development Standards (DCED) for measuring achievements in the private sector development. The UNNATI programme is designed with an internal Monitoring and Results Measurement (MRM) System, which will help the implementing partners of the programme to ensure clear, coherent and worthwhile intervention designs, to estimate attributable results from interventions and to use that information to improve interventions. Each implementing partner of UNNATI will use their own systems for monitoring and results measurements, but they must comply with the Donor Committee for Enterprise Development Standard for Measuring Achievements in Private Sector Development (DCED RM Standard). An external MRM Coordinator will provide support and coordination to ensure that systems across the UNNATI programme are coherent and sufficiently robust. The UNNATI – Inclusive Growth Programme in Nepal MRM System document is an annex to project document (see Annex 15 MRM System).

A2F project will be implemented through national implementation modality, similar to UNCDF earlier programme EAFS. Two key responsible parties are proposed: Nepal Rastra Bank (NRB) and UNCDF. The decision making and coordination will be vested in the A2F Project Board that will approve the annual work-plan, monitor progress and provide strategic directions to optimize the impact of the sub – component 1.2 towards the overall UNNATI.

The proposed staffing will include a team consisting of functional experts at the country level who will be supported by a country coordinator and the UNCDF regional office. Six national full time staff will be hired. A Programme Coordinator and Agricultural Value Chain Advisor, supported by two Value Chain Finance Specialists, together they will undertake the work put forward within this proposal. A driver, Admin and Finance Officer and Secretary will be hired as well. The Regional Office, through the role of the Regional Advisor will provide overall technical support and monitoring and evaluation support. The team will be supported, on a need to basis, by local and international consultants.

2. SITUATION ANALYSIS

2.1 Status of Agriculture in Nepal

Agriculture is the largest economic sector in Nepal. It contributes to more than one third of GDP (32% - 36%) and employment and livelihood opportunities to more than two thirds of its population (76%)[5]. Given that many Nepalese depend on agriculture for their livelihoods, the investment into the development of the sector can make a difference in the lives of millions of people[6].

The sector, however is largely dominated by the smallholder farmers hence an accelerated growth of agriculture and its multiplier effects will require market oriented production, value addition and equitable distribution of benefits. While opportunities exist, the agricultural sector faces some major challenges such as weak governance, limited capacity and human resources, access to quality input and market access. Hence, the current competitiveness of Nepal agricultural products is low and declining. [7] Nepal is mainly acting as an exporter of raw materials while value addition is done in the destination markets. The potential for high value food and agricultural products is limited by the lack of quality and safety controls, low technology, difficulties in accessing credit and poor infrastructure.

The Government of Nepal (GON) has been taking steps to increase spending in agriculture and boost its production and productivity. Compared to the budget in the 2010/11 fiscal year, the 2011/12 agricultural budget increased by 17.87% equal to NPR 384.9 billion (US$ 5 billion). The government plans to increase the budget for agriculture in the next fiscal year to approximately NPR 429 billion (US$ 5.6 billion). Directed by the government, Nepal Rastra Bank (NRB) has also made it mandatory for banks and financial institutions (BFIs) to ensure that the agriculture sector accounts for at least 10% of total lending by July 2014. Agriculture received up to 24.8% of lending from BFIs in the 1992/93 fiscal year, but figures have since dropped to a meagre 2.7% in the 2010/11 fiscal year[8].

The GON efforts are supported by a number of development partners and donors within Nepal. The organizations such as IFAD, ADB, the World Bank, the EU, USAID, GIZ, DFID, SNV and DANIDA have created a few strong production and distribution chains. For example, the EU will support the tea value chain. The private sector also has a role to play in the development of agriculture in Nepal. For example the private sector has invested into the marketing and production of dairy and is looking for future opportunities to engage further with the sector.

2.2 Current Status of Access to Finance in Nepal

2.2.1 Financial Sector in Nepal

Nepal's formal financial sector has grown rapidly over the past two decades. The number of financial institutions has increased from only two in 1980 to 272 in 2011. Governed by the Banks and Financial Sector Institutions Act (BIFA) of 2006 and regulated by the NRB the banking sector compromises of four types of institutions: Class A commercial banks, Class B development banks, Class C finance companies, and Class D microfinance development banks (MFDBs).

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[5] DANIDA, Component Description MLVA, September, 2012, page 1.
[6] Ibid
[7] Ibid
[8] Ibid

Classification depends on the minimum required capital and authorization to collect deposits from the public. There are 31 commercial banks, 87 "B" class development banks 79 "C" class finance companies and 21 "D" class microfinance development banks operating in the country[9]. In addition to these institutions, there are 16 NRB licensed savings and credit co-operatives (with limited banking operations) and 38 NRB licensed Non-Government Organizations (NGO) that can offer credit.

The **semi-formal financial sector** of Nepal comprises of Savings and Credit Co-operative Societies (SACCOS) and Financial Intermediary NGOs (FINGO). The Department of Cooperatives regulates SACCOs and issues licenses. Some estimates suggest that there are thousands of SACCOs operating in the country. SACCOS can have between 25 to 9,000 members. All the SACCOS operate under the umbrella of the Nepal Federation of Savings and Credit Cooperative Unions Ltd. (NEFSCUN) and the National Cooperative Bank Ltd. (NCBL). These two operate under the Cooperative Act 1992 and the Co-operative Regulations 1993, issued by the National Cooperative Development Board (NCDB). NEFSCUN and NCDB provide funds to SACCOS in Nepal. Some of the SACCOS have also been supported and financed by the Rural Self-Reliance Fund (RSRF) and as noted above, 16 SACCOs are licensed and regulated by the NRB.

Nepalese **informal financial sector** consists of moneylenders (commonly landlords, merchants, farmer-lenders, goldsmiths, and pawnbrokers), friends and relatives or informal groups like *dhikuti, dharam bhakari,* and *guthi.* These, traditional rotating credit groups are well established and widespread in Nepal and represent a local and indigenous response to a need for credit.

There are a number of APEX organizations set up by the Government and/or donors that provide wholesale lending and support services namely to the microfinance sector. These are:

- ***Rural Self-Reliance Fund (RSRF):*** This fund was setup by the government with the objective to disburse money through Savings and Credit Cooperative Societies (SACCOSs) and Financial Intermediary NGOs (FINGOS) for the income generating activities to enhance the living standards of the low-income communities and deprived sector population. The fund is managed and administered by the NRB;
- ***Rural Microfinance Development Centre (RMDC)*****:** RMDC is a "D" category micro credit development bank established in 1998. It provides wholesale lending to the microfinance institutions such as rural regional development banks, microfinance development banks, rural co-operatives and Financial Intermediaries NGOs (FINGOs);
- ***Small Farmers Development Bank (SFDB)*****:** SFDB is a "D" class micro credit bank that emerged in July 2001. It provides wholesale credit along with the technical support services mainly to the Small Farmers Cooperatives Ltd. (SFCLs);
- ***First Microfinance Development Bank Limited (FMDB)*****:** FMDB was established as the national level micro credit development bank in 2009. FMDB provides wholesale loans to MFIs, FINGOs and Savings and credit cooperatives.

2.2.2 Supply of Financial Services in Eastern Development Region

Despite the expansion of banks, financial service providers (FSPs) in Nepal have yet to expand their services, especially in the rural areas and meet the needs of rural

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[9] Nepal Rastra Bank, Banking and Financial Statistics monthly # 57, July 2011.

households. For example, 25.3% of Nepalese have account in formal financial institutions[10] compared with 16% of lower income Nepalese. In terms of outreach as shown in Table 1, the Eastern and Central regions (especially Terai ecological regions) have the highest penetration of financial institutions in general and microfinance in particular, while other regions significantly lag behind.

Table 1 : Household access to a deposit account by administrative region

Region	**No Account**	**Bank**	**Finance Company**	**MFDB* or RRDB***	**NGO or Cooperative**	**Multiple Accounts**
FWDR and MWDR	39.5%	22.0%	0.0%	3.8%	26.4%	8.4%
Eastern	41.5%	14.3%	0.7%	5.4%	29.8%	8.2%
Central	57.1%	20.2%	1.8%	2.6%	13.4%	5.0%
WDR	61.8%	26.5%	0.5%	4.8%	3.9%	2.5%
Average	51.0%	20.4%	0.9%	3.9%	17.9%	5.9%
Note: MFDB: microfinance development bank; RRDB: regional rural development bank.						

Source: The World Bank (2006). Access to Financial Services Survey. Nepal

In the Eastern Development Region (EDR), there are 216 commercial branches with 62 located in Mechi and 109 in Kosi, and the remaining branches are located in Sagarmatha (45). The penetration of banking branches in the Eastern Region (

Table 2) is more focused in Sunsari, Morang and Jhapa areas that are the major population centres. While there are banks present in the UNNATI programme areas these are predominately located in Ilam (20 FSPs present). This shows that **apart from Ilam, the areas of UNNATI programme focus are largely underserved by the financial institutions**.

Table 2: Commercial Bank Branches in Eastern Region (UNNATI areas of focus in *italics*)

Zone	**District**	**Total number of commercial bank branches**	**State owned commercial banks (NBL, RBB, ADB)**	**Other commercial banks**
Mechi	Jhapa	45	17	28
	Ilam	*10*	*5*	*5*
	Pancthar	*4*	*3*	*1*
	Taplejung	*3*	*2*	*1*
Kosi	Sunsari	45	14	31
	Morang	48	20	28
	Dhankuta	*4*	*3*	*1*
	Terhathum	*3*	*2*	*1*
	Sankhuwasaba	*6*	*5*	*1*
	Bhojpur	*3*	*3*	-
Sagarmath a	Saptari	10	9	1
	Udayapur	12	7	5
	Siraha	13	11	2
	Khotang	2	2	-
	Okhladung	2	2	-
	Solukhumbi	6	4	2
TOTAL		216	109	107

[10] World Bank, Financial Inclusion Data, 2011. Available at http://datatopics.worldbank.org/financialinclusion/

Source: Nepal Rastra Bank, Banking and Financial Statistics monthly # 57, July 2011

NRB does not report on branches of B, C and D class institutions. However, UNCDF has been tracking the data through its "Enhancing Access to Financial Services" (EAFS) project with a focus on only the new branches opened with EAFS support. As of mid – July 2012, 49 branches were opened by microfinance organizations with the support of EAFS a jointly funded UNCDF/UNDP project.

As it can be seen from the Table 3 below, **the penetration of EAFS partners in the Moshi – Kosi corridor is relatively low.** In overall, 49 branches were open with EAFS support. In the seven UNNATI programme districts there is a greater number of branches in Ilam when compared to the other six areas. **This suggests that a part of programme focus will have to be around expansion of services into these six areas**.

Table 3: Microfinance organization branches opened with EAFS support (UNNATI areas of focus highlighted blue)

District	Number of branches opened per Microfinance Institution	Total branches from EAFS Support
Khotang	MCDC -2	2
Okhaldhunga	SBB -1, WDCN -1, MCDC -2	5
Pachthar	*NA*	*0*
Siraha	FORWARD -1, NUBL -1	2
Solukhumbu	WDCN -1	1
Taplejung	*FORWARD -1, SBB -1, NUBL -1*	*3*
Terathum	*FORWARD -1, NUBL -1*	*2*
Udaypur	CBB -1, JBS -2, DDB -2, MCDC-3	8
Bhojpur	*FORWARD -1, MCDC -1*	*2*
Dhankuta	*JBS -1, SOLVE -4*	*1*
Ilam	*FORWARD -1, JBS -4*	*5*
Jhapa	FORWARD -1, NERUDE -1, JBS -2	2
Morang	FORWARD -2, NERUDE-2, JBS -2	6
Sankhuwasabha	*FORWARD -1*	*1*
Saptari	MCDC – 4	4
Sunsari	FORWARD -2, NERUDE-1, JBS -2	5
		49

2.2.3 BRANCHLESS AND MOBILE BANKING

Branchless led models – such as mobile banking have a tremendous potential to expand the financial services market in Nepal as they are doing in neighbouring Pakistan and India. Nepal presents a large market opportunity with a population highly engaged in movement of money (both domestic and international) and a government and donors interested in reducing cash payments. UNCDF conducted a branchless banking scoping study in 2012, this study concluded that **Nepal presents a fairly high chance of success**

relative to other LDCs with its relatively large population and moderately low level of financial access.

To date, Nepal has had very limited activities in branchless banking. Two pilots in 2012 subsidized by donors (including one by UNCDF) led a few banks to test agent banking (POS[11]) as a means to increase use of electronic means of transferring money. These pilots have been fairly restricted by the NRB, with only Laxmi Bank receiving permission to use agents across the country.

The Nepalese banking sector has begun to show interest in the mass market and sees electronic banking as means to accomplish this. This current interest is driven by a combination of factors including the search for low-cost, stable deposit base, government pressure to serve the deprived sector, and potential to capture of the future government-to-person (G2P) payments business.

The providers interested in Branchless Banking and Mobile Financial Services (MFS) lack experience and most lack "deep pockets" as they are primarily local institutions. But **with technical assistance and the right technology, providers have the potential to tap into the infrastructure of remittance offices, MFIs, banks and coops which cover the country and expand branchless banking operations.**

A major constraint, however, is the uncertainty and lack of flexibility offered by the NRB to providers, an issue that impacts all branchless led finance efforts. The directives are fairly restrictive, limiting agent expansion to banks and to rural areas. The NRB has shown some flexibility in this regard though, allowing pilot projects to have some urban agents provided that the majority of agents are rural. The mediocre quality of the mobile network is also of concern as well as the acceptance of technology-based banking.

2.2.3 Lending to Agricultural Sector

Lending to the agricultural sector (see

Table 4) **accounts for a very small percentage (only 3.4%) of total loan portfolio of the A (3%), B (3.1%) and C (1.8%) class banks**[12]. Commercial banks however, are the main provider of credit to agriculture accounting for 65% as of Sep, 2011[13]. However, **lending to agriculture sector comprises almost 40% among D class institution comprising of MFDBs, FINGOs and Savings and Credit Cooperatives**. This is **because these institutions serve low-income clients who are commonly small-holder farmers**. Because there is no data on the use of credit within households especially at microfinance level, it is difficult to know amount of credit used for agricultural activities versus use for other non – agricultural household needs (such as school fees, health expenditures and the like).

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[11] Point of Sale

[12] Nepal Rastra Bank, 2011

[13] ADB, Rural Finance assessment report, 2011

Table 4: Total Agriculture Sector Portfolio of Licensed Financial institutions, 2011

Institution Type	Total Portfolio (Rs million)	Agriculture Sector		% of Agriculture Sector by Institution
		Value (Rs million)	% of Total Portfolio	
Class A (commercial banks)	528,665	15,836	3.0	65.3
Class B (development banks)	88,783	2,712	3.1	11.2
Class C (finance companies)	85,538	1,523	1.8	6.3
Class D (MFDBs, SCCs, and FINGOs)	10,813	4,195	38.8	17.3
Total	**713,799**	**24,266**	**3.4**	**100.0**

Source: Rural Finance Assessment Report, Draft, ADB, November 2011

The **largest provider of agricultural loans are the semi – formal and informal organizations.** An estimated number of 3,000 cooperatives and 15,000 non-governmental organizations play an important role in providing agricultural credit, while their contribution is unquantified it is considered to be substantial, especially given that registered financial institutions have very limited outreach. A study from Mercy Corps[14] suggests that local merchants and traditional moneylenders are the principle source of agricultural lending in rural Nepal. UNCDF study on demand for financial services also showed the same, that is rural areas predominately rely on informal sources to access financing.

2.2.4 GOVERNMENT INITIATIVES TO EXPAND FINANCIAL SERVICES

The expansion of financial services to low-income households across Nepal is a high priority for the government. In an effort to increase outreach to rural areas, and to curb the market saturation of branches in urban areas, commercial banks wishing to open a new branch in urban areas such as Kathmandu, need to first open a branch in rural areas before the permission is granted to open a branch in the urban settings. The government has also put in place interest free loans of NRs 500,000 for banks opening branch headquarters in the poor districts of Nepal, and up to NRs 10,000,000 for the banks opening branches outside the district headquarters[15].

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[14] Mercy Corps, 2010. Value Chain Finance and Nepal: Perspectives and Insight. Nepal.

[15] Nepal Rastra Bank, Monetary Policy, 2010/11

The Government of Nepal adopted microfinance as a poverty-reduction tool and introduced the National Microfinance Policy in 2005 to promote rapid sector growth and increase the outreach of microfinance institutions (MFIs) to low-income groups in remote rural areas. As a result, MFIs have been receiving a number of favourable incentives to expand their services to remote areas. The incentives include no-interest government loans. Many have also received donor support to help expand branches across the country. As a result, microfinance services have expanded in Nepal, at the end of 2012, 66 districts were covered by microfinance services.

GON has received external assistance to improve the finance sector (support namely by the World Bank and Asian Development Bank) for example to strengthen regulatory and supervisory framework, capacity building, expansion of microfinance services and so forth. These programmes have had mixed results, and Nepal still lacks a coherent policy framework especially for expansion of financial services and financial inclusion. Additionally, the regulator is generally unfamiliar with new products and services such as leasing, insurance or mobile banking for example. **The lack of knowledge and understanding of these interventions leads to lack of confidence resulting with lack of support, or delayed support for new interventions**.

2.3 Key Challenges of Access to Finance in Nepal

UNCDF conducted a rapid assessment of value chain finance to understand challenges and critical gaps related to financial services within agricultural value chains. In its rapid assessment UNCDF focused on the suppliers of financial services (i.e. supply side). UNCDF drew on its experience in Nepal to form the basis of its understanding of the key challenges facing the value chain actors (i.e. demand side). UNCDF has incorporated market research activities within the proposed programme interventions to ensure it regularly examines the needs of the market (see section 4) and adjusts interventions accordingly in consultation with other programme partners.

2.3.1 Mismatch Between Products and Needs

UNCDF found that **commercial banks serve large and medium exporters, wholesalers, larger producers** (such example is Dolka dairy) and it is not uncommon for a commercial bank to have a partnership with a larger producer or exporter. Producers/exporters were also commonly seen issuing a corporate guarantee for a loan that would then be on-lend to value chain actors (for example, a smallholder farmer used a Dolka dairy guarantee to purchase a cow). Given that males are more engaged in larger businesses within export and wholesalers business, the commercial banks serve more males than females.

In terms of products and services offered UNCDF found that, while there is some diversity therein, the commercial banks by large offer a few products, for example:

- Working capital loans (70 – 85% of net current assets, 1 year renewable interest 12 – 14% p.a.);
- Letter of Credit (security fund deposit, 10% of line of credit, 12, - 14% p.a.);
- Fixed asset loans (5 year term, up to 50 million, interest 12 – 14%) and;
- Refinancing.

MFIs and cooperatives serve farmers and suppliers to a greater extent when compared to commercial banks. However, **their products and services have a number of**

limitations. A majority of the MFIs in Nepal follow the Grameen methodology, in which groups of 5–10 people come together and guarantee each other's loans. Commonly, the first cycle of loans can be up to NPR 30,000 with incremental increases in subsequent loan cycles (this amount is, for example insufficient to by a cow). The maximum obtainable amount in the absence of physical collateral is NPR 90,000 while with the physical collateral (commonly land) it is NPR 300,000 (however land is difficult to place as a guarantee especially for women, for example only 10.7% of women in Nepal own land and/or house[16]). The latter is considered as an individual loan, which means there is no group-based guarantee. Commonly, loan terms are up to one year and feature monthly repayments; the annual interest rate ranges between 18% and 24%. The government regulator sets these maximum loan limits for group-lending and individual-lending; however, the regulator does not limit the interest rates. The loan limits are set so as to oblige MFIs to continue to serve the poorer segments of the population. A cap on loan amounts, in the eyes of the regulator, ensures that MFIs' continue to service the poor. In Nepal, **the microfinance sector predominately serves female clients**, almost 98% of the microfinance institutions serve women (UNCDF, 2012). In effect, **with technical support in areas of product design microfinance institutions would better meet the needs of their clients engaged in agriculture.**

MFIs offer "agricultural loans" but these loans are very similar to their general business loans and are not tailored to specific needs of agricultural lending, such as seasonality concerns, grace period and so forth. Commonly agricultural loans are a year loans, up to NRPs 300,000, with 18 – 20% interest. Some limited innovations exist, for example Nirdhan Bank supported by Mercy Corps developed an agricultural loan product with a loan term of two years, and 6 months grace period targeting ginger producers. In effect, **products on offer are not tailored to meet the needs of agricultural activities.**

Further, it must be noted that research from around the globe shows that microfinance loans **are commonly used towards income/consumption smoothing rather than income generating activities. Therefore, it is safe to assume that majority of microfinance loans in Nepal go towards consumption smoothing**. In addition, the experiences in other South Asian countries often show that while women borrow they pass the money onto men for use in business like activities. **But, it is women who remain responsible for repayment of loans.** Therefore, **within UNCDF programme design special emphasis is placed on the needs of the women, especially to ensure that financial products and services meet women enterprise/agricultural needs, as well as to ensure that women's knowledge on the use, responsibilities and the limitations of the financial services is strengthened,** particularly to avoid over – indebtedness.

Table 5 below provides a summary information of product currently offered to value chain actors.

Table 5: Financial services and products currently offered to the value chain actors

Financial Institution	**Financial Services Offered**
Commercial Banks	• Working capital loans • Letter of Credit • Fixed asset loans • Refinancing • (Savings accounts)
Microfinance institutions	• Short term loans (1 year)

16 Interdisciplinary Analysts, Mechi – Kosi District Profiles, Draft Report, April 2003, page 8.

	• Savings product • Money transfer and remittances
FINGOs and Cooperatives	• Short term loans • Savings Products

2.3.2 Limited Outreach

Nepalese banking sector has grown rapidly in the past decade, from only a dozen of financial institutions, it has grown to around 272 financial institutions (NRB, 2012). Despite, this growth the financial services providers (FSPs) are still mainly concentrated in the urban or semi – urban areas where geographical access is relatively easy. As a result, **urban areas are often over – saturated with financial institutions while there is lack of FI in rural areas**. Further, only 26% of households have deposit account in formal financial institutions, and only 25% borrowed from formal financial institutions (World Bank, 2006)[17]. In hills and mountains, around 80% of the people have no access to financial institutions, and **predominately rely on informal sources.**

In the **EDR region of Nepal, financial services are more easily accessible in the urban and semi – urban areas**, for example there is abundance of service providers in Illam. However, as one moves further away from urban centres the access lessens. Here, **attention must be paid to an important distinction between access and use.** "Access" refers to availability of service in the area, while "use" refers to actual utilization of a financial product. **Access is linked to existence of providers in an area, while use is linked to existence of suitable and affordable products to meet specific needs. Often these two do not come in pair.** Indeed, **in some areas of UNNATI the access appears high,** such as Ilam or Sankhuwasabha where there are many providers, **but the availability of suitable products is low**. For example, microfinance institutions offer limited loan amounts regardless of the loan purpose. A tea farmer for example needs NRPs 400,000 (US $ 4,780) to purchase a processing plant for tea, however he/she cannot access this amount from a microfinance institution due to regulatory restrictions (the maximum loan amount is around NRPs 300,000) and commercial banks require a collateral such as real estate, gold/shares or a car which is prohibitive since many smallholder farmers cannot comply with this.

2.3.3 Demand for Agricultural Finance

The demand for agricultural finance varies across Nepal. There is a **lack of data and information on demand therefore it is** difficult to predict the size of the demand. Therefore **more research about different market segments, especially within value chains is needed. This understanding will directly contribute to the development of appropriate agricultural finance products.**

More research is needed to understand the demand for agricultural finance in Eastern Development Region, nonetheless Asian Development Bank (ADB) study on agriculture offers some important insights. ADB stratified demand in three broad categories (upper, middle and lower) reflecting landholding patters, the nature of employment, and socioeconomic structure. The upper segment was defined as commercial farmers, medium –

[17] The last Access to Finance Survey was conducted by the World Bank in 2006. Since then there were no other assessment of access to finance. However, 2010/2011 NLSS reports that around 38% of Nepalese have access to financial services.

to – large farmers, wholesaler and processors. The middle segment compromised of petty traders, and small and tenanted farmers and lower segment compromised of landless poor, marginal, tenanted and subsistence farmers. ADB estimated that the upper, middle and lower segments account for 15%, 50% and 35% of households respectively in Nepal overall. Further, the study suggested that the demand among upper and middle segments includes needs for working capital loans, cash credit, loans against pledge produce and medium to long term loans for crop cultivation and land development. Demand amongst the lower segment is primarily for short – to - medium term loans for consumption, microenterprise and crop cultivation.

ADB for example puts small holder farmers in one distinctive group, but a recent research on segmentation of small holder farmers and their needs for agricultural credit in low – income and middle – income countries[18] shows that **smallholder farmers are not as uniform group as one might think**. Rather, smallholder farmers can be sub divided into three groups: non-commercial smallholder farmers, commercial smallholder farmers in loose value chains, and commercial smallholder farmers in tight value chains[19]. This goes to show that **the demand for agricultural credit is not straight – forward, and lack of understanding of the demand has been one of major impediments to expansion and growth of agricultural finance services in Nepal**. As shown earlier, **financial service providers offer similar products, to a largely diverse group of users**.

Further, UNCDF experience in Nepal shows that **there is greater familiarity with informal financial service providers and consumers often lack trust in formal**. This is not surprising, given that large part of Nepalese population is excluded from accessing formal financial services and relies on informal sources. Additionally, **lack of understanding of financial products and services, differentiation between institutions and their roles and offerings is a problem in Nepal**. In instances where formal financial institutions are present, users of those services are not really familiar with terms and conditions, and lack understanding of different forms of financial products, financial planning, budgeting and the like.

2.3.4 Institutional Capacity of Financial Service Providers

MFDBs, SCCs, FINGOs, and semi-formal financial institutions are the most important credit providers in rural areas and for low-income households, they too for the most part **suffer from weak capacity, and limited outreach and scale of operations, especially in more remote areas**[20], that adversely affects their viability and sustainability.

Most lack suitable accounting, reporting, and MIS capacity. In the absence of regulatory requirements for accountability and transparency, microfinance institutions have not been able to improve their accounting and internal controls and boost their operating capacity. **MFIs predominately follow the Grameen model, which has proven costly and**

[18] Consultative Group to Assist the Poorest (2013). Robert Peck Christen and Jamie Anderson. Segmentation of Smallholder Households: meeting the range of financial needs in agricultural families.

[19] The non – commercial smallholder farmers farm to contribute to their own survival, their outputs are relatively low and they are highly vulnerable to income and other shocks. The commercial smallholder farmers are still poor, but have access to some financial services and have some commercial orientation. These farmers generate some level of surplus to sell and usually sell in informal local or regional markets. And lastly, commercial smallholders in tight value chains, they tend to have a larger portion of their income from higher – value specialty crops and they tend to be a part of relatively more structured value chains, where they have access to information, buyers, inputs, secure markets and process.

[20] ADB, Assessment of Agricultural Finance, 2011

unsuitable for rural areas of Nepal. Therefore, **methodological innovations are needed to expand financial services in Nepal.**

Use of mobile banking is in beginning stages in Nepal however **commercial banks are increasing their investment and involvement in the area.** And by large, among the commercial banks, there is more emphasis on technology as a way to reach rural areas. As the expansion of voice and data services across the country combined with lower cost technologies (mobile phone and point of sale) increases the commercial banks are increasing their interest and investment in the area of mobile and branchless banking.

In branchless and mobile banking, it is important to help providers avoid the "sub-scale" traps. **Branchless and mobile banking works best when enrolment and agents grow quickly** to avoid the "chicken and egg" problem as described by Mas and Radcliffe[21]-- building enough agents to serve clients while not overbuilding so that agents are without business and loose the incentive to provide the service. **Client and agent acquisition are the most expensive aspects of launching a service**, often leading to projected losses in the first two to three years. Therefore **helping providers to find the balance and focus on the activity levels of clients and the quality of agent service is vital in the first few years**. A key driver of such activity can be bulk payments, such as G2P, or targeting specific uses for the service, such as paying employees, small-scale suppliers or loan disbursements and collection.

On the value chain side, **fragmented value chains result in lack of confidence among lenders to support value chain activities**. The lack of confidence coupled with limited understanding of what is required to support value chain activities leads to lack of action and innovations in financing value chains.

3. PROJECT STRATEGY

3.1. UNCDF MANDATE

UNCDF is the UN's capital investment agency for the world's 49 least developed countries. It creates new opportunities for poor people and their small businesses by increasing access to microfinance and investment capital. Established by the General Assembly in 1966 and with headquarters in New York, UNCDF is an autonomous UN organization affiliated with UNDP.

UNCDF works to enlarge peoples' choices: it believes that poor people and communities should take decisions about their own development. Its programmes help to empower women – over 50% of the clients of UNCDF-supported microfinance institutions are women – and its expertise in microfinance and local development is shaping new responses to food insecurity, climate change and other challenges. All UNCDF support is provided via national systems, in accordance with the Paris Principles. UNCDF works in challenging environments – remote rural areas, countries emerging from conflict – and paves the way for others to follow. Its programmes are designed to catalyse larger investment flows from the private sector, development partners and national governments, for significant impact on the Millennium Development Goals, especially Goal 1: *Eradicate Extreme Poverty and Hunger*, Goal 3: *Promote Gender Equality and Empower Women*, and Goal 7: *Ensure Environmental Sustainability*.

[21] Scaling Mobile Money. Ignacio Mas & Daniel Radcliffe. Bill & Melinda Gates Foundation. September 2010.

Economic growth is necessary to enhance living standards, reduce poverty and cope with the world's growing population. The growth must be socially and environmentally sustainable to deliver maximum benefits for current and future generations. Within its economic development mandate UNCDF focuses on public and private financing mechanisms. Effective and efficient finance – in both the public and private sectors -- can spur economic growth and make it more sustainable and inclusive. UNCDF's focus on financing mechanisms has special relevance for least developed countries, where public financial management is often weak, and private financial systems often underdeveloped and inaccessible to the poor.

UNCDF's support is ultimately designed to promote sustainable and inclusive growth that empowers people and countries to unleash their potential.

UNCDF's traditional business model – with HQ in New York and de-concentrated regional and national offices, funded by a small number of core donors – has also evolved. Since 2005 UNCDF has:

- Moved 50 percent of its staff to the field;
- Doubled its number of donors to leverage its own "core" resources;
- Doubled its annual income;
- Significantly expanded and diversified its programmes.

"UNCDF should be seen as a development actor that paves the way for others, rather than a financing mechanism." UNCDF Assessment Report, the Government of Sweden, 2008

UNCDF has a strong track record of investing in countries and issues where others do not, and then "leveraging in larger sources of public and private capital". UNCDF today operates in 40 of the world's 48 least developed countries. 70 percent of its portfolio is in Africa, 50 percent is in post-crisis countries. Two of UNCDF's largest donors are private foundations. Its annual budget is $60 million and growing.

3.2. UNCDF's Capability

UNCDF's work to extend financial services to the poor follows an "inclusive finance" approach. This approach seeks to ensure that a range of financial products is available to all segments of society, at a reasonable cost, and on a sustainable basis. UNCDF supports a wide range of providers (e.g. microfinance institutions, banks, cooperatives, money transfer companies) and financial products and services (e.g. savings, credit, insurance, payments, remittances). UNCDF also supports newer delivery channels (e.g. mobile phone networks) that offer tremendous potential for scale. UNCDF regularly conducts independent assessment of its effectiveness, in the recent Smart Aid assessment (2011) UNCDF received the highest score in the "Smart Aid" index[22], a measure for overall effectiveness. In doing so, UNCDF will build a more inclusive finance sector.

[22] The Consultative Group to Assist the Poorest (CGAP), THE World Bank. UNCDF Smart Aid report. http://www.cgap.org/publications/uncdf-smartaid-report-2011

A good example of an inclusive finance approach is the "**Enhancing Access to Financial Services" (EAFS) project**[23]. The intervention logic/development hypothesis underlying UNDCF's approach for EAFS was that improvements in the enabling environment for inclusive finance, supported by catalytic investments in Financial Service Providers (FSPs) and supporting industry infrastructure, will strengthen selected FSPs, thus improving their ability to provide appropriate products and services to previously unbanked and marginalized populations. EAFS objective was to ***increase the use of formal financial services (credit, savings, etc.) from profitable financial institutions (banks, microfinance institutions, etc.) by urban and rural micro, small, and medium enterprises and urban and rural low income households.***

EAFS approach included the following major interventions:

- Working with the retail service providers (RSPs) which lack the technical "know – how" to address the challenges and risks associated with entering new areas, or diversifying and expanding services. UNCDF provided direct short term financial support (risk capital grants) to Financial Service Providers (FSPs) to help them expand microfinance services through two windows: innovative and strategic. The purpose of risk-capital grants is to be shorter-term, catalytic funding to help partners overcome obstacles or take advantage of an opportunity to develop new products or services, and then sustainably scale up the reach of these products or services with no further subsidies or grant support required. In the case of EAFS, UNCDF provided support between 5 to 25%[24] of the expansion costs to FSP;
- Providing of technical assistance to partnering institutions focusing on improvement of systems and operations;
- Developing financial literacy resources for the Nepali public at large focusing on the target areas/groups;
- Enhancing credibility, transparency and accountability of the microfinance sector by improving the collection, analysis, reporting and independent verification of key microfinance data. For example, partnering institutions developed and submitted data to MIX Market.

Table 6: EAFS Results

	Baseline	Achievement end of project

UNCDF work in Nepal

UNCDF has been active in Nepal since 1964. In the recent years UNCDF has been working to strengthen local service delivery and expand access to financial services for the poor. The joint UNCDF-UNDP Local Governance and Community Development Programme (LGDP, see Annex 1) promotes decentralization of governance, improved local service delivery and grassroots community empowerment. It is the largest decentralization programme in Nepal. UNCDF has been addressing the challenge of equitable growth in Nepal through the project Enhancing Access to Financial Services (EAFS): Building an Inclusive Financial Sector in Nepal.

[23] EAFS project was conceptualized as a 4 year project (2008 – 2012). It was a jointly funded UNCDF/UNDP project, where UNCDF was responsible for technical execution of the project and UNDP for management of the project. The project ended in March 2013.

[24] The percentage of the support (a.k.a. risk capital grant) varied among the partners. Those institutions that expanded their services in hills and mountains received higher percentage of grant support compared to the institutions working in more accessible areas.

Outreach		
# of clients reached	0[25]	281,300
# of branches opened	0	160
# of districts covered	48	64
# of priority districts	18	29
% rural coverage	62%	76%
Inclusion	64%	72%

EAFS reached 281,300 clients by the end of the project and 160 branches have been opened by project partners. At the start of the project the partners worked in 48 districts and by the end of the project they expanded services to additional 16 new districts thus covering total of 64 districts. In terms of priority districts, the project partners reached 29 out of 38 priority districts, and increased rural coverage from 62% in 2008 to 76% in 2012. Further, EAFS placed a special emphasis on reaching excluded and vulnerable groups, in specific EAFS focused on reaching more Dalits, Janjatis, Madheshis and Muslims, these groups presented 72% of target outreach as of Dec 2012 which is increase of 8% from the baseline (baseline 64% at 2010).

Since 2008 UNCDF supported the development of branchless and mobile banking in its Pacific regional programme done jointly with AusAID, the EU/ACP Microfinance Framework Program and UNDP. With few financial service providers in the region and only a handful of viable microfinance institutions (MFIs), the Pacific Financial Inclusion Programme (PFIP) opted to catalyse the development of BB and MFS in the Pacific. Five mobile money services and two branchless banking services were launched in five countries by 2012. Its partners reached over 500,000 clients with electronic wallets (e-wallets), of which 35% were previously unbanked, and nearly 200,000 with low – cost bank accounts served through branchless means. PFIP accomplished this through significant work with regulators, combined with performance-based grants to six partners, including banks, government agencies, MNOs, a distributor and other financial service providers (remittance and microinsurance providers) to build and use mobile money platforms. Through this intervention UNCDF was able to include 22,000 of Fiji's poorest populations that is beneficiaries of social welfare payments.

In Nepal, UNCDF has also supported innovations. One example of EAFS innovation, is the work in branchless banking by the Recipient Institution Recipient Institution piloted a branchless banking initiative using biometric based smart cards to enable the underprivileged, deprived rural poor to access financial services. The biometric smart card is based on an automatic transaction processing which will create a cashless transaction. Branchless banking enabled rural customers to enjoy modern day banking products and services at a fraction of costs. Recipient Institutional also developed a savings product suitable for low income clients.

UNCDF has developed a method following the financial sector development approach by providing market research to identify the opportunities, advocating and providing legal regulatory support to enable the environment, sharing global learning to build capacity, and fostering strategic partnerships. UNCDF has undertaken a study in Thailand, and will soon start financial diagnostic in Myanmar.

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[25] UNCDF was interested in seeing how many of the branches and clients were attributable to the project, hence UNCDF did not take into account the existing # of branches or clients at the time it signed agreements with the partners.

UNCDF is implementing a number of global programmes such as “CleanStart” funded by SIDA Norad and UNCDF, “Mobile Money for the Poor” funded by SIDA, AusAid, and UNCDF “MicroLead” funded by the Bill and Melinda Gates Foundation (BMGF) and UNCDF, “YouthStart” funded by the MasterCard Foundation and UNCDF, “The Better than the Cash Alliance” funded by UNCDF, BMGF, Citi Foundation, Ford Foundation, Omidiyar Network, USAID, Visa.

3.3. Lessons Learnt

UNCDF’s work in Nepal, through EAFS, focused on supporting scalable, replicable and sustainable projects that deliver appropriate financial services to low income people, small and microenterprises, including women and people living in rural areas. UNCDF conducted an independent evaluation of the EAFS project in 2012. This evaluation examined the extent to which the program design met the needs of the country, the extent to which the programme contributed to the improved effectiveness of FSPs and their outreach, as well as the extent to which EAFS contributed to improved access to financial services by low income people as well as improved market for financial services. Lastly, the evaluation also examined the extent to which the EAFS contributed to sustainability of the FSPs and the effectiveness of the project management.

The evaluation of the programme confirmed the validity of EAFS and its relevance in Nepal. The evaluation[26] (showed that EAFS has improved the institutional capacity at the retail level mostly in terms of expanded infrastructure (97 new branch offices, 55 in priority districts[27]), hiring of additional staff for those offices, and some increase in the credit portfolios of EAFS partners. There has been an increase in clients served, especially women. Portfolio at risk (PAR) rate has gone down. Links have been made between FSPs and savings and credit groups (SCGs).

For the future programming in Nepal, the evaluation recommended that:

a. UNCDF develops a more holistic approach to monitoring of project results and measuring development outcomes using result chain framework based on theory of change. The monitoring framework has to better reflect the project goals, outcomes and outputs. UNCDF must be more deliberate in reporting on the results;
b. UNCDF supported deepening of financial sector by working with microfinance institutions, with a focus on expansion of services. While this contributed to overall increase in services, UNCDF needs to focus more on supporting productive use of financial services, as well as diversify its support to a range of institutions beyond only microfinance institutions;
c. UNCDF focused its technical assistance and capacity building activities predominately on project partners. This has greatly improved their technical capacity to develop products and services, however technical assistance should be broadened beyond project partners so that industry benefits as a whole. This in turn also supports sustainability of the sector;
d. Strong partnership with Nepal Rastra Bank enhanced programme success and contributed to the positive results;

[26] The evaluation report can be found http://www.uncdf.org/sites/default/files/Download/NEPAL_EAFS_MIDTERM_2011_ENG.pdf

[27] EAFS program responded to the GON request to work in priority and non – priority districts. Priority districts

e. UNCDF should continue nurturing and building capacities of the central bank, FSPs however avoid dependence of stakeholders on UNCDF and ensure that the future interventions build local capacity to ensure sustainability and easer phase out.
f. UNCDF should support financial innovations from the conceptualization to roll out, while support to financial institutions was instrumental in supporting them to start thinking about innovative products, financial service providers without regular technical support were not able to roll out their ideas.

3.4 UNCDF ENGAGEMENT IN NEPAL 2014 – 2018

The UNCDF programme framework for 2013-2017 has been developed in response to key changes in the context of financial inclusion in Nepal and the on the key in evaluation recommendations and end-of-project lessons-learnt.

The **UNCDF plans to programme $20m over the period of 5-years** (2013-2017) with the **aim** of reducing poverty and improving living standards in Nepal.

The **outcome** of UNCDF's programme in Nepal is significantly greater access to and use of financial services by poor people and their enterprises on a sustainable basis. This will be achieved through removing systemic barriers to expanding the frontiers of financial markets in Nepal.

This will **result** in an additional 400,000 poor people in Nepal actively using financial services from formal financial markets.

In doing so, UNCDF will also **contribute to** the further deepening of financial markets in Nepal through the increased transactions of 400,000 poor people.

UNCDF will organise results around the following **programme strategic objectives and interventions**:

A. **Empowering consumers** with skills and knowledge to use financial services in responsible manner, which do not cause them harm, to better manage money, take advantage of opportunities, and plan for the future. This will include:
   - Support the development and dissemination of core elements of the National Financial Education Strategy[28] that will serve as a public good for use by schools, MFI and other financial institutions (including supply of financial literacy resource materials and promotion of financial literacy through ICT to generate demand for financial literacy);
   - Brokering partnerships to enable wide adoption of financial literacy among schools, MFIs and financial institutions;
   - Support tailored to institutions receiving direct support from the programme to integrate financial education as part of their service offering to clients.

B. **Enhancing the capability of financial service providers** to offer a stronger product value-proposition to poor clients and to deliver services efficiently and sustainably. This will include:
   - Support for market research as a public good to help financial institutions to assess demand for financial services among specific client groups and locations across Nepal to encourage private investments for extension of services;

[28] The National Financial Education Strategy was developed by UNCDF under the earlier "Enhancing Access to Financial Services" project (2008-2012) with the Nepal Rastra Bank.

- Support for market research and product development tailored to institutions receiving direct support from the programme;
- Support tailored to institutions receiving direct support from the programme to enhance efficiency and sustainability of operations (including business planning, process mapping, loan appraisal and documentation, and management information systems).

C. **Catalysing investments in and by financial institutions** to permanently expand their distribution network to unserved markets. This will include:
- Establish a special purpose vehicle – Expanding Frontiers of Access (EFA) Fund – to manage delivery of matching risk-capital grants to financial institutions seeking to permanently extend their existing distribution network or to test innovative low-cost distribution platforms to reach new markets (through new technologies such as smart-cards, ATMs, mobile phones, and the internet);
- Support to transition of government cash-payments to electronic-payments-to-bank-accounts of salaries and social protection transfers to offer leverage opportunities to extend the frontiers of financial markets.

D. **Facilitating greater coherence and alignment of policies** to enable expansion of the frontiers of financial markets.
- Undertake an in-depth diagnostic of the key determinants and drivers of financial inclusion that leads to a national financial inclusion roadmap to enable the Government of Nepal to prioritize and coordinate internally, provide donors with an agenda to support the development of the financial sector directly and through other sector interventions that can reduce the costs of financial institutions to extend services, and give the private sector insights into key investment opportunities;
- Support discrete set of policy research and advocacy that can lead to more favorable investment climate to the private sector to invest in extending financial services to new and riskier markets (e.g. through peer-to-peer learning of regulators, in-depth policy research on barriers to private sector investment, facilitating dialogue with policy makers around robust evidence on impact of policies).

UNCDF **will deliver the programme strategic objectives and interventions through discrete thematic projects** around both (a) core financial system constraints in the financial sector and around (b) key development issues in Nepal that most affects the prospects of for growth and redistribution, including *transforming the potential of agriculture* to create more sustainable employment and livelihood opportunities, *extending access to cleaner energy* to increase net incomes and improve education and health outcomes, and *creating opportunities for young people* with stronger financial capabilities.

The **current pipeline of projects** under the programming framework include:
- *Access to Finance (A2F)*[29]*:* a $7.3m agricultural value chain financing project;
- *Mobile Money for the Poor (MM4P)*[30]*:* a $1m electronic branchless banking project;
- *Making Access to Finance Possible (MAP)*[31]*:* a $1m nationally representative financial sector diagnostic project, leading to a national policy framework and road-map on financial inclusion;
- *Expanding Frontiers of Access (EFA)*[32]*:* a $5m project to permanently expand financial market distribution network to unserved markets through matching risk-capital grants;

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[29] This is a sub-component of the Nepal Inclusive Growth Programme in cooperation with Danida.
[30] This is part of a global programme in cooperation with Sida and AusAid.
[31] This is part of a global programme in cooperation with Sida and the Government of Luxemburg.

- *MoneyWise*[33]*:* a $2m project to empowering consumers with skills and knowledge to better manage money and take advantage of opportunities.

3.5. DANIDA - UNNATI PROGRAMME

The Danish Government has made an allocation of DKK 400 million (US$ 73.85 million) for support to an Inclusive Growth Programme in Nepal (UNNATI). The proposed objective of UNNATI is "*Promotion of sustainable inclusive growth that reduces poverty and raises living standards*" UNNATI has three components each comprising three sub-components as follows:

Figure 1 UNATTI Inclusive Growth Programme Summary Components

UNNATI – Inclusive Growth Programme in Nepal						
Component	The Value Chain Component		The Infrastructure Component		The Enabling Environment Component	
Sub-component	Access to Finance	Commerciali-sation of Value Chains	Rural Roads and Bridges	Market Infrastructure	Public-Private Dialogue	Advocacy for Rights and CSR
Implementer	UNCDF	Management Contractor			IFC	ILO
Partners	NRB Banks/ MFI's	Private and Public Sector partners and stakeholders			NBF & ERBF	BDOs, CAs, NGOs
Target Groups	Farmers, entrepreneurs, women, youth, marginalised groups					

Source: DANIDA, Final Programme Document, p.12

- **Component 1: The Value Chain Component:** 1.1: Commercialisation of selected value chains (ginger, tea and dairy); 1.2: Access to financial services. Total budget: DKK 105 million (approx. US$ 19.39 million);
- **Component 2: Infrastructure Component**: 2.1: Rural transport infrastructure; 2.2: Public Market related infrastructure. Total budget: DKK 190 million (approx. US$ 35 million);
- **Component 3: The Enabling Environment Component**: 3.1 Public-private dialogue and 3.2: Advocacy for rights and good corporate governance. Total budget: DKK 35 million (approx. US$ 6.5 million);
- **Technical Assistance**: Total budget: DKK 35 million (approx. US$ 6.5 million);
- **Reviews, M&E, Research**: Total budget: DKK 18.3 million (approx. US$ 3.3 million);
- **Unallocated Funds**: Total budget: DKK 16.7 million (approx. US$ 3.1 million).

[32] A project currently under formulation.
[33] Part of a regional project under formulation.

The programme focuses on Eastern Development Region of Nepal, in specific Meshi – Kosi area namely Taplejung, Panchthar, Ilam, Dhankuta, Terhathum, Sankhuwasabha and Bbhojpur.

The programme will support market linkages and value addition within three value chains: tea, ginger and dairy (see Annex 5), however two additional activities may be included at a later stage of the programme. DANIDA's support to development of market linkages and value addition is based on the rationale that agriculture is the most significant economic sector in Nepal[34]. Currently competitiveness of agricultural products from Nepal is low and declining. Most exported products are in raw forms and value addition is done in destination markets. The potential for high value food and agricultural exports is limited by the lack of a well-functioning system for quality and safety control, low technology, difficulty to access credit and doing business, and poor infrastructure. Due to these conditions the farmers has low productivity with sub-standard product quality. Due to the unreliable supply of products with sub-standard quality the value chains becomes ineffective with weak linkages between the processing industry and the farmers.

Access to Finance (A2F) for commercialisation of the agricultural sector is a major constraint[35]. The lack of rural accessibility to financial services providers especially in hills, insufficient collateral for the amiable financial products, lack of understanding of agricultural business by the financial sector and lack of appropriate financial products and services suitable for agricultural finance all contribute to limited expansion of financial services.

The purpose of the A2F project is **to support financial service providers to more effectively serve the agricultural value chain actors with appropriate financial products thereby enabling smallholder farmers and MSMEs to invest into their value chain activities leading to the sustained improvement in competitiveness of selected value chains.** Thereby creating an inclusive financial system that will support private sector driven, pro – poor growth.

3.6. Access To Finance (A2F) Project

UNCDF interventions are focused around three key outputs listed below.

Output 1: Deepened Financial Services for Smallholder farmers and MSMEs
Output 2: Improved Capacity of Financial Institutions
Output 3: Broadened Financial Services for Smallholder farmers and MSMEs

The **objective of access to finance subcomponent is to increase access to a range of financial services and products by rural households and MSMEs thereby supporting the creation of an inclusive financial sector**.

The project will be implemented in the EDR region of Nepal, specifically in the seven districts of Mechi and Kosi corridor - Ilam, Paanchthar, Terhathum, Bhojpur and Dhankuta (located in the mid – hills) and Taplejung and Sankhwasabha (located in the mountain region). The total population size of Mechi – Kosi corridor is 1,215,722 where 405,651 are children below 14 years of age[36] and 111,539 are senior citizens above the age of 60. Thus,

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[34] DANIDA, Component Description MLVA, September, 2012, page 1

[35] DANIDA, Component Description, MLVA, September 2012, page

[36] Mechi – Kosi Hill District Profiles, A consolidated Summary of the Findings for the Seven Hill Districts of East Nepal. Interdisciplinary Analysis, Draft Report. April 2013. Page 6.

the adult working population (15 – 59) is 698,526[37] in the selected areas where 532,516 are self – employed in agriculture[38]. Considering that 59%[39] of population in EDR has a bank account, the potential market for financial services in EDR is roughly estimated at 286,395, further assuming that 76%[40] of the potential market is involved in agriculture and potentially can be involved in selected value chains directly or indirectly, UNCDF estimates a potential demand for agricultural financing in the Mechi – Koshi corridor at around 217, 662. In terms of national accesses, given that UNCDF will work with national financial institutions it is therefore assumed that these institutions will replicate the agricultural finance offerings in other areas, UNCDF estimated that in total 250,000 will be reached where 100,000 are located in EDR. This national estimation figure is based on UNCDF's experience with EAFS programme where 286,000 people were reached however considering that UNNATTI access to finance interventions are in effect testing many new agricultural products and services UNCDF estimates 250,000 additional clients. Considering the above estimations **A2F project results are**:

- Additional 250,000 clients are reached where:
    - 150,000 smallholder farmers and MSMEs (out of which at least 55% are women) actively use appropriate and affordable financial products to support their value chain activities on a national level. Out of these 150,000 clients - 100,000 are located in the EDR UNNATI districts;
    - Additional 100,000 clients enroll in mobile and branchless banking service out of which 45,000 are located in EDR. Out of 100,000 at least 25,000 are actively using mobile banking services. Out of 25,000 at least 15,000 are located in the EDR UNNATI districts;
- Out of 150,000 clients at least 75,000 disadvantaged caste/ethnic groups actively use financial services and 50,000 are located in the EDR UNNATI districts;
- Additional 10 bank and/or microfinance branches points are operational in the EDR UNNATI districts;
- Additional 15 branchless access points (e.g. agents) are operational in EDR UNNATI districts;
- 150,000 smallholder farmers and MSMEs have improved financial competencies nationally, and 80,000 are located in the EDR UNNATI districts;
- The amount of agricultural portfolio of financial service providers shows positive growth;
- Five agricultural products are developed and used;
- National Financial Inclusion Road Map is developed and at least 3, and; recommendations are implemented by the NRB.

3.6.1 Output 1 – Deepening financial services for Smallholder farmers and MSMEs

The activities under **Output 1: Deepening Financial Services** will focus on improving product value proposition and develop and offer appropriate financial products that meet the financial needs of smallholder farmers and MSMEs and are supplemented by strengthening of the financial capabilities of these actors to make best use of the financial services on offer. In effect, activities under this output will not only improve access to financial services but will,

[37] Ibid. page 6.
[38] Ibid. Page 13.
[39] World Bank, Access to Finance Survey. 2006. Page 17.
[40] Mechi- Kosi Hill District Profile (see footnote 9) suggest that working population is the area is 698,526 people, out of which 532,516 are self – employed in agriculture. Therefore the total adult population self – employed in agriculture is 76% of total adult population (532,516/698,526).

also lead to improvement in use of these services. The objectives of this output area are presented in Table 7 and a detail description of activities follows thereafter.

Table 7: Output 1 Activities and Objectives – Summary

Activity	Objective
1. Improving Financial Competencies	Improving financial competencies of clients to increase the demand for services
2. Financial Product Adaptation and Development	Increase the number of financial products to support value chain activities

Activity 1: Improved Financial Competencies

Enticing demand and raising confidence in the formal financial sector offerings is critical. While commercial farmers are familiar with formal financial services, a majority of MSMEs and smallholder farmers are not. Even where services exist, they are not fully utilized by potential customers. Apart from a traditional mismatch between the product and needs, customers are not very familiar with formal financial service providers and their products - they often do not understand or trust them. This is especially true among populations living further away from the urban or semi – urban centres. Further, in environments where financial services are less accessible (as mentioned earlier, in Nepal only 16% of population has access to formal financial services) people commonly have long standing relationships with the informal financial services providers (such as money lenders), and tend to borrow from these source sat exorbitant interest rates. Commercial banks often have difficult time penetrating in such areas. Introduction of new products and services, as well as new technologies, must be accompanied with financial literacy activities.

Financial competencies (defined as knowledge, skills and ability to use financial instruments for greatest impact and benefit to a business and households) are low in Nepal. Increased financial literacy improves demand for the financial products and services. Informed consumers make better clients and in turn represent reduced financial risks to financial institutions. Additionally, financial institutions must use ethical practices in developing, pricing and offering of financial products. Financial literacy also informs clients of their rights and responsibilities vis – a – vis financial institutions, and improved knowledge in effect, reduces chances of exploitation and over – indebtedness.

Financial Literacy Activities will include the following:

1.1. Development of Financial Literacy Materials to be disseminated and implemented by the financial service providers

- Market research into financial competencies as a basis for material development and understanding of appropriate dissemination techniques;
- The materials will focus on: general understanding of financial products and services and specific materials developed for specific programme related products (for example, insurance, mobile banking). A special attention will be given to inclusion of the disadvantaged groups such as women, people with disabilities and other vulnerable groups. The material design will also take into

consideration the specific needs of the vulnerable groups, for example development of materials and tools friendly for low levels of literacy.

1.2. Dissemination of financial literacy

- Dissemination will involve a mixture of strategies from use of media forms (e.g. radio, TV), printed materials as well as training (e.g. study circles, training) through media outlets and training (the exact modality of the financial literacy dissemination will be determined based on the needs and market research).

1.3. Capacity building for financial institutions and non – financial institutions focusing on sustainability and cost – effectiveness of financial literacy efforts past programme duration.

- The financial literacy activities will be undertaken in partnership with financial service providers and well as with meso level industry providers to ensure sustainability and longevity of the intervention.

Activity 2: Financial Product Adaptation and Development

The work in this area will focus on: a) supporting institutions to adapt current financial products to better meet smallholder farmers and MSMEs needs, and b) supporting financial service providers in testing new financial product innovations. Both will focus on agricultural finance products.

In specific, five product areas (FPA) will be considered: leasing, warehouse receipts, insurance, savings and credit. In regards to *leasing* - leasing is in nascent stage. There are only a handful of companies that are dealing with leasing. Such as Union Finance Ltd, Sri Lanka Merchant Bank Ltd. and Lumbini Finance & Leasing Ltd. In general, leasing is an emerging product in Nepal. Further, there are no regulations for leasing from the Central Bank rather leasing activities are regulated under Contract Act. A robust leasing market is however important for the SME sector.

In regards to *warehouse receipts*, the receipts facilitate a partnership between a warehouse (private or cooperative managed), a financial institution and the farmers in a network to finance the working capital needs of the latter. Farmers deposit produce in a designated warehouse, and in exchange receive an instrument called the warehouse receipt[41]. The farmer then presents the warehouse receipt to the financial institution, which accepts the receipt as a supporting document for a loan application and issues a loan, generally at 65% of the value of the receipt. In Nepal, manufacturing companies pledge stock to access short term working capital loans, but warehouse receipts as described above have yet to be tested in Nepal.

In terms of *agricultural insurance*, there have been limited attempts in Nepal to develop insurance products and some major challenges exist such as: farmers have limited awareness about insurance and lack of access to insurance, private insurance companies have limited financial competencies, there is lack of regulatory framework for agricultural insurance – for example informal livestock and insurance products offered by MFIs are not recognized, lack of technical know- how for agricultural product development and lack of demand data, information about clients and so forth.

In terms of *savings* banks and microfinance institutions mobilize savings in Nepal. For example, in most of the microfinance institutions[42], savings are used to leverage loans. However savings products are limited, there is no purpose related savings and there is a need to diversify savings products especially for microfinance clients to enable them to use

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[41] RAFI Notes Issue 2, June 2006: Value Chain Finance, USAID

[42] Regulated MFIs in Nepal, apart from 2, are not allowed to mobilize public savings rather they can mobilize savings of their members as a part of their lending methodology, where savings are in effect used as a loan guarantee.

savings to better leverage loans. Therefore, interventions in this area will predominately focus on diversifying savings products especially at microfinance institution levels.

In relation to *credit* - lack of access to medium and long term financing is a hindrance to agricultural value chains. For example, financing for tea processing plants, agricultural equipment, as well as packing sheds, transportation and refrigeration is difficult to find at best. Within value chain finance actors, needs vary. UNCDF will support innovations within value chain actors that is small holder farmers and MSME, special emphasis, if assessment confirms, will be given to loan products ranging NRP 500,000 to 1.5 million.

The work in each product area will first start with a market research and/or assessment of the feasibility of the product/s. Market Research is critical for successful product design, as the success of a new product largely depends on needs and wants of the consumers. Market Research helps the financial institutions determine the target market and its needs, willingness and ability to pay. Further, market research also supports marketing and awareness activities.

The findings of market research will be used to make decisions about the next steps (for example, while leasing is needed the market conditions may not be suitable to introduce leasing products, therefore an alternative may be needed) and development of appropriate products. In general there are five major interventions that would happen within this activity for each of the aforementioned products:

2.1. Market Research

- Assessment of market conditions, demand, willingness to pay and regulatory environment. The assessment will also involve examination of constraints around access to finance for women, people with disabilities, caste and ethnic groups that, as mentioned earlier, have disproportionately less access to financial services. The findings and recommendations will be incorporated within the product design;
- Assessment will be done in collaboration with implementing partners of sub component 1 the Value Chain component.

2.2 Product Design and Model Development for all product areas

- Short term support focusing on product terms and conditions, including pricing structure, profitability and the like. The short term support will also focus on financial projections for each product line for specific institutions..

2.3. Capacity Building to strengthen technical "know – how"

- Training to commercial banks and microfinance institutions in each product area;
- Training in market research and product design;
- Short term and long term support in product roll – out, systems development, marketing, monitoring and evaluation, business planning and the like;
- Assisting institutions in developing and managing new delivery channels, including the development, management and monitoring of agents.

3.6.2. Output 2 – Improved Capacity of Financial Institutions

The activities under **Output 2: Improved Capacity of Financial Institutions** will focus on strengthening the management systems and skills needed by financial institutions to take new products to market and to manage banking operations sustainably. The objectives of this output area are presented in

Table **8** and a detail description of activities follows thereafter.

Table 8: Output 2 Activities and Objectives – Summary

Activity	Objective
1. Strengthening Management Information Systems	Improving performance and effectiveness of financial institutions
2. Improvement of systems and procedures for agricultural lending	Improving performance and effectiveness of financial institutions
3. Capacity building in value chain finance and UNNATI value chains	Improving knowledge around agricultural and value chain finance

Activity 1: Strengthening Management Information Systems of microfinance institutions

1.1. Grant Support to purchase MIS software;

- Targeting specifically microfinance institutions that have weak MIS systems.

1.2. Short term technical assistance on installation, use, integration, and operalization of MIS within an institution.

- Focusing on providing short term support (hands – on) to financial institutions to install the systems, train staff, develop manuals, develop control systems and the like.

Activity 2: Improvement of systems and procedures

2.1. Short term technical assistance for improvement of procedures within agricultural finance

- Focusing on the design of loan application, assessment of agricultural loan application, agricultural credit risk assessment and the like;
- Capacity building of top management, middle management and credit officers.

2.2. Support to expand financial services

- Technical assistance around branch - led expansion models;
- Technical assistance to strengthen technology consortiums to expand and strengthen branchless banking platforms;
- Technical support in development of agent networks for mobile banking;
- Technical support in piloting and expansion of agent network within UNNATI district areas.

Activity 3: Capacity building in value chain finance and UNNATI value chains

3.1 Training in value chains

- Focusing on broader understanding of value chains, business models for financing agricultural value chains, types of instruments in value chain financing: asset based, product based, receivables based and other relevant topics.

3.2 Exposure visits and knowledge exchange

- Networking and linkages activities focusing on developing relationships between value chain actors with microfinance institutions through exhibitions, trade shows and workshops, conferences and exchange visits;
- Exposure visits to value chains locally.

3.6.3. Output 3 – Broadened Financial Services for commercial farmers and MSMEs

The activities under **Output 3: Broadened financial services** will focus on establishment of branches and agent networks needed to take new products to market. This will be done through a competitive fund in the form of direct grants, and loans to enable financial institutions to expand their financial services. The objectives of this output area are presented in

Table 9 and a detail description of activities follows thereafter.

Table 9: Output 3 Activities and Objectives – Summary

Activity	Objective
1. Expanding Financial Frontiers Fund	Increase portfolio size in agriculture and number of access points
2. Regulatory and Policy Support	Enhance regulatory capacity of NRB to support inclusive finance and agricultural finance interventions with UNNATI
3. Investment Facilitation	Enhancing confidence of investors to invest in Nepalese financial service providers

Activity 1: Expanding Financial Frontiers Fund

The Expanding Financial Frontiers Fund is designed to support financial institutions (banks and MFIs) to expand and broaden their services in agricultural value chains. The Fund will have two windows of support, these are summarized in

Table **10** below and thereafter, explained in more detail in the text.

Table 10: Expanding Financial Frontiers Fund

	Window I	**Window II**
Use	Expansion of Services	Financial Innovations in Product Range
Modality	**Risk Capital Grant**	**Grant**

	Loans	
Allocation	US $ 2,100,000	US $ 500,000

UNCDF commonly provides grants to:

a) Support the financial service providers to faster deliver products and/or service, thus using grants as an incentive for financial institutions;
b) Enable financial institutions to cover a percentage of a loss commonly associated with expansion or testing new products or services;
c) Enhance confidence of others investors or donors to make investments within a sector.

In principal the A2F will not cover the full costs but rather it will cover initial costs to help financial service providers undertake the work. In that way, sustainability of interventions is ensured.

Window I: Expansion of Financial Services

- The fund will provide risk capital grants to cover a percentage of costs related to expansion into new areas. This serves as an incentive to enter new geographic areas;
- With this support the financial institutions will be able to open a new branch and expanding financial services through branchless banking models (i.e. mobile banking);
- Financial Support will be linked with meeting outreach targets of each new area including quantity of clients reached (number of active clients) % women[43], disadvantaged caste/ethnic groups, locations) and the quality of the service (portfolio at risk, sustainability, efficiency and client costs rates);
- Qualifying institutions will be requested to submit a business plan outlining projected number of new clients as a result of opening a new branch (UNCDF may readjust the support based on the partnering institution business plan).
- In terms of branchless banking, the support may focus on supporting a consortium of providers (e.g. FinAccess or MNepal) to expand and strengthen shared mobile banking platforms and agent networks to better suit rural households and MSMEs;
- Technical assistance will be available to institutions to enable them to access the funds. These activities may include short term support in preparation of expression of interest, business plans and the like.

Within EAFS project UNCDF supported 18 financial institutions to expand their financial services to rural areas. An institution submitted a business plan for 5 years with projected client targets. UNCDF, using Performance Based Agreements, supported partners by partially covering the costs of reaching clients. Institutions that were, for example, opening branches in very remote areas were receiving higher grant support than institutions opening branches in semi urban areas, as costs depend on the accessibility of the areas, infrastructure, relative market size and so forth. The institutions were allowed to use the grant support to, for example, cover staff costs, purchase equipment or conduct staff training

Window II: Financial Innovations in Product range and Access Points

[43] UNCDF has a global target that 50% of all clients need to be women. Thus, 50% minimum as a target by end of support for those FSPs with less than 50% at baseline. UNCDF will set targets as well for other groups as per district profiles.

- This window will focus on supporting financial institutions to roll out innovative products in leasing, insurance and warehouse receipts by providing a grant to participating institutions. For example, 25% may be disbursed upon approval and subsequent payments upon meeting agreed targets and deliverables. An illustrative example of use of the grant to support: a) employ more staff, b) credit officer training, c) capacity building of senior management, d) strengthening audit, and the like.
- Technical assistance will be available to institutions to enable them to access the funds. These activities may include short term support in preparation of expression of interest, business plans and the like.

Types of Institutions Eligible for the support

The Fund will support a range of financial institutions within the value chain given that different actors through the value chain need financial services. UNCDF will work with financial service providers that have national focus. In effect, the seven UNNATI areas will be pilot areas to innovate and test the new financial products that could benefit farmers and MSMEs at a national level. National institutions will be able to replicate learnings from UNNATI and Eastern Region to other regions of Nepal. Illustrative selection criteria are presented in

Table **11** below.

Table 11 Partner Selection Criteria

• Financial Institutions with national license; • Demonstrated ability to go to scale (i.e. reach large numbers of people) directly or through multiple factors (e.g. in a case of a commercial banks partnership with agents, cooperatives, or MIFs); • Strong financial standing, that is sustainable institutions; • Strong governance structure and senior level commitment to project; • Commitment to work with women; • Commitment to work with other vulnerable groups castes, class, ethnic groups, people with disabilities; • Functioning MIS; • Good portfolio performance; • Commitment to work in agricultural finance;

Selection of partners will be done through a competitive process (see Annex 6), however some of the potential national institutions include:

a. *Microfinance Institutions*: Chimek Bikas Bank, Deprocs Bank and Nirdhan Bank – these three institutions are considered the strongest microfinance institutions. UNCDF has been working with these institutions since 2010 and their performance and delivery has been outstanding. Further, these institutions have been rated in 2011 for their financial and operational performance, and each received a positive rating by MCril Rating agency. UNCDF is confident that these microfinance institutions, with a national mandate, would be suitable partners.
b. *Banks with national reach*: Laxmi, NABIL, Bank of Kathmandu, KIST Bank, Siddhartha Bank, Himalayan Bank.

Management of the Fund

The Fund will be managed by an investment committee comprising representatives from UNCDF, NRB and DANIDA. UNCDF will be responsible for the creation of the fund, its management and performance monitoring.

The Team Leader's responsibility will be to structure the modality and eligibility criteria during the inception phase. Further, UNCDF will use performance – based agreement modality (refer to the Paragraph Management of Institutional Performance on the following page) to supervise the partners in achieving the targets for all four components of the fund.

Management of Institutional Performance

UNCDF manages performance of its partners through a modality of Performance Based Agreements" (see Annex 7). UNCDF has standard model PBA agreements where performance and payments are linked with outcomes and match the financing needs of the financial service providers to achieve the targets. Other characteristics include:

- Ensuring some funding is based on meeting targets in later years;
- Minimizing transaction costs by having one or two [maximum] payment[s] per year;
- Focusing on only a few key targets to release payments; and
- Payment dates come after due date for reporting milestone.

Upon selection of partners and signing of the PBAs the money is transferred to the selected FSPs in line with PBA agreement. The first transfer is commonly done to support FSP in starting the operations, while all subsequent transfers are initiated as grantees meet disbursements conditions and targets.

Payments are commonly made semi – annually and, if a target is not met, institutions receive a 90 day grace period. In instances where targets are not met even upon additional grace period, institutions are assessed and a decision is made to continue or discontinue the support. In Nepal, staff strike and regulatory hurdles at MFI level, at times slows down expansion of branches, which affect grant payments to partners. For example, in some instances staff strikes have lasted for 5 months and institutions have had to stop disbursement activities; however institutions, at large, were meeting PBA targets within the agreed time-frames.

The use of grants and technical assistance for strengthening outreach is a global best practice, especially when tied with performance-based agreements (PBAs) for each partner receiving assistance. For example, through the PBA approach, UNCDF's partners were able to exceed PBA targets within the EAFS project. Cumulatively PBA targets were 257,000, and project partners reached over 280,000 clients (as of Dec 15, 2012).

Activity 2: Regulatory and Policy Support

Financial inclusion is crucial for achieving inclusive growth. Excluded and vulnerable groups, such as women, people with disabilities, caste and ethnic groups disproportionally face financial access barriers which prevent them from fully participating in the economy and ultimately benefiting from the inclusive growth. The barriers to access, challenges and constraints however are not well understood in Nepal. The last comprehensive study on access to finance was conducted in 2006. Since then there has not been a comprehensive study on access[44], barriers and challenges in general and agricultural finance in particular.

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[44] Indeed, there have been a few assessment conducted by donors (for example ADB's assessment of rural

The availability of high quality, independent data on access, barriers and challenges towards financial inclusion resulted in incoherence between the policy reforms, the meso – level infrastructure, retail innovations and donor involvement within the sector. However, access to finance plays a critical role in the success of DANIDA's programme design, as access to finance is seen as one of the major constraints in improving competitiveness of selected value chains within UNNATI.

Regulatory and Policy Support activities will include the following:

2.1. Financial Sector Analysis and diagnostic (MAP) focusing on agricultural finance;

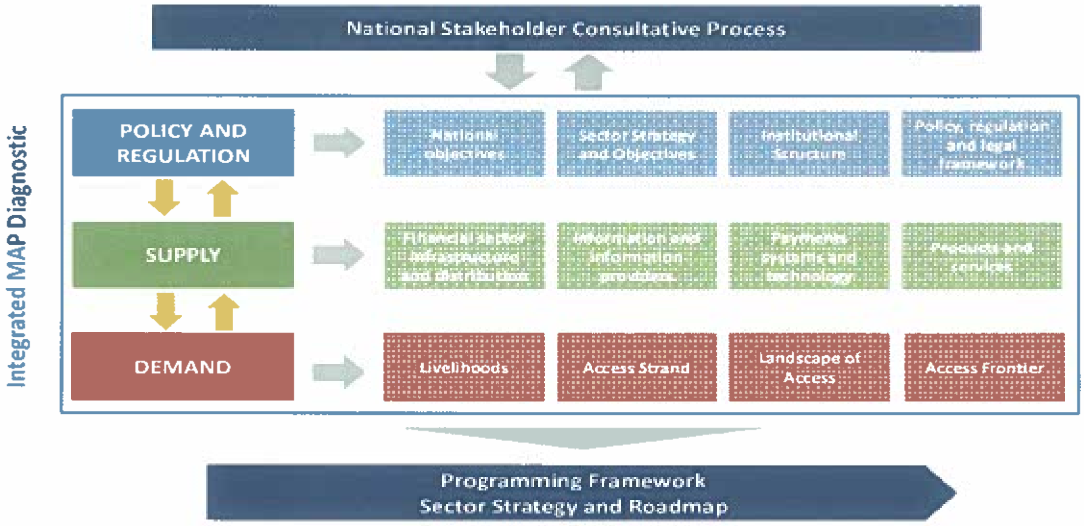
UNCDF will undertake inclusive finance sector diagnostic study "Making Access to finance Possible" (see Annex 8 for MAP project document). The diagnostic study will examine: a. policy and regulatory environment, b. supply side and c. demand side. More details follow in

Figure **2** below. This diagnostic will sharpen policy analysis, improve dialogue with private sector financial institutions and amongst policy makers/regulators, and ultimately increase private sector attention to market opportunities by attracting private sector investment. A special emphasis will be given to agriculture, and the three value chains (ginger, tea and dairy). MAP will provide independent, credible evidence for not only policy making (the study will provide evidence as to which policies are more important and to ensure greater impact at the market) but also for recognizing market opportunities. In addition, the diagnostic will provide a baseline and benchmarks against which UNNATI access to finance results for financial inclusion and programme progress can be measured[45].The resulting strategy and roadmap enables Government to prioritize and coordinate internally, provides donors with an agenda to support and facilitates donor coordination, and gives the private sector insights into key investment opportunities.

Figure 2 Financial Diagnostic Areas

finance in 2011) and these assessment have shed some light on the issues within Nepal.

[45] The consultation, diagnostic, and roadmap development process generally take between 8-12 months from start to finish. During this time, individual studies are released. The ensuing strategy or roadmap is generally valid for three to five years of implementation, unless there is a dramatic change in the operating environment.



2.2. Capacity Building with the regulator in areas of leasing, agricultural credit, insurance, credit, savings, warehouse receipting and branchless and mobile banking or other product areas (dependent on UNNATI programme) to build their confidence in the aforementioned interventions, resulting in creation of more enabling conditions for the financial institutions;

- Short and long term capacity building activities such as training, hands – on short/medium term technical assistance;
- Strengthen regulatory environment for branchless banking in Nepal through medium term technical assistance to NRB, focusing on monitoring of agent networks;
- Knowledge exchange visits within and out of Nepal for example on warehouse receipting and mobile banking;
- Where regulations are weak or non – existent interventions will include either strengthening of the existing regulatory mechanisms through policy advice or drafting of new policies;
- Advocacy and lobbying specifically to facilitate that needed regulatory framework related to new products is developed and approved by the relevant authorities.

<u>Activity 3: Catalysing Investment Opportunities for Agri – finance</u>

UNCDF will act work on improvement of investment climate in Nepal acting as an intermediary between potential investors in agricultural finance and retail financial institutions.

UNCDF will undertake the following activities:

3.1. Investment Forum

- Organize one investment forum to bring together Nepalese financial sectors players with potential investors;

- Networking activities to promote financial sector players to potential investors.

See Annex 11 Risk Log that identifies key risks relevant to programme success.

3.7 Cross Cutting Issues

A2F outlines four cross cutting issues: gender, environment, human rights and good governance. The following are UNCDF strategies.

3.7.1. Gender

To ensure gender is mainstreamed into UNCDF interventions, monitoring and evaluation. UNCDF will align its strategy with the overall UNCDF strategy on Gender Equality and Empowerment (Annex 9). UNCDF will specifically look at issues that restrict women from accessing agricultural finance, not only removing physical access issues (i.e. proximity of a branch) but also removing direct and indirect discrimination in the design, promotion and delivery of financial services. Therefore, a special effort will be given to women issues during product development. The intervention will seek to establish a gradual process from savings and credit groups to an alternative form of credit, i.e. individual loan. This will require diversifying collateral options for women. Further, UNCDF will work with a regulator to ensure that practices of financial institutions comply with and promote gender equality. Ultimately, the aim is to promote a gender balanced, diversified financial sector in Nepal. UNCDF will:

- Include, promote and support the collection of gender disaggregated data on access to financial products and services within institutions it will support;
- Promote gender experts and practitioner to undertake the work within the program;
- Within the training for bankers, financial institutions and the like UNCDF will conduct a gender assessment and improve gender integration within services;
- Promote integration of women from different economic and social backgrounds and be a strong advocate for gender equality (i.e. gender equality of opportunity, gender centered financial products and so forth);
- Financial literacy activities will particularly focus on increasing knowledge of credit – indebtedness;
  Promote design of financial products for value chain finance that are based on an understanding of gender specific needs, i.e. women entrepreneurs however mindful of the fact that additional loans may increase labor burden and credit burden on women.

3.7.2 Measures to include disadvantaged groups caste/ethnicity

UNCDF interventions will pay a special attention of reducing discrimination of traditionally marginalized groups such as Majhis, Sanyasis, Bhujels, Khadgis and other groups. Special emphasis will be given to an understanding of specific barriers of these groups, and ways of eliminating them. For example, due to low land ownership of these groups, financial institutions (such as MFIs) need to develop products and services that meet constraints of these specific groups. Given the nature of vulnerability of these groups, financial literacy interventions will specifically focus on productive use of financial products and services, to avoid over- indebtedness.

3.7.3 Good Governance

The principles that define good governance are accountability, transparency, participation, non-discrimination, and efficiency. UNCDF will focus on creating transparent and responsible financial system surrounding. UNCDF will therefore focus on client protection. UNCDF worked on Client Protection Guidelines to safeguard clients from over-indebtedness as well as from predatory lending in EAFS. UNCDF will further expand this work with the partnering banks that will have to adapt responsible finance practices and will have to ensure that their services and products are transparent, easy to understand and appropriately priced (see Annex 10 – Client Protection Principles). UNCDF will:

- Embed client protection principles, such as responsible pricing and transparency issues within all technical assistance training initiatives to program partners;
- UNCDF will monitor financial arrangement on fairness vis – a – vis stakeholders, especially women, disadvantages groups, caste and ethnic minorities;
- UNCDF will demand transparent pricing mechanisms and ensure all partners abide to transparent pricing;
- UNCDF will request all financial institutions to adopt client protection principles within their bylaws and link its fund distribution to acceptance and implementation of these principles.

3.7.4. Green Growth

Nepal faces a number of environmental challenges. Due to dominance of orographic conditions with a climate characterized by weather extremes, such as dramatic variations in temperature, humidity, evaporation and weather extremes in precipitation, Nepal faces problems of food security, droughts and erosion of land for agricultural production as well as minimization of the irrigation capacity. For example, more floods likely result in in increased volumes of sediment transport. More sediment is detrimental to the operation of irrigation schemes, as it increases the obstruction of water ways and the wear and tear of the equipment. Draughts and lower water flow volumes that may occur affect the irrigation capacity, making the water source less reliable[46]. In EDR (the focus area of UNNATI), THE environmental issues are climate related (weather related disasters), pollution related (chemical uses) as well as anthropogenic (over – pumping, indiscriminate bulldozing of roads and the like)[47]. Drying up of water resources, being the biggest concerns by farmers[48]. Further, many farmers are shifting to commercial agriculture, due to increase influx of new insects and plants, hence excessively using pesticides and insecticides[49]. On household level, almost 94% of household use firewood for cooking (compared to 64% at national level) and with also use of kerosene for lightning (especially in Taplejung 45% and Panchthar 39.5%).

Recognizing the importance of promotion of green technologies both for household and business use, UNCDF has initiated a global "CleanStart" Programme. This programme, being also implemented in Nepal, aims to modify consumer behaviour to reduce their environmental footprint, by increasing access to green and renewable energy sources. Given that financing is often a constraint for households to change their behaviour, "CleanStart" programme in Nepal is working in partnership with financial institutions to build their capacity to develop and offer appropriate financing for renewable energy products to be

[46] DANIDA, Draft Component Description, Market Linkages and Value Addition, Sep 2012, page 27
[47] Interdisciplinary Analysts, Mechi – Kosi Hill District Profiles, Draft Report, April 2013, page 21
[48] Ibid.
[49] Ibid.

used in businesses and households. By doing so, UNCDF is increasingly promoting green outcomes both directly and indirectly. It will selectively support those financial institutions with clear green growth mandates. UNCDF considers institutions with green growth mandates as those institutions that are advancing/piloting financial instruments and financing renewable energy solutions to support economic growth, as well as enabling households to move towards cleaner energy solutions by providing affordable financing options. The success of "CleanStart" interventions will be measured by assessing the number of households/businesses using renewable energy technology applications either for their household and/or enterprises, establishing a baseline and then monitoring panel data subsequently.

Given that "CleanStart" Programme (Annex 3) works with financial institutions to develop their capacity to offer appropriate financing to households and businesses, UNCDF will build synergies with DANIDA UNNATI programme.

In specific, UNCDF will:

- Include UNNATI FSP partners in its training and technical assistance activities around development of financing products for renewable energy and green growth. For example, as a result institutions will improve knowledge on assessing positive and negative impacts of different technologies used, institutions will receive tools to help them assess loan applications vis –a-vis environmental impact;
- Incorporate messages of importance of investing into green technologies within its financial literacy interventions;
- Disseminate research and knowledge products with UNNATI partners;
- Create linkages between UNNATI partners and "CleanStart" programme partners to facilitate learning and knowledge exchange;
- Inform UNNATI partners and their beneficiaries of financing available for green growth and green energy through partnering "CleanStart" FSPs;
- Provide technical advice to UNNATI A2F partners on appropriate product development for green growth.

In March 2013, UNCDF has adopted the UNDP's policy on Environmental and Social Screening of development projects. This project document has been screened using UNDP's "Environmental and Social Screening of development projects" policy and can be labelled as a category 2 project: Environmental and social sustainability elements need to be integrated into project design because there are possible environmental and social benefits, impacts, and/or risks associated with the project (or a project component) but these are predominantly indirect or very long-term and so extremely difficult or impossible to directly identify and assess. The above mentioned specific activities have been identified to ensure social benefits, impacts and/ or risks are addressed.

3.7.5. Alignment with UNDAF

UNCDF strategy is well aligned with that of United Nations Development Assistance Framework (UNDAF) (2013-17) for Nepal. UNCDF work under UNNATI Programme, Component 1, sub – component 2 Access to Finance is complimentary with the UNDAF Nepal, outcome area 2: Vulnerable Groups have improved access to economic opportunities and adequate social protection and outcome area 4: vulnerable groups benefit from strengthened legal and policy framework and have improved access to security and rule of law.

UNDAF Outcome Areas	UNCDF's Strategy
2. Vulnerable groups have improved access to economic opportunities and adequate social protection.	UNCDF will promote strategies and interventions using a mixture of branchless model and branch led approaches for financial services delivery. UNCDF will, though its Access to Finance interventions support institutions to provide women, caste/gender marginalized individuals greater access to suitable financial products and services to support their value chains and beyond.
4. Vulnerable groups benefit from strengthened legal and policy frameworks and have improved access to security and rule-of-law institutions.	UNCDF will play a leading role in assisting the Government of Nepal in developing and implementing enabling framework for delivery of greater number of financial products and services.

3.8. PARTNERSHIP AND LINKAGES

At UNNATI level

- At the UNNATI level, the project will ensure linkages with the three stakeholder forums as well as with the other programme implementing partners. UNCDF will take responsibility, in close collaboration with the other Management Contractors (MC), to arrange these forums. The forums will allow value chain actors, MCs and UNCDF to discuss and understand the binding constraints and opportunities within the three value chains. These forums will provide comments and inputs on budgets, plans and reports. Additionally, the forums will allow for coordination of efforts and avoidance of duplication.

At national level

- At the national level, UNCDF will continue to play an active role in donor coordination through Access to Finance (A2F) donor coordination group comprising of ADB, IFC, and WB.
- Within UN family, UNCDF will continue to collaborate with relevant UN agencies, most notably with the UNDP especially with those programmes focused on poverty reduction.

At regional level

- At the regional level UNCDF will continue working closely with Alliance of Financial Institutions to establish an enabling policy environment for financial inclusion in Nepal following national objectives as outlined by the Government of Nepal and Nepal Rastra Bank.

At UNCDF level:

The strategy of UNCDF will be to ensure greater linkages with UNCDF global programme that have great relevance for Nepal and have been integrated within the proposed country framework shared with the Government of Nepal and Nepal Rastra Bank.

i. Mobile Money for Poor (MM4P) – UNCDF, Sida and AusAID have developed this programme to support branchless and mobile financial services in a select group of LDCs. There are significant synergies between MM4P and UNCDF's initiatives within the UNNATI programme, UNCDF will leverage on the technical expertise within MM4P MLVA component on the knowledge generation and dissemination front. (Annex 4)

ii. *CleanStart* – Started in 2011 in collaboration with SIDA, CleanStart is working in partnership with financial institutions to build their capacity to develop and offer appropriate financing for renewable energy products to be used in businesses and households. UNCDF will leverage on the technical expertise and resources of the CleanStart.

iii. MAP (Making Access Possible) – a programme implemented in 2011 with the support of SIDA focuses on assisting governments build a comprehensive inclusive finance framework and implementation plans supported by rigorous research and data analysis methodologies.

3.9. Sustainability of Results

A2F project will work through national institutions and individuals with a central goal to improve institutional capabilities so that they can be ready to implement and roll – out programme interventions within the programme districts, and subsequently past the programme districts to regions and target groups.

A2F project programme will make an effort to nurture international, regional and national bodies to support overall financial inclusion agenda in Nepal. UNCDF will encourage and support relevant bodies in their efforts to expand financial inclusion in Nepal.

A2F project will make an effort to widely disseminate all the materials and knowledge products through electronic means and printed form, allowing use of the resources beyond programme partners.

UNCDF will work with the institutions with national focus that have capacity to replicate interventions at a national level.

4 RESULTS FRAMEWORK

In line with the DANIDA monitoring and evaluation guidelines, the Access to Finance sub – component of UNATTI programme will comply with the Donor Committee for Enterprise Development Standards (DCED) for measuring achievements in private sector development. This standard outlines eight areas of compliance:

A) Articulating the result chain (4.1)
B) Defining Indicators of Change (4.2)
C) Measuring Changes of Indicators (4.3)
D) Estimating Attributable change (4.4)
E) Capturing Wider changes in the system of market (4.5)
F) Tracking Programme Costs (4.6)
G) Reporting Results and (5.1)
H) Managing the System for Result measurement (5.2)

The control points and compliance criteria are discussed in the text below.

4.1. A2F RESULT CHAIN

The overall result chain for Access to Finance sub – component hypothesizes that improved willingness and technical "know – how" of financial institutions supplemented by enabling environment will lead to better and greater offering of financial products and services for farmers and MSMEs. This coupled with the improvement of financial competencies of smallholder farmers and MSMEs will lead to greater use of financial products and services for agricultural value chains. In turn farmers will make investments in their activities that will lead to farmers improving yield and sales, and MSMEs improving productivity and sale. The result will be sustained improvement in competitiveness of selected value chains which will lead to sustainable – inclusive growth. The inclusive growth will lead to poverty reduction and improvement of living standards.

UNCDF theory of change is based on the following previous evidence and research:

- Empirical evidence suggests that improved access to finance is not only pro – growth but also poor – poor reducing income inequality and poverty[50] . Further high level of financial development (credit extended by financial institutions to households and businesses) may well be a result of wealth, but it is also a powerful driver of poverty reduction[51];
- Studies suggest that financial sector development positively affects growth, for example Levine, Loayza & Beck (2000)[52] study shows that financial sector development has positive effects on economic growth;
- Enabling environment also has an important role to play in terms of access to finance, for example it can support innovations in the financial market while safeguarding consumers from over – indebtedness and predatory lending;
- Recent study[53] on smallholder households (2013) suggests that smallholder households are not a uniform group and that their needs vary and can be met only with a diversified range of financial products and services;
- Evidence suggests that making good financial decisions is critical for financial well – being however in developing and developed countries[54] populations are largely unprepared to make good financial decisions. While evidence on the impact of financial literacy is mixed, some studies suggest that exposure to financial literacy improves business practices and outcomes. Further studies suggest that greater familiarity with financial terms and products leads to greater utilization of financial products[55];

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[50] OECD (2006). Promoting Pro Poor Growth. Private Sector Development. http://www.oecd.org/dac/povertyreduction/36427804.pdf

[51]Thorsten Beck, Demirgüç-Kunt, and Ross Levine (2004). Finance, Inequality and Poverty. World Bank. http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2004/07/23/000112742_20040723123757/Rendered/PDF/wps3338.pdf

[52] Levine, Loayza & Beck; 2000, "Financial Intermediation and Growth: Causality and Causes", Journal of Monetary Economics, 46, pp.31-77

[53] Robert Peck Christen and Jamie Anderson (2013). Segmentation of Smallholder Households: Meeting the Range of Financial Needs in Agricultural Families. http://www.cgap.org/sites/default/files/Focus-Note-Segmentation-of-Smallholder-Households-April-2013_0.pdf

[54] Alejandro Drexler, Greg Fischer, and Antoinette Schoar (2011), Keeping it Simple – Financial Literacy and Rules of Thumb, http://www.mit.edu/~aschoar/KIS%20DFS%20Jan2011.pdf

[55] UNCDF (2009), Financial Capability, Financial Competence and Wellbeing in Rural Fijian households http://anz.com.au/resources/0/3/03f1f40042476300ae26ffb283c86c53/CR-UN-Report-Fijian-Households.pdf?CACHEID=03f1f40042476300ae26ffb283c86c53

- Corresponds to nationally agreed objectives for expansion of financial services in Nepal and Nepal Rastra Bank's strategic objectives such as improving financial competencies, increasing access to financial services in agricultural sector as well as greater financial inclusion.

The result chain framework is based on the following assumptions:

- Political commitment to inclusive growth and financial inclusion is maintained at the national level;
- Political will exists to make necessary regulatory changes to support agricultural finance;
- Banks and financial institutions show and maintain greater commitments to expand their offerings to agricultural value chains;
- Enabling environment for commercial and agricultural activities is improved through the work of other UNNATI partners (specifically sub – component 1.1 Commercialization of Selected Value Chains)
- Related partners tackle constraints for agricultural value chain growth.

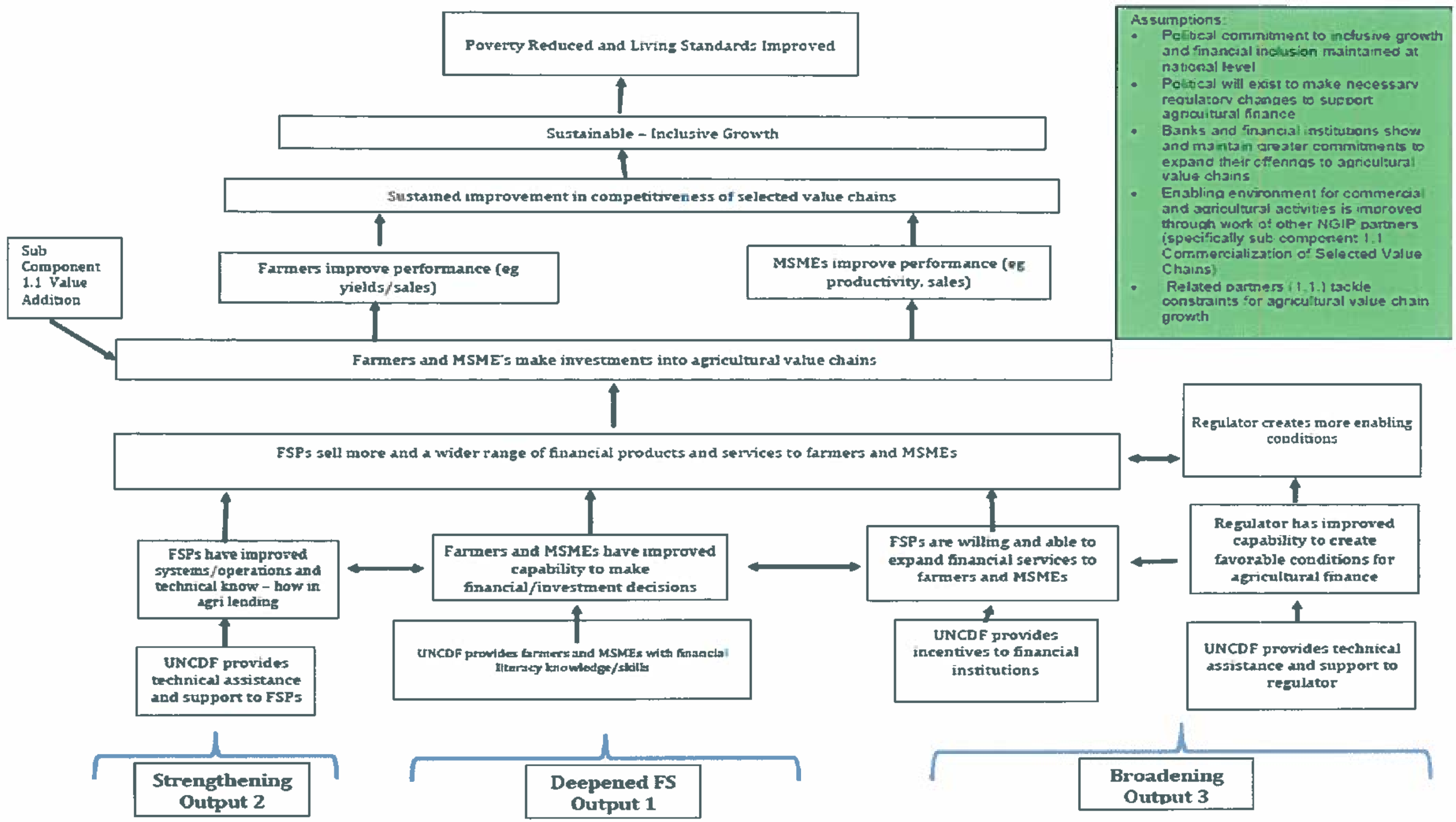
These external factors will be regularly monitoring as part of the programme management, and will also be discussed with the Management and Coordination committee as well as with M&E programme coordinator.

See overall Access to Finance Result Chain on the next page. During the inception phase UNCDF will develop result chain for each of the output area. For a detailed Result and Resource Framework refer to Annex 13.

UNCDF, together with programme partners will regularly review and reflect on this result chain, especially given that UNNATI is a new programme for DANIDA and UNCDF and both partners are learning. For example, UNCDF will seek feedback from stakeholder forums as well as from other MC through regular quarterly meetings. Further, UNCDF will on bi – annual basis review its result chain with Access to Finance project board. UNCDF monitoring and evaluation framework design for UNCDF to test the theory presented in the result chain.

UNCDF sees, however, a few strong intervening factors that could negatively impact interventions under Access to Finance sub component (listed as assumptions in the Result Chain). A particular area of concern is the enabling environment for commercial and agricultural activities as well as removing constraints within agricultural value chains. Therefore these external risks must be recognized at the beginning of the programme as potential impediments to expansion of financial services. For example, if agricultural activities are not perceived as commercial viable by the financial institutions they will unlikely fund these activities. While this broader factors are beyond the direct control of UNCDF every effort will be made as part of programme reporting, governance and communication to reduce their (negative) influence on programme implementation and results.

Figure 3 Access to Finance Result Chain



4.2 Defining Indicators of Change

UNCDF has defined relevant indictors for each step of the result chain as well as relevant indicators specifically for Access to Finance project. These indicators are articulated in the UNCDF's Logical Framework (for details see Annex 12).

Key Indicators of Change are presented in table Table 12 below.

Table 12: Key Indicators of Change Inclusive Growth Programme in Nepal (UNNATI) and Access to Finance Project

Objectives	Indicators
Promotion of sustainable, inclusive growth that reduces poverty and raises living standards	• Number of households with additional income (by gender, social group, poverty status and location) • Number of farms and enterprises with increased profits • Net additional enterprise and farm income
Component 1: The Value Chain Component	
Intermediate Objective	
Sustained improvement in competitiveness of selected value chains	• Additional private sector investment in selected value chains • # of farmers who improve performance • # of MSMEs who improve performance
Sub Component 1.2 Access to Finance	
Sub Component Objective	
Increased access to and use of a range of financial services by rural households and MSMEs	By the end of the project, an additional 250,000 clients are reached where: - 150,000 smallholder farmers and MSMEs (out of which at least 55% are women) actively use appropriate and affordable financial products to support their value chain activities on a national level. Out of these 150,000 clients - 100,000 are located in the EDR UNNATI districts; - Additional 100,000 clients enrol in mobile and branchless banking service out of which 45,000 are located in EDR. Out of 100,000 at least 25,000 are actively using mobile banking services. Out of 25,000 at least 15,000 are located in the EDR UNNATI districts; - Out of 150,000 clients at least 75,000 disadvantaged caste/ethnic groups actively use financial services and 50,000 are located in the EDR UNNATI districts; - Additional 10 bank and/or microfinance branches points are operational in the EDR UNNATI districts; - Additional 15 branchless access points (e.g. agents) are operational in EDR UNNATI districts; - 150,000 smallholder farmers and MSMEs have improved financial competencies nationally, and 80,000 are located in the EDR UNNATI districts
Output 1: Deepened Financial Services for Smallholder farmers and MSMEs	
1.1. Improved Financial Competencies	100,000 farmers and MSMEs have improved financial competencies (for example, improved budgeting skills, ability to calculate costs of loans) nationally, out of which 20,000 are located in UNNATI EDR districts (data disaggregated gender, social group, poverty status and location).
1.2. Increased number of new financial products	At least 5 new financial products developed by FIs and in use (data disaggregated gender, social group, poverty status and location).

	Agricultural Product/Target Segment contribution to profit amount trend (data disaggregated gender, social group, poverty status and location).
Output 2: Improved Capacity of Financial Institutions	
1.3. Improved efficiency and performance of agricultural portfolio	Portfolio at Risk of agricultural portfolio and overall (PAR) Ratio > 30 days (%) positive trend from baseline[56] Operational Self – Sufficiency (OSS) positive trend from baseline[57] Financial Self Sufficiency (FSS) positive trend from baseline[58] Amount decrease in costs per client[59]
3 Broadened Financial Services for Smallholder farmers and MSMEs	
4.1 Increased portfolio growth in agricultural finance	Amount increase in agricultural loan portfolio[60] from baseline (data disaggregated gender, social group, poverty status and location).
4.2 Increased number of financial services points (branches and non-branches i.e. POS, mobile banking)	Change in # of branches and branchless banking access points (# of agents, POS machines)[61] disaggregated by location Change in # of new customers nationally and EDR, UNNATI districts (data disaggregated gender, social group, poverty status and location)[62].
4.3 Enhanced regulation capacity of NRB	At least 3 financial inclusion recommendations implemented through directives, monetary policies and regulations.

Disaggregation of data will be by gender, social group, poverty status (using land size as a proxy) and location (more/less than 4 hours walk from a road).

4.3. Measuring Changes in Indicators

In order to measure the changes in indicators articulated in the LFA UNCDF will periodically measure change using good research practices.

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[56] Portfolio at Risk (PAR) is the most commonly used indicator to measure health of institutional portfolio. The indicators will be reported during baseline. Partners with the support of UNCDF will establish their targets, and will be accountable for meeting these. UNCDF will use international best practices as a guide.

[57] Operational self – sufficiency OSS indicates whether or not enough revenue has been earned to cover the direct cost, excluding the cost of capital but including any actual financing cost incurred. It shows the leverage for each dollar invested. The indicators will be reported during baseline. Partners with the support of UNCDF will establish their targets, and will be accountable for meeting these. UNCDF will use international best practices as a guide

[58] Financial self – sufficiency FSS indicates whether or not enough revenue has been earned to cover both direct cost, including financing costs, provisions for loan losses, and operating and indirect cost, including the adjusted cost of capital.

[59] Another good indicator of efficiency of financial institution, is cost per client. Cost per client looks at amount of US$ an institution spends to reach one client. Commonly at the start of an intervention costs per client are high, but as institutions streamline and improve their operations (as well as increase their client outreach) the costs go down. Therefore, cost per client is also a good indication of successful technical assistance.

[60] A good indication of investment in agricultural activities as it shows if and how the financial institutions are investing in agricultural activities. This indicators is directly link with financial institutions confidence in investing in a sector

[61] This indicator shows the actual expansion of access points and overall physical presence of financial institutions. It is commonly used to show presence of financial institutions

[62] This indicators shows the breadth and depth of outreach and is commonly used to show reach of financial institution.

UNCDF will first establish a baseline for indicators, UNCDF will use a combination of primary and secondary data. UNCDF will collect baseline data during the inception phase of the programme as well as through MAP exercise (Activity 2 under output 3 Broadening).

In order to collect the information UNCDF will use the following data gathering techniques.

Table 13: Data Gathering Techniques to Measure Changes in Indicators

Objective	Indicators	Methodology	Purpose	Timing
Programme Development Objective				
Promotion of Sustainable inclusive growth that reduces poverty and raises living standards	# of households with additional income # of farms and enterprises with increased profits # of additional enterprise and farm income	Random selection of participating (i.e. treatment) and non - participating households (i.e. control). Use of financial diaries[63] (a mixture of qualitative and quantitative research instruments) to collect and measure changes in the indicators. Mid – term and Evaluation of the intervention using a mixed method approach (SPIRE methodology - refer to Section 5)	To measure and understand changes through time	On yearly basis
Intermediate Objective				
Sustained Improvements in competitiveness of selected value chains	# Additional private sector investment in selection value chains # of farmers improve their performance # of MSMEs who improve their performance	Random selection of participating (i.e. treatment) and non - participating households (i.e. control). Use of financial diaries (a mixture of qualitative and quantitative research instruments) to collect and measure changes in the indicators. Mid – term and Evaluation of the intervention using a mixed method approach (SPIRE	To measure and understand changes through time	On yearly basis

63 The Financial Diaries provide a view inside the household "black box"— this methodology gives a chance to observe how low-income populations live their lives on a daily basis, including the effects of particular social interventions. The goal is to capture key junctures when households use a particular innovation and compare the results to households without access to the innovation. In this way, Financial Diaries identify the impact of a project innovation on the overall well-being of the recipient of that service.

		methodology - refer to Section 5) Case studies of selected cases		
Sub Component 1.2. Access to Finance				
Sub Component objective				
Increased access and use of a range of financial services by rural households	Additional 150,000 small holder farmers, and MSMEs out of which at least 55% are women actively use appropriate and affordable financial services to support their value chain activities on a national level, out of which 55,000 are located in EDR UNNATI districts; At least 37,500 disadvantages caste/ethnic groups actively use financial services, out of which 7,000 are located in EDR UNNATI districts; 100, 000 clients enrol in mobile and branchless banking with at least 25,000 actively using mobile financial services nationally, out of which 5,000 are located in EDR UNNATI districts.	Portfolio[64] reports prepared by FSPs and verified by UNCDF. The portfolio reports have a set of financial, outreach and other relevant indicators (quantitative) against which financial institutions report. Qualitative case studies on specific issues of interest e.g. inclusion of disadvantages caste/ethnic groups, impact of finance on women bargaining power in HH, workload burden, gender and do no harm review within FSPs, cost effectiveness of agricultural finance Qualitative case studies understanding benefits of mobile banking	To measure progress against targets on regular basis To analyse behaviours and performance changes	Quarterly Periodically
1. Deepened Financial Services for smallholder farmers and MSMEs				
1.1 Improved Financial Competencies	100,000 farmers and MSMEs have improved financial competencies nationally, out of which 20,000 are located in EDR UNNATI districts;	Qualitative case studies to examine changes in knowledge, skills and attitudes in relation to financial competencies Pre/Post tests to measure financial competencies with a small sample	To analyse behaviours and performance changes To compare changes due to intervention	Periodically Before the FL intervention/After the intervention
1.2 Increased number of new financial products	Five new agricultural products developed and in use for agricultural activities within the selected value chains; Agricultural Product/Target	Observation and Review of Processes and Procedures around new products. Quarterly Portfolio reports prepared by FSPs and verified by UNCDF. The portfolio reports have a set of	To analyse behaviours and performance changes	Periodically Quarterly

[64] UNCDF verifies data of financial institutions through multiple methods. Triangulation of information, trend analysis, client interviews, and field visits are some of the methods used.

	Segment contribution to profit amount trend (data disaggregated by gender, social group, poverty status and location)	financial, outreach and other relevant indicators (quantitative) against which financial institutions report. Qualitative case studies on client satisfaction with products and services.		 Yearly (one per year)
2. Improved Capacity of Financial Institutions				
Improved efficiency and performance of agricultural portfolio	Portfolio at Risk of agricultural portfolio and overall (PAR) Ratio > 30 days (%) positive trend from baseline[65] Operational Self – Sufficiency (OSS) positive trend from baseline[66] Financial Self Sufficiency (FSS) positive trend from baseline[67] Amount decrease in costs per client[68]	Quarterly Portfolio reports prepared by FSPs and verified by UNCDF. The portfolio reports have a set of financial, outreach and other relevant indicators (quantitative) against which financial institutions report. Annual performance reports and audit reports Qualitative case studies with financial institutions analysing behaviour and performance changes	To analyse behaviours and performance changes	Monthly Yearly Yearly (one per year)
3.Broadening of Financial Services for smallholder farmers and MSMEs				
3.1 Increased portfolio growth in agricultural finance	Positive growth of agricultural portfolio among financial institutions – the amount of agricultural lending increases from baseline.	Quarterly Portfolio reports prepared by FSPs and verified by UNCDF. The portfolio reports have a set of financial, outreach and other relevant indicators (quantitative) against which financial institutions report.	To analyse progress against targets	Monthly

[65] Portfolio at Risk (PAR) is the most commonly used indicator to measure health of institutional portfolio. The indicators will be reported during baseline. Partners with the support of UNCDF will establish their targets, and will be accountable for meeting these. UNCDF will use international best practices as a guide.

[66] Operational self – sufficiency OSS indicates whether or not enough revenue has been earned to cover the direct cost, excluding the cost of capital but including any actual financing cost incurred. It shows the leverage for each dollar invested. The indicators will be reported during baseline. Partners with the support of UNCDF will establish their targets, and will be accountable for meeting these. UNCDF will use international best practices as a guide

[67] Financial self – sufficiency FSS indicates whether or not enough revenue has been earned to cover both direct cost, including financing costs, provisions for loan losses, and operating and indirect cost, including the adjusted cost of capital.

[68] Another good indicator of efficiency of financial institution, is cost per client. Cost per client looks at amount of US$ an institution spends to reach one client. Commonly at the start of an intervention costs per client are high, but as institutions streamline and improve their operations (as well as increase their client outreach) the costs go down. Therefore, cost per client is also a good indication of successful technical assistance.

		Annual Performance reports Audit Reports Qualitative Case studies with financial institutions analysing behaviour and performance changes	To verify and analyse the progress To analyse the behaviour and changes within institution	Yearly Yearly
3.2 Increased number of financial services points (branches and non-branches i.e. POS, mobile banking)	Additional 25 branchless access points are operational in EDR UNNATI districts; Additional 10 bank and/or microfinance branches points are operational in EDR UNNATI districts;	Quarterly Portfolio reports prepared by FSPs and verified by UNCDF. The portfolio reports have a set of financial, outreach and other relevant indicators (quantitative) against which financial institutions report.	To verify and analyse the progress	Quarterly
3.3 Enhanced regulation capacity of NRB	National Financial Inclusion roadmap developed and implemented by the NRB;	Qualitative opinions of key informants and experts Review of secondary documents (such as NRB directives to the FSP sector, Monetary Policy Financial Sector Development Plan)	To understand contribution of UNCDF to the policy formulation To verify that recommendations are included	Upon issuance of directives and/or monetary policies/ regulations

UNCDF will work in close partnership with MC for sub component 1.1. Commercialization of selected value chains, and where applicable, studies will be undertaken in collaboration.

4.4. Estimating Attributable Changes

UNCDF will employ rigorous research methodologies that confirm to established best research practices.

In order to estimate attributable changes UNCDF will use the financial diaries methodology which will be set up to measure the key expected changes set out in the programme results chain.

Financial Diaries is a research methodology that combines a mixture of quantitative and qualitative research instruments to capture changes within the households. At first, the information on household demographics, physical assets, typical income and expenditure patterns, historical and current employment, and lastly current and previous use of financial instruments is captured. Once this data is recorded, households are interviewed on weekly or bi – weekly basis throughout a period of a year. During bi – weekly data recording, respondents are regularly asked if they added new activities, received new interventions or if any major events happened (in this way information about additional and/or possible intervening factors is captured and used later in the analysis to measure attribution/impact). The field level data is regularly transferred into a statistical software. The diaries are easy to use and adjusted to level of literacy of respondents, field workers (i.e. research assistants) also fill in their journals and record their observations and changes. Data is checked on on-going basis, and reports are available within a few months from a start of the diaries.

In addition to the financial diaries tool, the monitoring and reporting system of the programme will also follow the programme results chain attempting to track change over time. As stated above, this monitoring will look both at progress in programme activities and results as well as changes in the most important external factors that are judged to impact on programme results.

Under the supervision of the programme M+E specialist and at the suggestion of programme management and oversight, case studies may also be used to look at programme performance in specific areas.

4.5. Capturing Wider Changes in the Systems or Market

As stated above, programme monitoring will be set up to track changes not only in programme implementation but also in broader market and institutional-level factors that may influence programme results.

The results of the Financial Sector Analysis and Diagnostic exercise planned under Output 2 – Activity 2 – Regulatory and Policy Support - will also support UNCDF to track changes in broader financial system and market developments.

Finally, as per UN best practice, the planned evaluation(s) of the programme will also aim to assess the programme's contribution to broader institutional change – validating the results of information from the internal monitoring and the financial diaries and attempting to assess broader programme performance against the results chain. For more information, please refer to section 5 of this document.

4.6. Tracking Programme Costs

UNCDF will track costs on monthly, quarterly, bi – annual and yearly basis in line with its financial management procedures. UNCDF, in line with UN standards, utilizes "Atlas" accounting and financial management system that allows UNCDF to track accosts and produce regular reports regarding programme related expense.

For other details on compliance with DCED standard refer to section 5 of this report.

4.7 Budget

UNCDF interventions will focus around three key outputs listed below.

Output 1: Deepened Financial Services for Smallholder farmers and MSMEs
Output 2: Improved Capacity of Financial Institutions
Output 3: Broadened Financial Services for Smallholder farmers and MSMEs

The **objective of access to finance subcomponent is to increase access to a range of financial services and products by rural households and MSMEs thereby supporting the creation of an inclusive financial sector**.

The programme will be implemented in the EDR region of Nepal, specifically in the seven districts of Mechi and Kosi corridor - Ilam, Paanchthar, Terhathum, Bhojpur and Dhankuta (located in the mid – hills) and Taplejung and Sankhwasabha (located in the mountain region).

The total budget is US$ 9,473,396 (DKK 51, 307,909) where DANIDA's contribution is US$ 7,385,525 (DKK 40,000,000), and the remaining US$ 2,087,871 (DKK 11,307,909)** is funded partially by DFID US$ 1,064,996 (DKK 5,768,018) and UNCDF US$ 1,000,000 (DKK 5,416,000).

SUMMARY	Total in US$	Total in DKK	BUDGET PER DONOR US$		BUDGET PER DONOR DKK	
			DANIDA	UNCDF	DANIDA	UNCDF
PROGRAMME COSTS						
OUTPUT 1: Deepening Financial Services for Smallholder Farmers and MSMEs	559,450	3,029,981	559,450	-	3,029,981	-
OUTPUT 2: Improved Capacity of Financial Institutions	1,083,000	5,865,528	1,083,000	-	5,865,528	-
OUTPUT 3: Broadening of Financial Services	5,345,242	28,949,831	3,303,121	2,042,121**	17,889,703	11,060,127
Monitoring & Evaluation	443,131	2,400,000	443,131	-	2,400,000	-
Publications	76,460	414,107	76,460	-	414,107	-
TOTAL PROGRAMME	***7,507,283***	***40,659,447***	***5,465,162***	***2,042,121***	***29,599,320***	***11,060,127***
SUPPORT COSTS	-	-	-	-	-	-
PROJECT SET UP AND RUNNING COSTS	346,685	1,877,646	346,685	-	1,877,646	-
MANAGEMENT COSTS	1,619,427	8,770,816	1,573,677	45,750	8,523,034	247,782
TOTAL SUPPORT	***1,966,112***	***10,648,462***	***1,920,362***	***45,750***	***10,400,680***	***247,782***
GRAND TOTAL	9,473,396	51,307,909	7,385,525	2,087,871	40,000,000	11,307,909

** Joint DFID and UNCDF

In terms of DANIDA contribution (US$ 7,385,525, DKK 40,000,000): 73% (US$ 5,465,162, DKK 29,599,320) of the budget goes towards programme costs, while 27% to support costs (US$ 1,966,112, DKK 10,648,462). Total support costs in relation to the overall budget are distributed as follows: project running and set up costs at 5% (US$ 346,685, DKK 1,877,646) of the total budget and staff costs 22% (US$ 1,619,427, DKK 8,770,816) of total budget

In terms of the programme costs, DANIDA's budget per outputs in relation to programme costs is distributed as follows: Output 1 - 10% (US$ 559,450, DKK 2,948,741) of the programme budget, Output 2 - 20% (US$ 1,083,000, DKK 5,773,456) and Output 3 - 61% (US$ 3,303,121, DKK 17,889,703) respectively. The M&E costs constitute 8% (US$ 443,131, DKK 2,400,000) of the programme budget while publications and knowledge management constitute 1.4% (US$ 76,460, DKK 414,107) of the programme budget.

Monitoring and evaluation activities will involve the following activities:

- collection of base line data;
- quarterly field monitoring visits to programme partners to monitor the utilization of funds as well as progress against results;
- staff training and capacity building especially related to DCED standards for reporting and monitoring;
- regular training to programme partners on monitoring and evaluation;

- monitoring field missions from regional office;
- mid-term and final evaluation study;
- financial diaries study, and;
- other studies as suggested in table 13 such as field case studies, observations, market research studies and the like.

Publications and knowledge management activities will include the following products:

- A2F programme brochure, flyer and similar visibility documents to inform stakeholders of the programme;
- Short publications of A2F work, lessons learnt , case studies and similar publications;
- Publication of programme outputs (market research, feasibility studies and the like);
- Publications will be in English and Nepali therefore budget also includes editing services for both languages;

For detailed Budget see Annex 13.

5 MONITORING, EVALUATION AND REPORTING

5.1 Managing the System for Results Management

UNCDF's monitoring of results framework proposed above offers a comprehensive and multi-faceted approach using both quantitative and qualitative methods to regularly track progress against the expected results of the Access to Finance component. UNCDF will link with other programme partners particularly with the value chain implementing partner given that access to finance success is closely linked with the interventions of value chain component. Further, UNCDF will to the extent possible conduct joint studies, assessments and monitoring of results with value chain implementing partner.

The results chain – presented in Diagram 2 – provides the conceptual framework for the M+E system with assessment of programme performance planned to take place regularly at different levels of the intervention logic.

UNCDF will develop a detailed Monitoring and Evaluation manual during the inception phase. This manual will set out in more detail a proposed system for results measurement. UNCDF will use findings of its monitoring and reporting for programme management and decision making. For example, UNCDF will adjust its annual work – plans and interventions based on monitoring and reporting results. UNCDF will provide training and orientation to all project staff on the result oriented management and will ensure that all staff has easy access to the manual.

Further, UNCDF will ensure regular (for example: monthly meetings reviewing progress on activities and outputs and bi – annual review of progress vis – a vis result chain) staff meeting where result chains, indicators and progress will be discussed in an open forum. Additionally, UNCDF will develop a short learning diaries for all staff, to enable them to monitor results and document qualitatively on changes, ensuring that documentation also captures positive and negative unanticipated outcomes.

UNCDF will include monitoring and evaluation responsibilities across the team roles. The monitoring and evaluation support will be provided from regional office as well as from

UNCDF HQ. UNCDF HQ M&E office has a dual role: it manages an independent evaluation function in accordance with UN norms and standards and it also works towards building an evaluation culture within UNCDF, some of its work includes improvement of programme design, strengthening of overall M&E systems, support for in – country evaluations.

The national team will have access to a Monitoring Specialist housed at the UNCDF Regional Office in Bangkok. Monitoring Specialist will be responsible for providing support to monitoring and evaluation activities of “Access to Finance” component of Component 1 The Value Chain under UNNATI programme.

In terms of *reporting of FSPs* - all FSPs supported will be required to report quarterly to UNCDF (typically to the team leader in the country) using a standard performance reporting format, including indicators on outreach, portfolio, savings, and other indicators relevant to this Access to Finance sub component . Annually, FSPs will provide audited financial statements. UNCDF will verify and analyse the data before reporting on partner’s results. The baseline for calculating outreach will be a size of agricultural portfolio and a number of active clients within agricultural portfolio (where available). In instances the information is not available the starting point will be 0 (zero). As a condition of the UNCDF support FSPs will consent to reporting to the MIX Market and forwarding their data to the Micro Banking Bulletin (MBB) for national, regional and global benchmarking. Banks and other types of participating FSPs will be asked to collect and share comparable indicators. In instances where indicators cannot be collected, UNCDF will undertake qualitative assessment of progress. All grantees will also provide multi-year business plans to UNCDF.

All FSPs partners are strongly encouraged to endorse the Client Protection Principles of the Smart Campaign. All FSP will report bi - annually to UNCDF on their client protection activities.

At the time of signing agreement, all participating FSPs will agree to provide necessary data and collaboration for research activities, case studies, monitoring and evaluations that will be produced as part of the overall monitoring and learning agenda.

The exact scope and structure of such studies will be determined as part of broader decisions around the M+E system during the inception phase, and revisited regularly throughout the duration of the DANIDA programme. It is expected that the combination of data available from quarterly reporting, monitoring and periodic research studies will contribute to learning within the programme and provide a demonstration effect of access to finance within overall UNNATI as articulated through the result chain. The results from this programme will feed into the broader results.

In line with its reporting guidelines UNCF will report results in the following manner:

#	Report	Main content	Timing and Frequency
1	Inception report	Situation analysis; approach and methodology, work plan, monitoring manual.	Once 6 months after commencement
2	Bi – annually for DANIDA	Key inputs, progress, work plan, issues and learning, budgetary delivery	Bi – annually (2 times a year)

3	Annual report	Key inputs, plan and actual progress, work plan proposed, socio-economic changes, report on programme key indicators for output and outcomes, issues and learning, budgetary delivery	Yearly (Once a year)
4	Mid-term report	Preliminary results, Real and anticipated problems; revised work plan for the remaining time; alternative solutions, if required, to achieve project objectives; major decisions that need to be taken in case if there are major deviation in the programme, redefinition of result framework (if needed), implementation modality & scope	Once Completed three months before DANIDA's mid – term review
5	Evaluation Report	End of UNNATI in partnership with other implementing partners	Once 6 months before UNNATI programme end
6	Programme completion report	Details of work accomplished showing planned and actual progress; difficulties encountered during the programme implementation period and way forward and recommendations	Once End of the UNNATI programme

5.2. EVALUATION

UNCDF believes in continuous assessment and improvement. In order for the organisation to remain sharp and relevant, evaluation has long been a priority in UNCDF, with a separate evaluation function reporting directly to the Executive Secretary in place since 1996. Since 2008, a total of 35 evaluations have been commissioned, most at the project level.

Formally, UNCDF is party to UNDP's Evaluation Policy which sets out the guiding principles, norms and key concepts for evaluation in UNDP, UNCDF and UNV.[69] The policy draws upon the Norms and Standards[70] of the United Nations Evaluation Group - a professional network of some 46 UN evaluation offices - whose objective is to strengthen the objectivity, effectiveness and visibility of the evaluation function across the UN system and to advocate the importance of evaluation for learning, decision making and accountability.

Since 2010, UNCDF has been applying a common evaluation framework (SPIRE) for its project and programme evaluations in each of its two practice areas. "SPIRE" stands for **Special Project Implementation Review Exercise** and has three purposes:

- To ensure UNCDF's compliance with the mandatory requirements specified in its evaluation policy agreed with its Executive Board;
- To yield credible, effective and independent assessments of results to donors, UNCDF and global audience;
- To connect country programme evaluations with UNCDF'S corporate strategy thereby enabling cross-country comparison and the tracking of progress towards global objectives;

The SPIRE approach involves testing the intervention logic/development hypothesis underlying a project against evidence on its implementation performance. Two main tools are used for this purpose:

(1) Theory-based results chains such as the one developed for Access to Finance Project (Figure 3);

(2) Evaluation Matrices which set out the main evaluation questions and the key indicators and data collection methods that will be used to answer the questions.

In setting up the evaluation matrix, careful attention is paid to ensuring that data from ongoing monitoring and reporting can be used to answer the evaluation questions in addition to the data gathering through interviews, surveys, review of key documentation that takes place during the evaluation phase itself.

The SPIRE framework (see Table 14) typically covers the following types of evaluation question, though there is ample opportunity for the evaluation team to adjust this during the preparatory stages of the evaluation.

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[69] This can be found here: http://web.undp.org/evaluation/policy.htm
[70] http://www.uneval.org/normsandstandards/index.jsp

Table 14: SPIRE General Evaluation Questions

SPIRE Questions for Inclusive Finance	**Corresponding UN Evaluation Criteria**
Question 1: To what extent does the programme design meet UNCDF's Inclusive Finance intervention logic and meet the needs of the partner country?	Relevance
Question 2: To what extent has the programme contributed to increased Financial Service Providers/Sector Support Organizations/Government Agencies institutional capacity?	Efficiency and Effectiveness
Question 3: To what extent has the programme contributed to improved access to appropriate low income person's financial services?	Effectiveness/Likely Impact
Question 4: To what extent has the programme enhanced the market for IF services?	Effectiveness
Question 5: To what extent is the programme likely to result in financially viable (i.e. sustainable) FSPs/SSOs in the longer-term, independent of external assistance of any kind?	Sustainability
Question 6: How effective has the management of the IF programme been?	Efficiency
Question 7: How well have partnerships with donors and governments supported the programme?	Efficiency and Effectiveness
Question 8: To what extent were piloted approaches conducive to regulatory/policy/strategy developments in the Inclusive Finance area	Effectiveness

In terms of process, the Evaluation Unit manages evaluation together with M+E specialists located in regional offices. The Unit reports directly to the Executive Secretary so ensuring the operational independence of the function. Typical phases for evaluation design and management in UNCDF include:

a. **Inception Phase**
   - Development of TOR in collaboration with partners
   - Partners' consultations and briefing
   - Desk review of relevant documentation
   - Inception Report outlining research approach, timelines and deliverables

b. **In–country phase**
   - In-country briefing with programme stakeholders
   - Fieldwork
   - Debriefing initial findings in country - Aide Mémoire/Power Point presentation

c. **Finalization**

- Draft report and Summary including stakeholder's comments
- UNCDF Debriefing
- The Final SPIRE Report
- National Debriefing with a wider range of stakeholders
- Publication

In line with best practice elsewhere in the UN, the evaluation process is participatory to the extent possible. The participatory process involves Practice Area colleagues, Development Partners and national counterparts who jointly participate in determining the focus of the evaluation and then – when relevant – participating as members of Advisory Groups once the evaluation has started, as well as providing feedback to and revisions of evaluations reports. Participatory approach builds ownership of evaluation findings and improves the relevance, credibility and utility of the final evaluation report for the stakeholders.

6. MANAGEMENT ARRANGEMENTS

6.1 MANAGEMENT ARRANGEMENTS

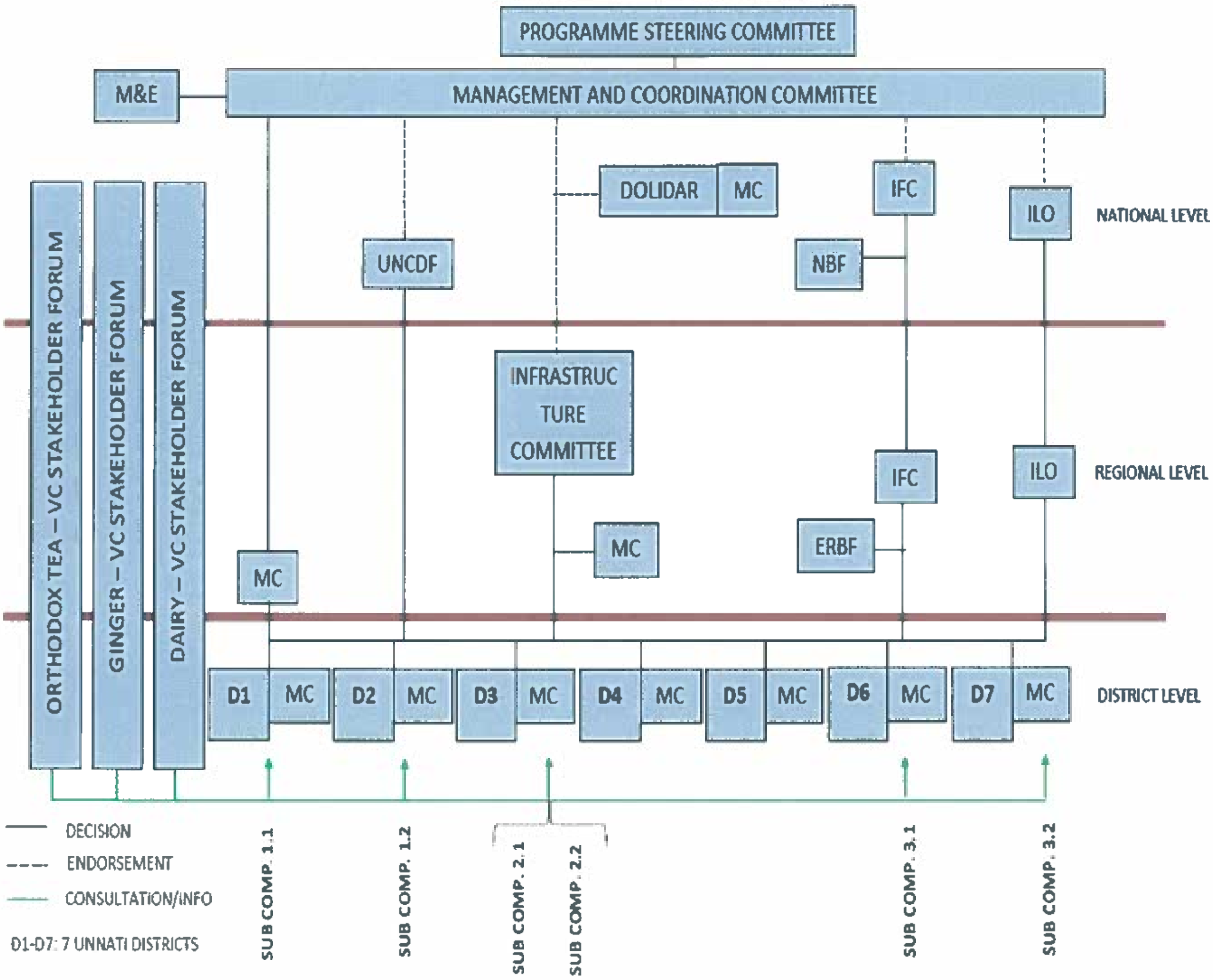
The overall UNNATI coordination will be vested in the UNNATI Management Structure shown in the

Figure **4** on the next page. NRB in partnership with UNCDF will be responsible for sub component 1.3 Access to Finance. The details are explained under item 6.2.

Figure 4: UNNATI Organizational Set - Up[71]

[71] Ministry of Foreign Affairs, DANIDA, UNATTI final programme document, page 26.

ORGANISATIONAL SETUP OF UNNATI



6.2 TEAM STRUCTURE & ROLES AND RESPONSIBILITIES

A2F project will be implemented through national implementation modality, similar to UNCDF earlier programme EAFS. And the Implementing Partner will be NRB which will be responsible for delivering of the project results. The roles of each party are discussed below.

1.1. Nepal Rastra Bank

- Primary responsibility for alignment with national priorities and realization of benefits achieved from the project results;

- Ensures compliance with the project document, including management arrangements and reporting which will ensure effective use of project resources;
- Provision of enabling environment and conditions for A2F implementation;
- Designates government representative to be involved in project implementation;
- Actively participates in evaluation and monitoring activities in line with the project document;
- Responsible for implementation of policy (meso level) activities of the A2F UNATTI component activities;
- Responsible for corrective actions based on audit observations;
- Chairs the Project Executive Board responsible for making consensus based management decisions related to the project;

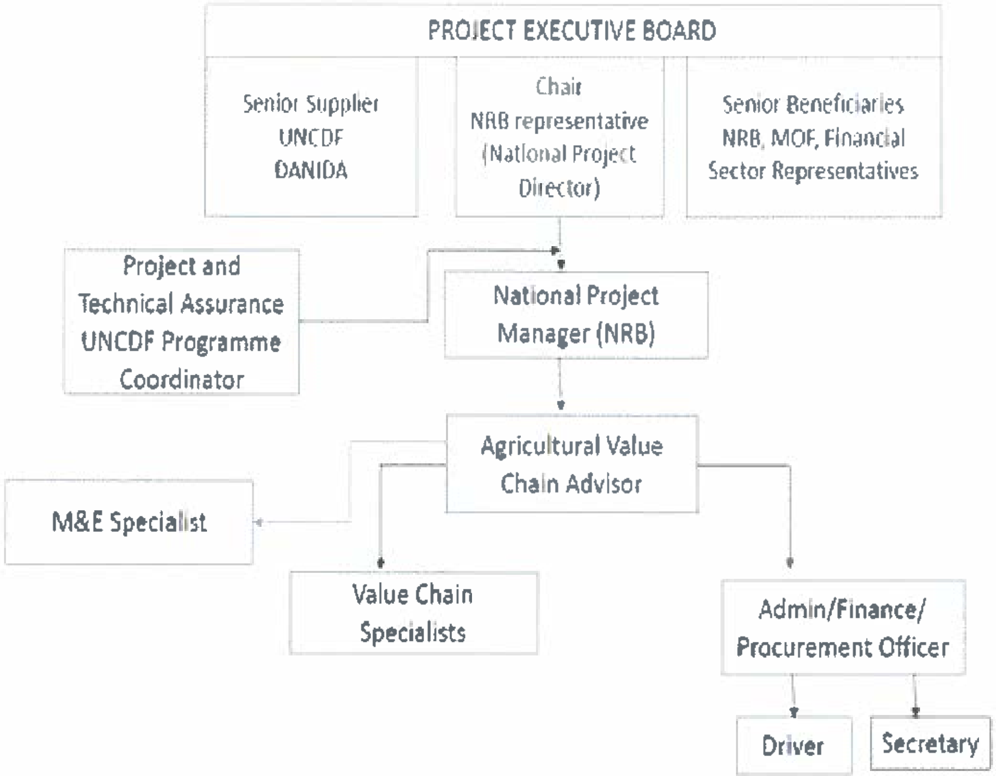
1.2. UNCDF

- Responsible for provision of project management support to Nepal Rastra Bank;
- Assumes accountability and responsibility for effective use of resources and therefore responsible for the project assurance;
- Responsible for delivery of programme outputs namely financial support to selected programme partners and provision of technical assistance as described in the project document;
- Responsible for signing of performance based agreements with financial service providers, makes payments, monitors closely the performance, releases payments, prepares regular reports to NRB;
- Hiring and management of national and international staff and consultants as needed;
- Responsible for managing the independent mid – term and final evaluation of A2F project of the programme;
- Ensures coordination of activities with NRB through the Project Executive Board.

The proposed project team will include a team consisting of functional experts at the country level who will be supported by a country coordinator and the UNCDF regional office. Six national full time staff will be hired. A Programme Coordinator, Agricultural Value Chain Advisor, supported by two Value Chain Finance Specialists, will lead the work put forward within this proposal. The Regional Office, through the role of the Regional Advisor and M&E specialist will provide technical support and project assurance role. The Regional Advisor will allocate 25% of his/her time to support the programme in Nepal. The regional advisor will provide high level technical expertise, transfer of knowledge from global experience to government and project partners on technical and policy related issues. To support the execution project will hire, a driver and a finance assistant. Apart from the three full time staff, consultants will be hired on short term basis. Preference, whenever possible will be given to qualified national consultants.

A2F project will be managed through the following structure, as shown in Figure 5.

Figure 5: A2F Proposed Management Structure



A2F project will be managed through Project Executive Board, in line with National Implementation Guidelines. See Annex 14 for details on PEB roles. The PEB will chaired by the representative from Nepal Rastra Bank to ensure government ownership and strong involvement in decision making. The activities under Access to Finance programme will be managed through Project Executive Board (PEB). PEB is responsible for making concensus based management decissions related to the project including recommendations for the Nepal Rastra Bank.

The PEB will have the following responsibilities:

- Provide overall guidance and direction to the project, ensuring it remains within any specified constraints;
- Address project issues as raised by the project manager;
- Provide guidance on new project risks and agree on possible countermeasures and management actions to address specific risks;

- Agree on project manager's tolerances as required;
- Review the project progress and provide direction and recommendations to ensure that the agreed deliverables are produced satisfactorily according to plans;
- Review combined delivery reports prior to certification by the implementing partner;
- Appraise the project annual review report, make recommendations for the next annual work plan, and inform the outcome group about the results of the review;
- Provide ad-hoc direction and advice for exception situations when project manager's tolerances are exceeded;
- Assess and decide to proceed on project changes through appropriate revisions.

Audit will be conducted in accordance with NIM policies and procedures.

A short description of team roles is presented below:

Project Coordinator (National – 1)

The project coordinator will have at least 7 – 10 years of experience in progressively more responsible positions and a track record of overseeing and managing inclusive finance, microfinance, agricultural finance development projects and value chain. He or she will performs programme management function and ensures the provision of effective assistance to the project implementation. He or she will coordinate activities of program with inter-related activities of other programs, departments or staff to ensure optimum efficiency and compliance with appropriate policies, procedures and specifications. In a very close consultation with technical team leader he or she will develop work-plans and budgets. In addition, he or she will have experience in monitoring and evaluation, and risks and audit management. He or she will monitoring and approve programme expenditures ensuring compliance with Atlas. He or she will assist in preparation of donor reports, financial statements and records of programme activities, progress and status. He or she will liaison with donors, government and other UN agencies. He or she will have excellent written and oral communication skills both in English and Nepali. He or she will have strong ability to use computers, office software packages and web based management systems.

Technical Team Leader: Agricultural Finance Advisor (National – 1)

The team leader will have at least 10 years of experience in the area of agricultural finance with progressively more responsible positions. He or she will have a post graduate degree in finance, development, economics or related field. He or she will have demonstrated hand – on experience in design, monitoring, implementing and evaluating agricultural finance development programs including management. He or she will have experience in working with donor-funded projects. The team leader will have demonstrated knowledge in area of non-collateral based lending, SME finance, and value chain finance and good understanding of microfinance. He or she will have experience working with the financial sector, preferably commercial banks and microfinance institutions. In addition, he or she will have experience in monitoring and evaluation and take technical leadership in the areas of monitoring of programme results. He or she will have excellent written and oral communication skills. Team Leader will be fluent in written and spoken English, have outstanding Nepali language skills and ability to use computers, office software packages and web based management systems. He or she will have had experience working with the Government stakeholders in Nepal. Familiarity with UN agencies and experience working with donor-funded programs will be seen as a plus.

Value Chain Finance Specialist (National - 2)

Value chain finance specialist shall have a minimum of 5 years of experience in value chain finance programs, focusing on agricultural value chains. He or she will have a post graduate degree in development, finance, business, and economics of related fields. Proven understanding of best practices in MSME finance, including agricultural finance and credit delivered by value chain actors. He or she will have demonstrated experience in developing and implementing new agricultural financial products, including experience with market research techniques, piloting new products, promoting strategic alliances and monitoring results. The specialist will have excellent technical skills in value chain finance, and an in – depth knowledge of inclusive finance issues especially gender inclusiveness and responsible finance. He or she will have a good understanding of performance monitoring of financial institutions and good grasp of monitoring and evaluation in general. Value Chain finance specialist will be fluent in written and spoken English, have outstanding Nepali language skills and ability to use computers, office software packages and web based management systems. Familiarity with UN agencies and experience working with donor-funded programs will be seen as an advantage.

Monitoring and Evaluation Specialist (1 Local)

M&E officer shall have a minimum of 5 years of experience in monitoring and evaluation of access to finance programs. He or she will have a post graduate degree (preference will be given to holders of PhDs) in development, finance, economics, international relations or similar studies. He or she must have a strong research background, and strong familiarity with research methods, preferably he or she will have experience with impact assessment and evaluation research. He or she will have experience in monitoring and evaluation of donor funded programs with demonstrable experience with DCED standards. He or she would have had a strong record in monitoring. She or he will be fluent in written and spoken English, with skills and strong competence in all Microsoft office applications. Familiarity with bilateral and multilateral donor agencies will be seen as advantage. He or she will have strong writing skills and be excellent communicator.

Apart from the three full time staff, the project will hire consultants on short term basis and whenever possible the preference will be given to qualified national consultants. When such a need arises, specific TORs for assignments will be developed.

Consultant Expert (based on a need)

The national/international agricultural finance specialist will have a minimum of ten years of experience in areas of microfinance, insurance, access to finance and agricultural finance. He or she will have a minimum of post graduate degree, preference will be given to PhD holders, in economics, finance, agriculture, economic development or related disciplines. He or she should have worked with financial institutions, preferably both with commercial banks and microfinance institutions in areas of access to finance. He or she should have a strong background in financial literacy, demand side research and client protection issues. Previous experience with a donor-funded, access to finance/ economic growth/ agriculture/agribusiness project will be strongly desired. He or She must have excellent English written and oral communication skills. Familiarity with Nepal context will be seen as advantage.

7. LEGAL CONTEXT

Consistent with the Article III of the Standard Basic Assistance Agreement (SBAA), the responsibility for the safety and security of the Implementing Partner and its personnel and property, and of UNCDF's property in the Implementing Partner's custody, rests with the Implementing Partner. To this end, the Implementing Partner shall:

a) Put in place an appropriate security plan and maintain the security plan, taking into account the security situation in the country where the project is being carried;
b) Assume all risks and liabilities related to the implementing partner's security, and the full implementation of the security plan.

UNCDF reserves the right to verify whether such a plan is in place, and to suggest modifications to the plan when necessary. Failure to maintain and implement an appropriate security plan as required hereunder shall be deemed a breach of the Implementing Partner's obligations under this Project Document.

The Implementing Partner agrees to undertake all reasonable efforts to ensure that none of the UNCDF funds received pursuant to the Project Document are used to provide support to individuals or entities associated with terrorism and that the recipients of any amounts provided by UNCDF hereunder do not appear on the list maintained by the Security Council Committee established pursuant to resolution 1267 (1999). The list can be accessed via http://www.un.org/sc/committees/1267/aq_sanctions_list.shtml. This provision must be included in all sub-contracts or sub-agreements entered into under/further to this Project Document".

8. ANNEXES

Annex 1. LGCDP programme in Nepal

UNCDF is helping to address Nepal's development challenges by working to strengthen local service delivery and expand access to financial services for the poor. The joint UNCDF-UNDP Local Governance and Community Development Programme (LGDP)promotes decentralization of governance, improved local service delivery and grassroots community empowerment. It is the largest decentralization programme in Nepal, and provides an opportunity for the Government to take the lead in coordinating once-fractured donor support, promoting inclusive, responsive and accountable local governance in which citizens are actively engaged.

In order to strengthen the capacity and role of central and local government in delivering social protection and, within this context, to strengthen linkages between the education sector and local government, the Ministry of Federal Affairs and Local Development (MoFALD), with the funding support UNCDF and the World Bank, initiated the Human Development Social Protection (HDSP) pilot in 2012. The genesis of the HDSPP is as a governance program. It aims to work with both central and local government – within the context of a SSN program – to improve the effectiveness, efficiency, responsiveness and accountability of government at all levels, with a particular focus on the interface between local government, local institutions (in particular the education system) and citizens. In strengthening links between local government and the education system, the HDSPP focuses on improving the existing scholarship program from Grade 1-8. It aims at devolving management responsibility to the local level and improving management instruments (MIS, monitoring tools, accountability mechanism, and performance incentives) as well as management capacity. While the main focus of the pilot is on the scholarship program, the HDSPP pilot also plays a major role in strengthening the overall social security system, including programs such as the Senior Citizens' Allowance, the Single Widows' Allowance, the Disability Grant, the Child Grant etc. The project is experimental in approach. The HDSPP provides an excellent opportunity to test different approaches in making social transfers more efficient through for instance an alternative poverty-targeting approach, more effective payment mechanisms, an electronic MIS etc. As new financial solutions are sought for benefit payments, the pilot also explores the potential of strengthening social protection through the expansion of financial inclusion. The programme is now operational in two districts and it will target approximately 13,000 households and 26,000 beneficiaries.

Annex 2. List of UNCDF – EAFS partners

Figure 6 Financial Institutions UNCDF supported under EAFS

Microfinance Development Banks (MFDBs)	Financial Intermediary NGOs (FINGO)	Commercial Banks
Chhimek Laghubitta Bikas Bank Ltd.	Center for Self-help Development	Siddhartha Bank Ltd.
Deprosc Laghubitta Bikas Bank Ltd.	Nepal Women Community Service Center	
Nerude Laghubitta Bikas Bank Ltd.	Forum for Rural Women Ardency Development	
Nirdhan Utthan Bank Ltd.	Jeevan Bikas Samaj	
Paschimanchal Grameen Bikas Bank Ltd.	National Educational and Social Development Organization	
Swabalamban Laghubitta Bikas Bank Ltd.	Mahuli Community Development Center	
Madhya Paschimanchal Grameen Bikas Bank Ltd.	Rural Women Development Center	
	Society of Local Volunteers' Effort	
	United Youth Community	
	Women Development Center of Nepal	

Figure 7 Areas of EAFS coverage

Eastern	Central	Western	Mid-Western	Far-Western
Khotang	Mahottari	Arghakhanchi	Dailekh	Achham
Okhaldhunga	Parsa	Kapilbastu	Dolpa	Baitadi
Panchthar	Ramechhap	Myagdi	Humla	Bajhang
Siraha	Rasuwa	Nawalparasi	Jajarkot	Bajura
Solukhumbu	Rautahat		Jumla	Dadeldhura
Taplejung	Sarlahi		Kalikot	Darchula
Terathum	Sindhuli		Mugu	Doti
Udayapur			Pyuthan	
			Rolpa	
			Rukum	
			Salyan	
			Surkhet	

Annex 3. Clean Start Programme Summary Nepal

CleanStart aims to support low-income households and micro-entrepreneurs to have access to modern energy through microfinance. CleanStart will support up to 18 financial service providers in six countries in Asia and Africa to provide microfinance for clean energy solutions at scale. It will also work towards building a sustainable supply chain for energy technologies or services chosen for lending. It seeks to support at least 2.5 million people to benefit from cleaner and more efficient energy by 2017. Nepal is one of CleanStart's target countries.

In Nepal, CleanStart will invest US$1,300,000[72] over a period of four years (2012-2015) to develop replicable business models for scaling up microfinance for cleaner and more efficient forms of energy for poor people. By end of programme, more than 150,000 low-income households and micro-entrepreneurs (or 600,000 beneficiaries) will have access to modern energy.

CleanStart will be delivered through **four outputs**:

1. **Finance for Clean Energy** to strengthen capabilities of up to three (3) financial service providers (FSPs) to provide microfinance for clean energy to low-income households and micro-entrepreneurs;

2. **Technical Assistance for Clean Energy** to remove barriers to the sustainable deployment of those technologies and services for which the selected FSPs will provide microfinance;

3. **Knowledge and Learning** to promote awareness and understanding of the potential for microfinance to stimulate adoption of clean energy, and to develop skills in clean energy microfinance;

4. **Advocacy and Partnership** to create an enabling policy and business environment to expand microfinance for clean energy.

CleanStart will be anchored in the Alternative Energy Promotion Centre (AEPC) which is the lead national agency mandated to promote and develop renewable energy through policy formulation, quality assurance and financial assistance (subsidy, credit). CleanStart will rely on AEPC support in ensuring subsidy distribution[73]; brokering partnerships between FSPs and energy suppliers; quality assurance and after-sales service; advocacy; and monitoring and coordination. This programme will be implemented within the framework of the National Rural and Renewable Energy Programme (NRREP), being implemented through AEPC under a single programme modality.

Globally, CleanStart is implemented by the UN Capital Development Fund in close cooperation with the United Nations Development Programme Global Environment Facility (GEF). It is supported by the Austrian Development Agency (ADA), Norwegian Agency for Development Cooperation (Norad), Swedish International Development Cooperation Agency (Sida) and the UN Capital Development Fund (UNCDF).

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[72] CleanStart will explore the possibility of mobilizing additional funding for the Nepal business plan based on outcomes of the mid-term evaluation tentatively scheduled for 2014

[73] Financed through the Rural Energy Fund and upcoming Central Renewable Energy Fund

Annex 4. Mobile Money for The Poor (MM4P) intervention summary

Financial inclusion requires bringing the entire financial sector to low income and rural households. The most promising development in decades is the innovative use of mobile phones and other branchless banking technology as a means to do so. Mobile telephony has reached billions and the penetration rate of mobile phone use is growing by more than 20% annually. The success of mobile financial services in a few countries such as Kenya and the Philippines is undeniable, reaching millions in just a few years and changing the way low income people move and save money. Also irrefutable is that the list of success stories is not growing as expected, particularly in smaller, less developed countries (LDCs).

The vast majority of nearly a hundred reported deployments remain shallow, with limited service and inadequate agent networks. If these new services are going to truly drive financial inclusion there is a great need to build the volume of cashless transactions and places to transact that meet the needs of the local market. The role of funders such as UNCDF is to help mobile network operators, banks, governments and clients to see these opportunities, incentivize the broadening of these services and the deepening of their distribution so that low-income customers can use these services to better build their financial security.

Mobile Money for the Poor (MM4P) is a new programme proposed by UN Capital Development Fund in partnership with the Swedish International Development Agency and the Australian Agency for International Development is designed to focus intently on some of the poorer countries where the commercial business case for branchless and mobile financial services is marginal, but the needs of the population are great. The goal is to work intently with partners in a small group of UN designated Least Developed Countries to reach millions of additional customers through mobile and branchless technology including a large percentage of those that are unbanked to demonstrate how this can be sustainably achieved. MM4P takes a broad view of the development of the cashless ecosystem and can provide financial and technical assistance to those providing services and building agent networks as well as to governments who are working hard to ensure that the services are safe, affordable and reaching the poor.MM4P is managed by a small team of technical experts based out of the UN House in Brussels, Belgium. It works closely with UNCDF and UNDP programmes in countries as well as coordinating its work with other funding agencies. For more information, please contact MM4P@uncdf.org.

Funded by: SIDA, AusAid and UNCDF

Annex 5. UNNATI Value Chains

Value chain: Orthodox Tea **Description:** All whole-leaf tea is made with orthodox production methods, either hand-rolled or machinery-rolled. Of the total tea production in Nepal, Orthodox Tea constitutes 13%. **Geographical concentration:** Jhapa, Ilam, Panchthar, Tehrathum and Dhankuta of eastern hill are known as the "Tea Zone". Ilam is the best-known orthodox tea growing area in Nepal. **Production:** The production of orthodox tea has increased from 1,100 tons in 2000/01 to 2,089 tons in 2008/09. **Ownership profile:** Of the total production of orthodox tea, 67% comes from small-holder farmers. Tea estates are also a significant producer. Some tea plantations are owned by cooperatives. Some small-scale tea processing units are registered under cottage industries. There are more than twenty private sector firms involved in the trading of tea. **Markets:** The tea produced by small-scale processors is generally marketed in the local/district level markets, whereas the tea produced by tea factories is traded in the national and international markets. 66% of total tea is exported to India, then to Germany while Czech Republic is the third largest importer. Tea export has risen from NRs 13.6 mn in 1994/95 to NRs 1549.9 mn in 2010/11. **Challenges:** • Quality of the produce; • Absence of accredited lab facilities; • Poor state of processing facilities and market infrastructure; • Lack of business services; • Lack of skillful human resources; • Inadequate supply of quality inputs; • Limited of access to credit.
Value Chain: Ginger **Description:** Ginger is a spice crop consumed either in the fresh form or dry form. Not much dry ginger is produced in Nepal as this requires a move from existing variety to a fibreless variety. **Geographical concentration:** Eastern region is the largest producer of ginger followed by the eastern region. Ilam, Jhapa Bhojpur and Dhankuta are major ginger growing area. **Production:** Total production has grown by 9.5 times for the period 1994/5 – 2006/07. **Ownership profile:** Ginger is primarily produced by smallholder farmers. They often don't even have place for grading, cleaning and washing, which is done by district level traders or wholesalers. **Market:** Ginger is primarily marketed in fresh form immediately after harvest. Most of the ginger is exported to India. However information for the years 2007-2010 indicates a decrease in export to India. **Challenges** • Quality of the produce and seeds; • Lack of awareness on quality requirements and standards; • Selection and adoption of appropriate variety; • Lack of processing facilities in production areas;

• Inadequate market infrastructure; • Lack of business services; • Lack of skillful human resources; • Limited of access to credit.
Value Chain: Dairy **Description:** Livestock rearing and dairy are an integral part of Nepalese agriculture. Of the total milk produced 71.3% is from buffaloes and 28.7% from cows. **Geographical concentration:** Central region is the biggest milk producer followed by eastern and western regions. **Production:** Total annual production of milk is about 1.49 million mt in Nepal. The growth rate has been 2.78% for the period 1984/85-2009/10. **Ownership profile:** There are large and medium mechanized dairies, and small and cottage dairies. **Market:** Primarily supplied to the domestic market but some dairy products are exported to India. **Challenges**: • Quality raw milk; • Unhygienic animal keeping and milking practices; • Poor infrastructure; • Poor processing and packaging; • Limited chilling facilities; • Inability of the processing plants to handle supply during flush season (Nov-Feb).

Annex 6 Selection of UNCDF FSP partners

UNCDF follows these steps to select partnering institutions.

Step	Estimated Time
1.Development of TOR for prospective partners and Request for Proposal Format (i.e. business plan format, indicators and the like)	1 week
2.Development of evaluation criteria (technical, organizational and so forth) to assess the applications	1 week
3.A half a day workshop with broader FSP audience to explain programme purpose and alike	2 days
5.Issuance of RFA	Once issued, FSPs will have between 4 to 5 weeks to respond
6.Need based technical	Immediately upon issuance of RFA a two day workshop is

assistance in specific areas of RFA to support applicants (commonly done in a workshop format)	organized as a way to support preparation of RFAs
7.Technical and Financial Evaluation of RFAs by UNCDF technical team of experts	1 week (time depends on number of application)
8.Due diligence visit	On need to basis (visit lasts for a few days)
9. Final Selection	1 day
10.Signing of Performance Based Agreement	2 – 3 weeks

Annex 7 Performance Based Agreement – sample

GRANT AGREEMENT

Between THE UNITED NATIONS CAPITAL DEVELOPMENT FUND (UNCDF)

And

Recipient Institution Recipient Institution

A. GRANT AGREEMENT

GRANT AGREEMENT BETWEEN UNCDF AND RECEPIENT INSTITUTIONRECEPIENT INSTITUTION

FOR THE PROVISION OF GRANT FUNDS

Grant Agreement (hereinafter referred to as the "Agreement') made between **the United Nations Capital Development Fund ("UNCDF" or "Grantor"), and Recipient Institution** (the Recipient Institution, hereinafter referred to as the financial service provider or **"Recipient Institution"**).

WHEREAS the **Grantor** desires to provide funding to the **Recipient Institution** in the context of a Programme and on the terms and conditions hereinafter set forth,

WHEREAS the **Recipient Institution** is ready and willing to accept such funds from the **Grantor** for the above mentioned activities on the said terms and conditions.

NOW, therefore, the parties hereto agree as follows:

I. <u>Responsibilities of the Recipient Institution</u>

1.1 The **Recipient Institution** agrees to: complete the key results/milestones specified in the Section III below, including providing reports and statements to the grantor in accordance with the Monitoring Schedule. The **Recipient Institution** shall be responsible for verifying the accuracy of all reports. Funds provided pursuant to this Agreement shall be used to achieve these results/milestones. The **Recipient Institution** shall be free to reallocate resources as needed in order to produce the expected results.

If the **Recipient Institution** fails to meet the minimum performance indicators in Section III within ninety (90) days of the timeframe specified, the **Grantor** may suspend or terminate this agreement at its discretion. The suspension will remain in effect until the **Recipient Institution** has met the targets or until the **Grantor** has agreed in writing to modify the performance targets.

1.2 The **Recipient Institution** agrees to inform the **Grantor** about any problems it may face in a timely fashion or any anticipated failure to complete the activities or achieve the expected results. The **Recipient Institution** also agrees to immediately report any incidence of fraud, theft, or significant operational loss that negatively impact its ability to fulfil the terms of this Agreement or threaten or have a relevant impact on its ability to continue as a going concern.

1.3 The **Recipient Institution** agrees to notify the Grantor of any <grant funds /loan funds> for the purpose of completing the < Business Plan> it may receive prior to signature of those funding agreements. The Grantor reserves the right to adjust the amount of funding in this Agreement if it determines that its funds are no longer necessary as the result of other funding agreements.

II. Duration

2.1 This Agreement will come into effect on **September 5, 2010** and shall expire on **July 15, 2012** covering the anticipated term of the project. It can be extended, if necessary by exchange of letters, noting the new expiration date.

III. Key Results/Milestone and Payments

3.1 The **Grantor** shall provide funds to the **Recipient Institution** of an amount of **US$ 16,665.00** according the schedule set out below. Payments are subject to the **Recipient Institution** achieving the Expected Results as well as the disbursement conditions set forth in this article, if any.

Upon signature of this Agreement:

Payment/Date	Amount	Results/Milestone to Be Achieved	Disbursement Conditions
20th September 2010	UNCDF: 8,333	Base Line Total Active Clients: 52,000 (Mid April 2010)	Approval of Business plan Agreement signed
15th March 2011	UNCDF: 3,332	(By 15 January 2011) Total Active Client : 53,260	Report on refined model for expansion through market research Mix market registration/update Statement of fund utilization Annual report up to July 15, 2010 Annual audit report up to July 15, 2010 Quarterly progress report up to October 15, 2010 Quarterly progress report up to January 15, 2011 Funding request from EAFSP/NRB
15th September 2011	UNCDF: 2,500	(By 15 July 2011) Total Active Client : 55,320	Statement of fund utilization Quarterly progress report up to April 15, 2011 Quarterly progress report up to July 15, 2011 Funding request from EAFSP/NRB
15th March 2012	UNCDF: 2,500	(By 15 January 2012) Total Active Client : 58,392	Mix market update Statement of fund utilization Annual report up to July 15, 2011 Annual audit report up to July 15,

			2011 Quarterly progress report up to October 15, 2011 Quarterly progress report up to January 15, 2012 Funding request from EAFSP/NRB
		(By 15 July 2012) Total Active Client : 63,604	Annual Audit report up to July 15 2012 Annual report up to July 15, 2012 Quarterly progress report up to April 15, 2012 Quarterly progress report up to July 15, 2012 Statement of fund utilization. Project Completion Report
Total	UNCDF: 16,665.00		

3.2 Detailed Results (outreach and performance) targets are as follows:

Recipient Institution SBL	BASELINE **Mid April 2010**	End of Year **July 15, 2011**		End of Year **15 July, 2012**	
		Proposed	Minimum Target	Proposed	Minimum Target
Number of Active Clients	52,000	56,150	55,320	66,505	63,604
% of Female Clients	5	10	10	20	20
Financial Self-Sufficiency)	137	133	100	130	100
Operational Self-Sufficiency	156	158	100	225	100
Portfolio at Risk at 30 days	0.59	4	5	4	5

3.3 Disbursement conditions shall include meeting reporting requirements:

Mechanism	Timing/Due Date	Scope	Responsibility
Quarterly Reports	15th November 2010 15th February 2011 15th May 2011 15th August 2011 15th November 2011 15th February 2012 15th May 2012 15th August 2012	Annex 1 Report Format	Recipient Institution- SBL
Mid-term evaluation	15th September 2011		UNCDF (primary), Recipient Institution to be available to evaluators
Final evaluation	October-November 2012		UNCDF (primary), Recipient Institution to be available to evaluators
Audited Financial Statements	15th September 2011 15th September 2012		Recipient Institution
Mix Market	30th September 2010 30th September 2011 30th September 2012		Recipient Institution
Final Report	15th August 2012		Recipient Institution

3.4 The **Recipient Institution** shall request disbursements with the supporting information to show that disbursement conditions have been met. All payments shall be deposited into the **Recipient Institution's** bank account of which the details are as follows:

Name of the Bank:
Bank Routing Number:
SWIFT Code:
Beneficiary Account Name: .
Beneficiary Account Number:
Address of Bank:

3.5 The amount of payment of such funds is not subject to any adjustment or revision because of price or currency fluctuations or the actual costs incurred by the **Recipient Institution** in the performance of the activities under this Agreement.

IV. Records, Information and Reports

4.1 The **Recipient Institution** shall maintain clear, accurate and complete records in respect of the funds received under this Agreement.

4.2 The **Recipient Institution** agrees to provide reports and fulfil its obligations accordance with the Monitoring and Evaluation schedule (section III). It agrees to reasonable requests to make its personnel available to participate in on-site monitoring visits and further rating assignment.

4.3 Within sixty (60) days after completion of project activities, the **Recipient Institution** shall provide the **Grantor** with a final financial report describing how the expenditures were utilized.

All further correspondence regarding the implementation of this Agreement should be addressed to:

For **UNCDF**: Executive Secretary, UNCDF

For the **Recipient Institution**:

V. <u>General Provisions</u>

5.1 This Agreement and the Annexes attached hereto shall form the entire Agreement between the **Recipient Institution,** and the **Grantor**, superseding the contents of any other negotiations and/or agreements, whether oral or in writing, pertaining to the subject of this Agreement.

5.2 The **Recipient Institution** shall carry out all activities described in paragraph 1.1 with due diligence and efficiency and shall have exclusive control over the administration and implementation of those activities. The **Grantor** shall not interfere in the exercise of such control. If in the **Grantor's** determination the **Recipient Institution** is not carrying out the activities described in paragraph 1.1, the **Grantor** may: (i) withhold payment of funds until in its opinion the situation has been corrected; or (ii) declare this Agreement terminated by written notice to the **Recipient Institution** as described in paragraph 5.7 below; and /or seek any other remedy as may be necessary. The **Grantor's** determination shall be binding and conclusive upon the **Recipient Institution** insofar as payments are concerned.

5.3 The **Grantor** undertake no responsibilities in respect of life, health, accident, travel or any other insurance coverage for any person which may be necessary or desirable for the purpose of this Agreement or for any personnel undertaking activities under this Agreement. Such responsibilities shall be borne by the **Recipient Institution**.

5.4 The rights and obligations of the **Recipient Institution** are limited to the terms and conditions of this Agreement. Accordingly, the **Recipient Institution** and personnel performing services on its behalf shall not be entitled to any benefit, payment, compensation or entitlement except as expressly provided in this Agreement.

5.5 The **Recipient Institution** shall be solely liable for claims by third parties arising from the **Recipient Institution**'s acts or omissions in the course of performing this Agreement and under no circumstances shall the **Grantor** be held liable for such claims by third parties.

5.6 Grant funds disbursed to the **Recipient Institution** shall be considered to be the property of the **Grantor** and shall not become the property of the **Recipient Institution** until one or more of the following conditions have been met: (i) the **Recipient Institution** has verifiably complied with all conditions in this grant agreement; (ii) the **Grantor** advises the **Recipient Institution** in writing that it has fulfilled the conditions to the **Grantors'** satisfaction; (iii) the **Grantor** otherwise notifies the **Recipient Institution** in writing that it releases the **Recipient Institution** from any obligation to repay funds. In the case of multiple payments in paragraph 3.1, the Grantor's approval of a payment shall be considered a notification of fulfilment of conditions for all previous payments. If within ninety (90) days after the end date of the Agreement there has been no written communication from the **Grantor** in regard to the disposition of the funds, the funds shall be considered the property of the **Recipient Institution**. In cases where the above conditions have not been met, the **Grantor** may at its discretion require the **Recipient Institution** to return of some or all of the funds and the **Recipient Institution** has thirty (30) days to comply with this request.

5.7 This Agreement may be terminated by either party before completion of the Agreement by giving thirty-day (30) written notice to the other party. In the case of termination by the **Grantor**, the disposition of funds shall be governed by paragraph 5.6. In case of termination by the **Recipient Institution**, the **Grantor** may at its discretion require the **Recipient Institution** to return all or part of the funds. The **Recipient Institution** has thirty (30) days to comply with this request. If the **Grantor** fails to request the return of funds within ninety (90) days of the termination notice, the funds shall be considered the property of the **Recipient Institution.**

5.8 The **Recipient Institution** acknowledges that the **Grantor** has made no actual or implied promise of funding except for the amounts specified by this Agreement.

5.9 No modification of or change to this Agreement, waiver of any of its provisions or additional contractual provisions shall be valid or enforceable unless previously approved in writing by the parties to this Agreement or their duly authorized representatives in the form of an amendment to this Agreement duly signed by the parties hereto.

5.10 Any controversy or claim arising out of, or in accordance with this Agreement or any breach thereof, shall unless it is settled by direct negotiation, be settled in accordance with the UNCITRAL Arbitration Rules as at present in force. Where, in the course of such direct negotiation referred to above, the parties wish to seek an amicable settlement of such dispute, controversy or claim by conciliation, the conciliation shall take place in accordance with the UNCITRAL Conciliation Rules as at present in force.

The parties shall be bound by any arbitration award rendered as a result of such arbitration as the final adjudication of any such controversy or claim.

5.11 Nothing in or relating to this Agreement shall be deemed a waiver of any privileges and immunities of the United Nations.

IN WITNESS WHEREOF, the undersigned, duly appointed representatives of the **Grantor**, and the **Recipient Institution**, respectively, have on behalf of the **Grantor** and the **Recipient Institution** signed the present Memorandum of Agreement on the dates indicated below their respective signatures.

On behalf of UNCDF:

Name:__

Title: ______

Date: ____________

On behalf of the Recipient Institution:

Name:

Title:

Date:

Output Information		2010/2011				2010
From:		**Quarterly Indicators**				**Annual**
Standard code	**Name of Indicator**	**Q4**	**Q3**	**Q2**	**Q1**	**Base Line**
		Mid-Jul	Mid-Apr.	Mid-Jan.	Mid-Oct.	Mid April
	Outreach					
O1	Number of Active Borrowers					
O2	C:\Users\MIX\Spreadsheets\2008\UNCDF Quarterly Input MFI 2008_Cleared With Revised Standard Codes.xls - RANGE!_ftn1					52,000
O3	Value of Loans Outstanding (US$,000)					198,344
O4	Voluntary Savings (US$,000)					110,495
O5	Total Savings (US$,000)					211,400
O6	Percent Women Active Borrowers					5
O7	Percent of Women Voluntary Depositors					5

	Client Poverty Level					
CPL1	Average Outstanding Loan Balance per Borrower					
CPL2	Average Outstanding Savings Balance per Saver					4,065
CPL3	Average Loan Balance per Borrower/ GNI per Capita					
CPL4	Average Savings Balance per Saver/ GNI per capita					924%
	Collection Performance					
CP1	Portfolio at Risk (PAR) Ratio > 30 days					0.59
CP2	Write Off Ratio					0.06
	Sustainability					
S1	Operational Self-Sufficiency (OSS) (annualized)					156
	Efficiency					
E1	Operating Expense Ratio (annualized)					88
E2	Cost per Active Client (annualized)					57
	Overall Financial Performance					
OFP1	Adjusted Return on Assets (AROA)	Only Need Last Fiscal Annual Indicator				-16
OFP2	Financial Self Sufficiency (FSS)	Only Need Last Fiscal Annual Indicator				137
	Targets					
	Target Indicators	**Mid April 2010**	**2010/11**	**201 1/12**		
T1	Number of Active Borrowers		320	480		
T2	Number of Voluntary Depositors	52,000	55,320	63,6 04		
T3	Portfolio At Risk	0.59	5	5		
T4	Financial Self-Sufficiency	137	100	100		
T5	Cost Per Active Client	57	54	45		

Note: Please refer Fiscal Years as follow (MFIs follow Nepal's Fiscal calendar for reporting; ie. Fiscal year starts from Mid July and ends on next year's mid July): Project is going to follow Nepal's fiscal calendar to make it easy for MFIs for reporting and performance monitoring

English Calendar				Nepali Calendar	
FY	Quarter	From	To	FY	Quarter
2010/011	*Q1*	*Mid July, 2010*	*Mid October, 2010*	2067/068	*Q1*

	Q2	Mid October, 2010	Mid January, 2011		Q2
	Q3	Mid January, 2011	Mid April, 2011		Q3
	Q4	Mid April, 2011	Mid July, 2011		Q4
2011/012	Q1	Mid July, 2011	Mid October, 2011	2068/069	Q1
	Q2	Mid October, 2011	Mid January, 2012		Q2
	Q3	Mid January, 2012	Mid April, 2012		Q3
	Q4	Mid April, 2012	Mid July, 2012		Q4

Annex 8 Making Access Possible Project

UN CAPITAL DEVELOPMENT FUND
Programme Document Annex
SUPPORT TO FINANCIAL INCLUSION IN NEPAL 2013-2017
THROUGH THE "MAKING ACCESS TO FINANCE POSSIBLE" (MAP)

This programme aims to contribute to the development of a strong financial sector in Nepal, inclusive for low-income households and (their) micro and small enterprises, thus contributing to the achievement of the Millennium Development Goals (MDGs) and in particular the goal of reducing poverty by half in the year 2015.

MAP Outcome:
The intended outcome of MAP is to define the financial inclusion agenda in Nepal and align resources with key priorities, based on a rigorous evidence-based diagnostic exercise concluded by intense stakeholder dialogue and decision making. This is to be fully coordinated with and complement the 4^{th} Rural Credit Survey.

MAP Outputs:

1. *Output 1: A detailed demand-side analysis in the form of the FinScope survey for Nepal;*

2. *Output 2: A detailed supply-side diagnostic and policy and regulatory analysis;*

3. *Output 3: An integrated diagnostic report incorporating the findings from the demand side analysis, supply-side analysis and the policy and regulatory analysis;*

4. *Output 4: Action plan and Roadmap using the outputs from the integrated diagnostic to inform country priorities and actions*

5. *Output 5: Annual thematic financial diaries-based policy briefs.*

Duration and Funding

uration: 4 **years** Start/end dates: **November 2013 - October 2017** Fund Management Option(s):	Total estimated budget: **$ 1,492,717.70** Funded amount: UNCDF:_______________**$ 427,722.14** Unfunded budget (DfID):**$ 1,064,995.56**

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I: INTRODUCTION

Making Access to Financial Services Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country analysis. It incorporates a comprehensive analysis of the demand, supply and regulatory environments, in order to identify key barriers and opportunities to increased financial inclusion across savings, credit, payments and insurance. Through its particular emphasis on stakeholder engagement and participation, MAP seeks to align a broad range of stakeholders from within government, private sector and the donor community on a national financial inclusion roadmap and action plan.

The Nepal Rastra Bank confirms its interest in MAP and the National Planning Commission (NPC) of the Government of Nepal has confirmed that financial inclusion is a priority of the Government of Nepal in its target to move out of LDC status by 2022 and that a full diagnostic leading to a road map towards 2022 is an important building block, particularly since the last comprehensive diagnostic was done in 1995. NPC has agreed to organise an orientation meeting on MAP in August 2013 where it will convene all relevant ministries to assist in shaping MAP in line with the policy priorities of the Government of Nepal.

This document sets out the MAP approach for Nepal taking into consideration the research that has been done to date in Nepal. It is envisaged to apply a comprehensive MAP diagnostic methodology whilst acknowledging and building on the work of organisations that have contributed to financial inclusion research. The MAP team will also invite the participation of such organisations during the synthesis phase to ensure that all the material covered to date is effectively incorporated in the synthesized analysis. In this way, the various research contributions will be duly incorporated in a roadmap that will provide the basis for collaboration amongst the various institutions involved.

MAP is a partnership between the UNCDF, FinMark Trust and Cenfri. The partnership leverages their experience in financial inclusion development, aligning their respective strengths in implementation, primary demand-side research and diagnostic composition. Nepal will benefit from this multi-faceted partnership facilitating the development of financial inclusion in unison. To implement MAP in Nepal, UNCDF will wherever possible work in partnership with national organisations to maximise use of national capacity as well as further enhance national capacity to undertake such work in future.

II: PROGRAMME OUTCOME AND APPROACH

The intended outcome of the MAP diagnostic in Nepal is to facilitate the development of a comprehensive financial inclusion road map and align stakeholders and resources around agreed key priorities. This will be based on a stakeholder dialogue process and an evidence-based diagnostic analysis, which will also utilise existing studies and data that is currently available.

Through its design, MAP seeks to provide the following benefits in strengthening financial inclusion in Nepal:

- MAP is a closely integrated combination of research and process design that is tailored to trigger practical actions to extend financial inclusion;

- MAP seeks to identify opportunities to expand financial inclusion and the obstacles to doing so;
- MAP provides an integrated view of financial services covering demand, supply and regulation across all product areas;
- MAP places the demand-side perspective at the core of the analysis and utilises the FinScope survey methodology as well as qualitative demand-side research to provide an informed demand-side perspective;
- For Nepal, MAP will also include a strong emphasis on the potential for transitioning cash payments to electronic as a means to financial inclusion, including both domestic transfers and international remittances.

MAP is focused on improving welfare through financial services that offer value to consumers and not just extending the coverage of financial products.

III: COUNTRY BACKGROUND AND CONTEXT

Nepal has made significant progress in reducing poverty from 41.76% in 1995-96 to 25.16% in 2010-2011 (NLSS, 2010/11). This is all the more remarkable given its emergence from the recent conflict and the subsequent political uncertainty. Progress against poverty has been driven mainly by rural-to-urban migration, remittances from labour migration, higher agricultural wages, and decreasing rates of fertility. Despite the progress on poverty, Nepal remains one of the poorest countries in South Asia and the 12th poorest country in the world (World Bank, 2011). It ranks 157th out of 187 countries in the Human Development Index (HDI).

Population density varies widely across Nepal with the flat Terai (plains) region showing highest density and the higher altitude regions showing progressively lower population density – a situation being accelerated by dramatic increases in out-migration from rural areas to urban and peri-urban centres within Nepal and also abroad.

The progressively lower population densities, more challenging terrain and the associated high transaction-costs and risks of working in these environments have significantly dampened investments in these areas. This is particularly the case for private investments, which unlike public investments, are unable to absorb lower returns and higher investment risks. People are therefore not able to equally participate in and benefit from connections with markets and growth opportunities.

Economic Outlook, Growth and Redistribution

GDP growth rates for 2011-2013 are forecasted to be only 3.8 %, compared to a 6.5 % average for South Asia. Slow recovery from the conflict, weak governance, inadequate infrastructure, especially in electricity, irrigation and transport, a poor investment climate and labour market rigidities all limit economic growth. Industrial sector growth has been slow; the contribution of manufacturing to GDP has declined continuously for more than a decade, limiting employment opportunities.

Development progress is uneven across ethnic, gender and geographic categories, reinforced by unequal access to education and skills development, lack of livelihood and employment opportunities and political uncertainty. The percentage of the poor in urban areas is 15 %, as opposed to 27 % in rural *areas, where lack of employment opportunities is particularly acute. In the Human Development Report 2011, the gender inequality index ranks Nepal 157 out of 187 countries.*

Inclusive growth is an increasing challenge. In recognition, the ***Government of Nepal*** *has a policy priority to "reduce existing inequality and poverty in the country by increasing dignified and profitable employment opportunities through the expansion of inclusive, productive and targeted programs"*[74].

Government Priorities and Financial Inclusion

Financial inclusion refers to universal access to a wide range of financial services for everyone needing them, provided by a diversity of sound and sustainable institutions at a reasonable cost, operating in a competitive market environment. Improved access to finance is not only pro-growth but also pro-poor, reducing income inequality and poverty. Cross-country studies have shown that countries with more developed formal financial systems record faster declines in income inequality and poverty levels.

The Government of Nepal recognizes the importance of a well – functioning financial sector as one of the key drivers in support of the Government's priority to reduce inequalities and poverty. Transforming the financial landscape to promote inclusive finance and banking is one of the major policy priorities of the Government.[75] *In order to transform the financial landscape, financial inclusion requires action on two-fronts:*

- ***Deepening of financial markets****, namely a growth in the size of and number of transactions in financial markets.*
- ***Expanding the frontiers of access to financial markets****, namely extending the reach of financial markets to offer progressively larger numbers of people access to financial services, as well as enhancing the ability of people in reach of financial markets to make most use of these.*

New technologies can play a role in addressing both of these challenges by allowing for higher volume, smaller transactions as well as lower cost distribution networks.

Transforming the financial inclusion landscape in Nepal will be a key driver in support of the Government of Nepal's priority to reduce inequalities and poverty. Besides the broader impact on growth and redistribution, for poor people, access to credit, savings and payment services provides opportunities to increase their income through three channels:

- ***New economic opportunities:*** *access to credit and information on investments through the financial system allows poor people to invest in income-generating activities.*
- ***Better Management of risk:*** *savings, insurance and credit allow poor people to smooth their consumption, protect their assets and income against shocks and make lumpy investments in housing, education and health.*
- ***Exchange of goods and services:*** *payments services help poor people remit money, trade in goods and services and reduce their transaction costs.*

Supply and Demand of Financial Services

Only 25.3% of the Nepalese population has accounts in formal institutions, while only 16% of poor people have such access. These are well below the 40% average in the region[4]*. This situation persists in spite of*

[74] Government of Nepal (August, 2010). *"Three Year Plan Approach Paper (2010/11-2012/13)"*, National Planning Commission.

[75] Government of Nepal (2012). *"Nepal Rastra Bank Strategic Plan 2012 – 2016"*. http://www.nrb.org.np/cpd/strategic_plan_2012-2016.pdf

the consensus on the importance of financial inclusion for growth, redistribution and livelihoods of poor people and the exponential growth in the numbers of institutions.

Narrow inclusion is partly a function of the small-scale financial system in Nepal, valued at just over $13bn - equivalent to a medium sized bank in an industrialised country[5]. Though small-scale, the financial system has been progressively growing. Nepal has seen exponential growth in the number of its financial institutions. In 1985 there were 5 licensed financial institutions; by 2012 there were 265 – 32 commercial banks, 88 development banks, and 69 finance companies. In addition, the regulated microfinance sector comprised 24 microfinance development banks, 16 financial cooperatives, and 36 NGOs. There are also 2 apex (wholesale) institutions that offer refinancing and capacity support to mostly microfinance institutions and cooperatives.

Financial markets have therefore progressively grown in portfolio size, number of institutions and to a lesser degree in the number of transactions (considering that the vast bulk of potential customers are outside the reach of financial markets). This is reflected in commercial banks accounting for 75% of the value, while microfinance institutions – traditionally the vehicle for expanding the reach of financial markets to poor people - have about 2%.

The consequence of limited financial inclusion for poor people is that the overwhelming majority access financial services through informal mechanisms or hold assets in non-financial forms such as livestock and material goods.

About 38% of Nepalese households have an outstanding loan exclusively from the informal sector, 16% from both the informal and formal sector, and 15% from only the formal sector (that is, a bank, finance company, cooperative, or microfinance or rural regional development bank).

Nepal's payment system is virtually unused for retail domestic transactions and little used for international ones. An estimated 69% of foreign remittances come through informal channels—usually family and friends—even among households with a bank account. Just 6% of remittances are saved in financial institutions. The bulk of foreign remittances are used for consumption and to repay loans—loans most likely incurred by workers to migrate to other countries[9].

Informal mechanisms rarely reach scale or financial sustainability and offer clients limited protection, less choice and lower returns[10]. The resources of the poor are also not captured in the formal financial system. The average domestic savings rate in Nepal over the last decade is one of the lowest in the world at less than 10% of GDP, constraining domestic investment while increasing dependence on foreign capital and aid. [76]

Expanding Frontiers of Access to Financial Markets

Increasing access to and use of financial services through expansion of the frontiers of access to formal market players is essential for pro-poor and inclusive growth. It is also important in the reduction of systemic risks and support of financial sector deepening through increased number of transactions with diversified financial instruments and financial institutions. However, there are a number of systemic barriers to expanding the frontiers of access to formal financial markets, including:

- ***Weak Product Value Proposition:*** *The formal financial sector, traditionally focused on large enterprises, offers unattractive products and services to low income customers. Microfinance sector*

[76] Nepal Rastra Bank (2012). "*Banking and Financial Statistics*". No 58, July.

lacks innovation in product offerings. The products are not tailored to the needs of, for example, smaller and medium start – up business, entrepreneurs and agricultural enterprises that makeup the greatest portion of the Nepal's economy. The products do not meet general non – business needs of households such as emergencies, education, or even financing for clean energy. In the absence of other financial intermediary instruments or products that would better meet their needs (such as savings and insurance for example) many excessively borrow and are over – indebted. Diversified, affordable and suitable financial products coupled with practices amongst bank and non-banking service providers and legal safeguards (protection of savings) are critical for further deepening of financial markets in Nepal.

- ***Institutional efficiencies:*** *Most formal institutions working down-stream lack technical capacity in key areas, such as accounting and auditing, strategic planning, financial analysis, and human resource management. This hampers innovation and growth. Lack of commercial orientation and slow professionalization especially in the microfinance sector, has placed a significant brake on accelerating the frontiers of access.*

- ***Limited take-up by clients:*** *Servicing costs, including fees and minimum account requirements, can be prohibitive for poor clients. Costs coupled with inappropriate products, ill - suited for their low and erratic incomes, result in non – use of the formal financial services. Limited take up is also influenced by limited knowledge and understanding of financial services and lack of skills to use them effectively. Many wishing to enter the formal financial space are often inexperienced with these formal banking services and are, therefore more vulnerable to fraud, abuse or they simply make bad financial decisions.*

- ***Narrow distribution systems, high initial cost, and low incentives:*** *Financial transactions by poor people and enterprises are relatively high-frequency and low-volume, emphasising the importance of easily accessible services in close proximity. In Nepal there are just 4 bank branches and 3 automated teller machines (ATMs) per 100,000 people well below the developing country average of 10 branches and 29 ATMs. Rollout of financial services is costly in sparsely populated areas with limited basic infrastructure.*

  Expanding the frontiers of access require a continued expansion of distribution channels –expansion of microfinance and down-streaming of commercial banking operations, promotion of innovative low-cost distribution platforms – new technologies such as smart-cards, ATMs, mobile phones, and the internet as well as innovative new products suited to the needs of poor people.

  Risk aversions, limited knowledge of potential size and returns in new markets, technical and capital constraints combined impose significant disincentive for financial service providers to make investments in expansion that carries greater risk, longer payback periods and uncertain size of returns.

- ***Limited enabling environment:*** *Government of Nepal has a number of policies and strategies to address some key financial inclusion challenges in, for example, rural finance, agricultural finance, SME finance, and microfinance. However, there is no comprehensive policy framework to guide the development of inclusive financial sector in Nepal. Financial inclusion today is about financial markets that serve more people with more products at lower cost. The term "microfinance," traditionally associated almost exclusively with small-value loans to the poor, is now increasingly used to refer to a broad array of products (including payments, savings, and insurance) tailored to* *meet the particular needs of low-income individuals. Different products present different risks and delivery challenges, and it is unlikely that a single class of service providers will effectively provide all the products poor people need. A key challenge is how to create the broader interconnected ecosystem of market actors and infrastructure needed for safe and efficient product delivery to the poor supported by an enabling policy environment.*

IV: USEFULNESS OF MAP IN RESPONSE TO COUNTRY CONTEXT

Besides the absence of a coherent policy, there are other more specific policy issues that could further extend the frontiers of access to financial markets, including most notably policies related to interest rates and priority sector lending, as well as lack official identification documents, records of financial transactions (which increases the risk of service provision). The diagnostic will seek to identify market opportunities, policy imperatives as well as potential market and regulatory barriers to leverage these opportunities. While the key focus areas within each component of analysis will be finalised during the orientation meeting convened by the National Planning Commission, some of the likely areas will include the following:

- **Demand side:** The **FinScope survey** will be used as a demand-side survey instrument to determine the level of usage for various financial services and to understand consumers' livelihoods, financial services needs and perceptions. FinScope is a nationally representative study of individuals' perceptions on financial services and issues which provides insight into how people source their incomes and manage their financial lives. The survey looks at a representative sample of the entire adult population, rich and poor, urban and rural, and assesses the use of financial products (formal and informal) in different market segments. The depth of information available allows the construction of models of attributes and behaviour that could assist in identifying key drivers/barriers of inclusion as well as areas of opportunity.

- **Qualitative demand side**: In addition to the survey data, qualitative demand-side research across the product spectrum will allow deeper probing of key issues and create added insights into attitudes and propensity towards formal and informal financial services amongst Nepalese consumers. Such research will also be useful to consider potential consumer protection and education issues. The combined qualitative and quantitative demand-side research will be used to develop a segmented view of opportunities across the country.

- **Supply side:** MAP Nepal will seek to update existing supply side work, fill the gaps and integrate the analysis across product areas. The following areas will be of particular interest:
  - The study will scope the financial inclusion landscape, across a variety of stakeholders (formal and informal, for profit and not-for-profit) in four primary product areas (covering credit, insurance, savings and payments); with a particular emphasis upon distribution.
  - Consideration will be given to the extent to which commercial banks are entering the lower-income product space, including an analysis of innovations and the development of new lower-income-specific products. Additionally, the analysis will also look at other informal financial services mechanisms that are currently being used for credit and savings and its potential for further development.

  - An emphasis will be placed on the readiness and ability of the government and financial sector to shift away from a heavy use of cash to electronic methods of transacting. This readiness assessment will also look at the volumes of existing cash transactions that could be converted in order to provide the volume needed to maintain a broader distribution channel.
  - A clear map will be developed of market operators in the financial inclusion ecosystem, illustrating respective orders of magnitude and their inter-linkages.
  - Innovative distribution channels and opportunities for channel conversion require closer examination. A Finscope consumer survey will provide a quantitative basis for this analysis, together with industry consultations
  - MAP Nepal will also provide an updated view on the potential for non-traditional players to deliver financial services (including mobile networks, agricultural value chains, retail networks, and government social welfare programmes).

- **Policy and regulatory analysis:** The diagnostic will evaluate the policy, regulatory and supervisory landscape of relevance to financial inclusion and the inter-connectedness of a diverse set of regulation. Such a comprehensive regulatory analysis across credit, savings, insurance and payment systems has not yet been done. This component of the diagnostic will be done in close collaboration with the supply side analysis and will include consideration of the following:
  - An appraisal of the differential regulatory treatment of financial products targeting the low-income market;
  - An analysis of existing banking and microfinance legislation as it impacts the provision of credit and savings products;
  - An analysis of the existing payment system policies and framework and how it enables or deters high volume electronic payments through interconnected channels.
  - An analysis of how conducive existing regulation is for commercial banks to enter the lower-income market;
  - An appraisal of how facilitative the regulatory environment is for next generation distribution channels to evolve;
  - An examination of non-financial sector regulation (for example telecommunications and cooperative legislation) that potentially impact the delivery of retail financial services.

- **Synthesised analysis.** The MAP diagnostic will develop a synthesised analysis drawing together the content areas outlined above. This will provide the basis for a comprehensive financial inclusion strategy and will also consider trade-offs between and sequencing of potential interventions. In the synthesis, the MAP partnership will engage with the parties responsible for existing research to incorporate as much of the existing data and insights as possible.

- **Roadmap**. As noted above, local stakeholders, especially those engaged with on-going and new financial access initiatives, will be involved throughout the MAP process. This will seek to ensure the participation of a wide group of stakeholders that could take ownership of the development and implementation of a road map of potential interventions to be developed as part of the MAP outcomes. The roadmap could serve to reference and coordinate the endeavours of multiple players.

- **Post-Road map longitudinal demand assessment (AKA Financial diaries).** A Financial Diaries would be an extensive micro-level study of how poor households engage with formal, semiformal and informal financial services. It identifies the common financial behaviours surrounding day-to-day life and life-cycle events and points to the potential new markets available. The Financial Diaries methodology was applied in South Africa, Bangladesh and India, and this research was the basis for the book, "Portfolios of the Poor". The overall goal of the Financial Diaries is to present a picture of the financial lives of the poor in order to better understand their financial behavior with regards to indebtedness, the use of social grants, savings, their response to unexpected events and the management of micro businesses, in order to inform the development of more relevant products and services.

V: EXPECTED OUTPUTS

The following is a list of expected outputs for MAP Nepal:

Output 1: A detailed demand-side analysis in the form of the FinScope survey for Nepal
The FinScope survey will provide detailed nationally representative data on the demographic landscape and usage of financial products and services by the population in Nepal. Additionally, it will provide an overview of the current levels of financial inclusion by banked, formal, informal and excluded segments of the population. The survey will include (but not limited by) the poor in terms of ethnicities, geographical conditions, madhesi, dalit and other disadvantaged class of the poor population, and it will also address other social aspects such as education, sanitation, drinking water, and sources of energy services.

Output 2: A detailed supply-side diagnostic and policy and regulatory analysis
A detailed supply-side report outlining the background, context and current status of the financial sector in Nepal. In addition, a detailed review of the current products and services available as well as the distribution channels will be undertaken, including (but not limited to) a variety of stakeholders (formal and informal, for profit and not-for-profit, such as for example cooperatives and FINGOs).

Output 3: An integrated diagnostic report
A Synthesis Report identifying opportunities and constraints to financial inclusion as well as a series of documents setting out the details of the various components of the analysis. This document will integrate the demand, supply, and regulatory components into a synthesized analysis and will identify opportunities and constraints that will inform the development of the roadmap. This document will incorporate insights gained from all the elements of the MAP analysis.

Output 4: Action plan and Roadmap
Based on the results of the diagnostic, overall priorities and actions to support financial inclusion will be determined in consultation with all key stakeholders and captured in a road map. Based on the road map, individual stakeholders can translate their selected priorities into actions for implementation. Such activities could include actions to be implemented jointly or separately. The road map process involves the following:

- *Development of a national vision on the basis of a national dialogue on the findings and recommendations in the synthesis report*
- *Development of detailed comparative analysis of policy and programmatic options*
- *Develop a broad architecture of a roadmap and priorities on the basis of consultation with key stakeholders*
- *Development and detailing of the road map*
- *Validation workshop to obtain buy-in of the roadmap*
- *Development of a national sector financial inclusion working group in country to focus and monitor implementation plan*

Output 5: Annual thematic financial diaries-based policy briefs.
The quantitative and qualitative information of how poor households use formal and informal financial instruments over the course of three years will be compiled annually and recorded to inform financial service providers, central bank and donors how to develop appropriate products and initiate an enabling

environment with suitable market conduct norms that support projects that are grounded in the needs of the market.

Additional analysis to meet the needs of Nepal:

Taking into consideration the specific needs of Nepal, additional analysis on SME's can be provided using the FinScope Consumer data as well as a summary assessment of capital markets and opportunities for capital market development.

- **SME:** Through the FinScope Consumer study, an indicative assessment of SME activity can be provided as this is often a significant source of household income among poor households. However, a more comprehensive assessment of the size and activity of the SME market can only be achieved through a FinScope SME study. This study uses a specific sampling methodology to derive the size, scope and activity of the SME sector. The FinScope SMME study has not been costed for in this proposal but separate costing can be provided for the FinScope SMME study at a later stage. In terms of the FinScope methodology, a FinScope Consumer study is always conducted prior to an SMME study.

- **Capital markets:** Integrated in the supply and regulatory assessment will be an additional component on capital market development which will unpack a set of key questions that the capital market component will seek to answer.

While an SMME paper and a high level analysis on capital market development can be incorporated into MAP, a more detailed SMME FinScope study can be costed separately. Additionally, a detailed analysis on capital markets will require a separate costing.

VI: EXPECTED PHASES

MAP activities will be implemented over the following phases:

Phase 1 – Inception mission

The initial phase will entail interactions with Government to set up the MAP process in Nepal, which will include obtaining no-objection from Government and agreement from Government to set-up, host and Chair a Steering Committee for MAP. UNCDF will travel in country to meet key stakeholders and present the methodology and rationale at a kick-off workshop. The visit will also be used to present the methodology for the FinScope survey and for scoping consultations with local survey providers.

Phase 2 –Quantitative demand-side research and qualitative immersive research

A FinScope survey will take place in 2014. A steering committee will be set up and terms of reference will be issued for a local research house and local FinScope coordinator. Design of the FinScope questionnaire content, translations, sampling framework and field preparation for the FinScope survey will be initiated and enumerator training will be conducted for the FinScope survey. The survey will take approximately 6-8 months to complete.

Phase 3 - Supply-side and regulatory research

In-country consultations for the supply-side and regulatory research is envisaged to commence in December 2013 or early 2014 with the local in-country resources. A supply-side and policy and regulatory diagnostic team will be in-country to meet with a variety of financial sector stakeholders and gather information on the financial inclusion landscape as part of the supply and regulatory research.

Phase 4 - Synthesis process and report writing
The synthesis process will draw together the findings of the demand-side research with the supply-side and regulatory analysis.

Phase 5 – Stakeholder workshop and road map development
At the end of the diagnostic process, a stakeholder workshop, incorporating key Government and donor stakeholders will be convened to share the research findings as well as develop the next steps and roadmap to increase financial inclusion going forward.

Phase 6 – Financial diaries research process and annual policy brief publication and stakeholder dialogue
Post the roadmap exercise, the financial diaries research process will commence. This will begin with a stakeholder workshop to agree outputs and deliverables.

VII: UNCDF AND MAP IN NEPAL

UNCDF has been cooperating with the Government of Nepal since 1964. More recently, UNCDF has been working to strengthen local service delivery through the *Local Governance and Community Development Programme (LGDP)* and expand access to financial services for the poor through project ***Enhancing Access to Financial Services (EAFS)***, which completed at the end of 2012.

An independent evaluation of the EAFS project was carried out in 2011. Key **independent evaluation and end-of-project result** highlights include:

- Valid and relevant approach in Nepal, focusing on supporting scalable, replicable and sustainable projects that deliver appropriate financial services to low income people, small and microenterprises, including women and people living in rural areas.
- High value-for-money at an average tax-payer cost of US$ 7.50 per-client to offer permanent access to financial services.
- Increased permanent access to 280,000 additional clients, while strengthening industry capacity. The project provided risk capital grants to microfinance institutions. With contributions of only between 5%-25% of cost of expansion and with use of performance-based agreements that tie payment to results, UNCDF catalysed the permanent addition of 160 branches to the MFI distribution network, with more than 280,000 clients having access to and using financial services. EAFS also improved the institutional capacity at the retail level by enabling portfolios to grow while reducing portfolio at risk (PAR) for the microfinance institutions.
- Timely and relevant policy intervention by drafting National Financial Literacy Strategy for the Government of Nepal, which responds well to increasing worries regarding over-indebtedness and predatory lending practices of some microfinance institutions.
- Introduced innovation in branchless and electronic banking, which should help to drive down operating costs and potential for expansion into remote areas: the project Recepient Institutionto pilot a branchless banking initiative using biometric-based smart cards to enable underprivileged, deprived rural poor access to financial services. The biometric smart card is based on an automatic transaction processing which will create a cashless transaction.

Key **independent evaluation recommendation and end-of-project lesson highlights** include:

- Diversify support for product innovation and broadening of financial service providers: UNCDF supported deepening of financial sector by working with microfinance institutions, with a focus on expansion of services. While this contributed to overall increase in services, UNCDF needs to *focus more on supporting productive use of financial services*, as well as *diversify the range of institutions supported* beyond only microfinance institutions.
- Extend technical assistance support as a public-good for the sector and beyond immediate project partners only. UNCDF focused its technical assistance and capacity building activities predominately on project partners. This has greatly improved their technical capacity to develop products and services, however *technical assistance should be broadened beyond project partners* so that industry benefits as a whole. This in turn also supports sustainability of the sector.
- Improve monitor and reporting of results: UNCDF *monitoring framework has to better reflect the project goals, outcomes and outputs* and *be more deliberate in reporting on the results*.
- Continue nurturing and building capacities of the Central Bank: UNCDF has drafted a country programme framework to extend financial inclusion in Nepal over the next 5 years. This is currently under consultation with the Government of Nepal. MAP is expected to further refine the priorities and design of the country programme framework and the stakeholder process to validate it for approval by the Government.

VIII: MAP GOVERNANCE AND MANAGEMENT

The stakeholder process to catalyse action is as important a component of MAP as the diagnostic tool. The evidence-base created by the diagnostic will be used as a basis for a broader process of stakeholder engagement to identify and remove barriers and promote financial inclusion. The process will involve a wide range of stakeholders ranging from policy makers and regulators to market players, intermediaries and different entities that represent the currently excluded population. The MAP process will be governed as follows:

MAP steering committee: MAP will be governed by a steering committee consisting of government and funder stakeholders. The steering committee will be engaged throughout the course of MAP to discuss and review outputs at various stages of the analysis. The Central Bank as a key stakeholder in the process, together with UNCDF, will host the study and act as Chair and Co-Chair of the Steering Committee. This will also support full coordination and complementarity with the 4th Rural Credit Survey.

Other key ministries *that represent the beneficiaries* will be involved including the Statistics Office, government representatives from the Ministry of Finance, funders, NGO's in the financial sector which will shape the implementation of the FinScope survey. In addition, UNCDF and donors contributing directly to this programme will be part of the Steering Committee representing the "suppliers" of services[77]. This group will provide overall guidance but also assist to ensure that the FinScope questionnaire is appropriately tailored to the domestic environment and priorities. The key next steps in this process are to identify the appropriate members of the Steering Committee and invite these members to become a part of it.

MAP Management

UNCDF bears the accountability and overall responsibility for MAP in Nepal. MAP will be implemented within the framework of the global MAP project and using the same approach but adopted to the context in Nepal as described above.

MAP partners – Cenfri and FinMark Trust – will be responsible parties to deliver some of the constituent parts of MAP. A successful MAP exercise requires the participation of a broader group of stakeholders constituted by a country specific group of partners, such the Nepal government, organisations that co-fund MAP or are involved in implementation. In order to make for smooth organisation and ensure clarity on roles and responsibilities, the table in Annex I provides an overview of organisations and bodies involved in management and implementation.[78]

IX: FUND FLOW

Under the direct implementation modality, UNCDF will be responsible for ensuring efficient delivery of MAP outputs, and coherence and coordination with other initiatives. UNCDF will manage and implement the MAP using the UNCDF standard tools. Some activities will require us to partner with international organizations such as Cenfri, FinMark and MIX Market that will serve as responsible parties for the implementation of specific activities. For this purpose, UNCDF will utilise its existing framework Agreements with the respective partners and will take care of the oversight and monitoring of these agreements.

UNCDF will engage other partners as responsible parties through following procurement process and based on UNDP guidelines and procedures. In the spirit of ensuring national ownership and inclusive participation, MAP implementation will be done in close partnership with national partner. MAP will promote ownership and capacity development of relevant actors and institutions in order to ensure sustainability of results.

As with regard to procurement of services from international and national institutions, UNCDF follows the UNDP Programme and Operations Policies and Procedures covers policies and procedures related to Contracts, Assets and Procurement and replace the UNDP Procurement Manual[79]. As per UNDP's

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[77] UNCDF has adapted Prince2™ (Projects IN Controlled Environments) which was initially developed by the UK government as the project management method. Prince2 principles as used to set up oversight and decision making bodies such as the Steering Committee, organizational structures, etc.

[78] The role of the Steering Committee (SC) will be outlined in a ToR with the Nepal authorities and agreed. The intended position and role for the SC is that of a small committee consisting of representatives of the Nepal authorities and of funders of MAP, which is responsible for decisions on overall management and the ultimate authorization body with regard to the MAP process and implementation.

[79] http://www.undp.org/content/undp/en/home/operations/procurement/overvi

Financial Regulations and Rules, the following general principles must be given due consideration while executing procurement on behalf of the organization:

- Best Value for Money
- Fairness, Integrity, Transparency
- Effective International Competition
- The Interest of UNDP

X: Monitoring Framework and Evaluation

The partnership between UNCDF, Cenfri, FinMark and MIX Market in MAP will be monitored and evaluated based on the agreements on outputs and deliverables that will be embedded in this MAP document. Apart from this formal evaluation, the overall success of MAP will be measured against the extent to which the authorities and funding partners (SC) and a broad stakeholder group (WG) consider MAP a success, which should be evident from the formal approval of the outputs (SC) and enactment on the Roadmap, Action Plan and Programming Framework (WG and broader group of stakeholders).[80] The table immediately below outlines key deliverables and associated timelines. The dates are indicative and subject to change.

The table below outlines MAP phases, deliverables and indicative timelines:

MAP phases and deliverables	Timeframe
Steering Committee formation initiated	December 2013
Quantitative demand-side work commences	Quarter 1 2014
Individual preliminary supply and regulatory assessment reports available	Quarter 3
FinScope Consumer Survey findings available	Quarter 4 2014
Draft synthesis report available	Quarter 4 2014
Stakeholder workshop and preliminary roadmap design	Quarter 4 2014
Final individual diagnostic reports, synthesis report, and roadmap available	Quarter 1 2015
Longitudinal financial diaries	Quarter 3 2014 – Quarter 2 2017

ew.html

[80] The overall programme monitoring framework can be found in Appendix 2 and includes means of verification for monitoring and evaluation purposes, and risk/assumptions.

XI: BUDGET

MAP NEPAL BUDGET DETAILS			
OUTPUT/ACTIVITIES	**Description**	**Donor**	**2013-2017 (Pounds) *UN Exchange rate of 0.645**
OUTPUT 1: A detailed demand-side analysis in the form of the FinScope Survey for Nepal			
Activity 1.1. Launch Programme Activity 1.2. Steering Committee Established	Staffs Travel	DFID	10,313.55
Activity 1.3 Demand Side Finscope Survey	Grants		280,479.54
SUB TOTAL OUTPUT 1			**290,793.09**
OUTPUT 2: Supply Side			
Activity 2.1 Assessment of Supply and Regulatory Issues Activity 2.2 Production of Integrated Diagnostic Report	Consultant (local)	DFID	96,750.00
	Consultant (local)		61,194.38
	Miscellaneous		22,575.00
SUB TOTAL OUTPUT 2			**180,519.38**
OUTPUT 3: A Financial Inclusion national roadmap defining critical steps to accelerate financial inclusion			
Activity 3.1 Roadmap, Action Plan and Programme Framework elaborated • Development of a national vision on the basis of a national dialogue on the findings and recommendations in the synthesis report ($40,000) • Development of detailed comparative analysis and costing of policy and programmatic options ($40,000) • Develop a broad architecture of a roadmap and priorities on the basis of consultation with key stakeholders using the comparative analysis of options and costs ($30,000) • Development and detailing of the road map ($60,000) • Validation workshop to obtain buy-in of the roadmap – ($10,000) • Development of a national sector financial inclusion working group in country to focus and monitor implementation plan ($20,000)	Grants	DFID	129,000.00
SUB TOTAL OUTPUT 3			**129,000.00**
OUTPUT 4: Financial Diary			
Research institutions	Grants	UNCDF	258,000.00
SUB TOTAL OUTPUT 4			**258,000.00**
OUTPUT 5: Programme Management			
Activity 5.1. Programme Realisation Monitored	Staff Travel	DFID	10,313.55
	Printing/Visual		1,290.00
	Workshop		24,123.00
	2% Direct Staff Cost	UNCDF	17,880.78

SUB TOTAL OUTPUT 5			53,607.33
SUB TOTAL OUTPUT 5 (excluding 2%)			**35,726.55**
SUB TOTAL OF ALL OUTPUTS			**894,039.02**
GMS (8% of All Outputs excluding No.4 and 2% direct staff costs)		DFID	50,883.12
TOTAL PROJECT COSTS			**962,802.92**
TOTAL FUNDING NEEDED		DFID	**686,922.14**

Annex I: MAP Partners and their roles and responsibilities

Organisation	General Responsibility	Team and Contractors	Specific Responsibility	Milestones	Deliverables
UNCDF	• Oversight and quality assurance • Overall internal and external coordination of MAP implementation, engagement of funders and government, and arrangement of visas • Facilitation of the programming framework based on the Financial Inclusion Roadmap and Action Plan • Hiring, oversight, monitoring and evaluation of national or international institutions by following due procurement process • Organising major events	Sr Regional Technical Advisor	Final, overall responsibility within UNCDF for use of resources and delivery of activities. Final, overall responsibility for coordination, organisation and funding. Liaison with senior management and DFID and other stakeholders.	Funding confirmation; Government interest; Visas arrangement; MAP plan signed off; Installation SC and WG with TORs signed off; Programming framework enabled.	
		Global MAP Advisor	Overall coordination with partners, quality control of outputs		
		In-country national specialist	Overall MAP management and general in country assistance; support in-country, assistance with supply-side review		

FinMark Trust	FinScope demand-side survey	FMT Research Team	Contracting, training and quality control of Nepal research house • Analysis and data weighting • Reporting FinScope results	Research house appointed; Questionnaire signed off by SC; Survey completed and dataset created; Deliverables completed	Brochure; Topline Findings Presentation; Detailed findings report; Dataset
		Local research house	Administer survey questionnaire; provision and training of field staff, roll out of fieldwork, and analysis of results.		
Cenfri	• Supply-side, regulatory and financial infrastructure diagnostic • Analying payments payment system, readiness to manage high volume payments; • Overall synthesis report combining FinScope, supply-side and regulatory diagnostics • Analyst input to the multi-stakeholder dialogue process towards the Roadmap, Action and Programming framework.	Cenfri consultant team	Training and development of consultants; Oversight and quality control of supply side work Synthesis report	Training of national consultants; In country synthesis workshop; Diagnostic report Synthesis document Presentation at Stakeholder workshop	Training presentation Desktop research results presentation; Full Diagnostic report; Synthesis document;

Annex II: Logical framework

	Narrative	Indicators	Means of Verification (MoV)	Responsibilities
This programme aims to contribute to the development of a strong financial sector in Nepal, inclusive for low-income households and (their) micro and small enterprises, thus contributing to the achievement of the Millennium Development Goals (MDGs) and in particular the goal of reducing poverty by half in the year 2015.				
Specific Objective: The intended outcome of the programme is to define the financial inclusion agenda in Nepal and align resources with key priorities, based on a rigorous evidence-based diagnostic exercise concluded by intense stakeholder dialogue and decision making.				
Expected Output 1	***Output 1: A detailed demand-side analysis in the form of the FinScope survey for Nepal***			
	Detailed nationally representative data on the demographic landscape and usage of financial products and services by the population in Nepal	**Baseline:** None - FinScope Demand side study which will produce nationally representative data on the access to and usage of financial services (2,000 households);	Programme Document signed off by funders Government signs of on request to implement the MAP Framework FinScope Deliverables: Questionnaire, FinScope Brochure, Top-line Findings report, Full Research report and Technical survey report; dataset	UNCDF UNCDF FinMark Trust
Expected Output 2	***Output 2: A detailed supply-side diagnostic and policy and regulatory analysis***			
	An analysis of low-income households, their socio-economic situation in the context of Nepal and their needs for financial services; of existing and potential future supply of financial services to the excluded and underserved segment; and of	- Supply side diagnostic that assesses the current supply-side environment; and - Regulatory diagnostic that assesses the current policy and regulatory framework in order to understand the current barriers to increased financial services take-up;	Desktop-research results MAP kick-off note Country context note Full diagnostic report Focus Notes on main themes emerging from full diagnostic, including:	UNCDF (Cenfri and FinMark Trust)

	Narrative	Indicators	Means of Verification (MoV)	Responsibilities
	regulatory issues affecting the state of financial inclusion.		- Financial Inclusion and Agriculture - Financial Inclusion and Consumer Protection - Financial inclusion and SME - Financial Inclusion and electronic payments	
Expected Output 3	***Output 3: An integrated diagnostic report*** *A Synthesis Report identifying opportunities and constraints to financial inclusion as well as a series of documents setting out the details of the various components of the analysis. This document will integrate the demand, supply, and regulatory components into a synthesized analysis and will identify opportunities and constraints that will inform the development of the roadmap. This document will incorporate insights gained from all the elements of the MAP analysis.*			
	An analytical report that synthesises the demand-side data, the key findings from the supply analysis and the policy and regulatory analysis in order to developed detailed insights in the situation with regard to the state of Financial Inclusion in Nepal, understand existing and potential future delivery channels, their outreach and products; and issues in the overall situation with regard to regulation and infrastructure.	**Baseline**: None A synthesis report combining the various data components A high-quality online and interactive resource for delivery and presentation of financial inclusion data on Nepal, adding value by making relevant, reliable, detailed as well as aggregated data and information on financial inclusion in Nepal easily available and useable to stakeholders inside Nepal and worldwide.	Synthesis report Delivery and accessibility of the platform online on the MIX Market (www.mixmarket.org)	Cenfri FinMark Trust/ MIX Market

	Narrative	Indicators	Means of Verification (MoV)	Responsibilities
	Creation of an online and interactive mapping system showing financial inclusion data			
Output 4	***Output 4:Road map and action plan***			
	Determination of overall priorities long and mid-term priorities for financial inclusion through a process of consultation with key stakeholders. Determination of immediate next steps following from the longer-term priorities a road map to initiate action and to link to a programming framework. Overview of existing, planned and needed programmes developed or to be developed by donors and/or investors including budgets, outputs and activities, and the contribution of these programmes on achieving the milestones on the FI roadmap	**Baseline:** None Development of a Financial Inclusion Roadmap, consequential Action Plan and related Programming Framework of high quality, adding ample added value to the Financial Inclusion agenda and stakeholder community.	Roadmap, Action Plan and Programming Framework received, disseminated and presented at stakeholder meetings Positive feedback from stakeholders on the added value and utility of the Roadmap, Action Plan and Programming Framework.	UNCDF
Output 5	***Output 5: Annual thematic financial diaries-based policy briefs.*** *Detailed plan developed in parallel with diagnostic and in consultation with Danida.*			

Assumptions, Risks and Mitigation

#	Description of Assumptions or Risks	Category	Impact & Probability	Risk Assessment / Countermeasures / Management Response
1	Government endorsement not obtained.	Organisational and Political	Programme cannot start, hence cannot achieve outcome *Probability = Low*	There is strong, broadly carried political support for increasing financial inclusion within the government,
2	Government endorsement obtained too late	Organisational and Financial	Programme budget becomes partly unfunded *Probability = Medium*	UNCDF will give highest priority to seeking government endorsement. MAP's timeliness and unique catalytic features with ample benefits for Nepal will be communicated combined with MAP's nature as a non-political exercise lead by the government. Ultimately it will be explained that it is a "take it now, leave it or find additional funding" situation.
3	A lack of endorsement or participation by a critical mass of key stakeholders	Organisational and Strategic	The National Financial Inclusion roadmap will lack support and the exit strategy or sustainability is at risk *Probability = Low*	Engagement for MAP has already been sought by UNCDF with main stakeholders, which have strong networks and leverage with government and donor community. Inviting stakeholder engagement is part of regular UNCDF processes and its experience and lessons learned will be built on in Nepal.
4	The National Statistics Office lack capacity to provide good quality and quantity data	Strategic	The quality of the programme outcome will be undermined as the evidence base on which the diagnostic and roadmap are founded is weak *Probability = Medium*	Contract a local, good quality survey company or national statistics office to conduct the FinScope Survey. Delivery of technical and on-the-job assistance by MAP partners Cenfri and FinMark Trust, who have the experience.
5	The capacity base for MAP's implementation in Nepal is run too thin because of a too large portfolio of running programmes on a global scale.	Organisational and Strategic	The delivery of outputs will be slowed down *Probability = Medium*	The main bottleneck in making progress against the MAPed timeline is expected to be found in local government's procedures. Since MAP is a strategic exercise and involves long-term objectives, the relative set back of late delivery of a few months has little impact in achievement of the overall outcome. Cenfri and FinMark Trust deal with simultaneous

				implementation and designing of programmes as a matter of course. Approval of programmes allows FinMark Trust and Cenfri to adapt their staff base to needed level. UNCDF management will closely monitor progress.
6	Data and survey results are considered by the government as too sensitive to publish	Political and Strategic	Programme cannot achieve outcome *Probability = Medium to High*	The nature of the MAP process and its intended benefits will be thoroughly explained to the government. Appeal will be made on the central importance of financial inclusion as recently proclaimed by government. The government will be asked to sign a letter of intent and approval of MAP in all its aspects confirming commitment at inception
7	Lack of follow-up on diagnostics and roadmap	Organisational and Strategic	Programme will not achieve intended impact *Probability = Low*	During the process of doing the MAP exercise ample effort will be made to ensure buy-in and ownership of government and development partners. A working group will be formed as part of the MAP process at inception, which will include all development partners and other stakeholders and which will be amply informed on survey results, requested for feedback and involved in the design of the roadmap. The roadmap will be based on evidence on the intended beneficiaries of overall development efforts, the low-income and poor households, lack of follow-up would undermine the development community itself, leaving little else to do than participate.
8	Inadequate funds to implement as a result of exchange lost	Operational	Programme will not achieve intended result Probability = Medium	Consult donors to ensure any losses will be met by additional funding if needed

Annex 9. UNCDF Gender Equality and Empowerment Guidelines – Minimum Standards

Gender equality is basic human right and the importance of implementing concrete actions to achieve greater gender equality is widely recognized in the UN family. It is also an essential means by which UNCDF can achieve its mandate to support achievement of the MDGs in at least forty LDCs by increasing poor people's access to microfinance and basic services, in ways that are equitable, sustainable and can be taken to scale by the private sector, development partners and national governments. UNCDF ambitions in Gender Equality and the Empowerment of Women (GEEW) are stated in its strategy statement of commitments (Chapter 2)

Extensive evidence from across and outside the UN system suggests that an organizational GEEW strategy needs to focus on different drivers for accomplishing this strategy[81] (Chapter 3)

1. **A clear understanding of what gender mainstreaming means** for the organization is essential and should be translated into a business case and organizational results. Procedures should be in place to ensure knowledge generation and learning, and to modify the understanding if needed. Knowledge dissemination and communicating the rationale behind GEEW throughout the organization is required to build increased ownership of the GEEW strategy;

2. **A human resource structure** that reflects adequate staff capacity and accountability framework at all levels of the organization in supporting gender mainstreaming and the implementation of the gender strategy. Achieving the objectives set out in the strategy will only work when accountabilities are clearly defined within the organization and when the staff are capacitated;

3. **A gender responsive institutional set up** with gender responsive tools, systems, processes, operational guidance and financial mechanisms is fundamental to ensure smooth implementation and results.

The background research, interviews and capacity assessments survey carried out as part of development of the survey reinforce this evidence

A set of **minimum standards** (Chapter 4) for each of the three drivers will enable UNCDF to implement its GEEW strategy. These standards are aligned with the UN System-wide Action Plan (SWAP) for implementation of the CEB policy on gender equality and empowerment of women

These set of 12 minimum standards are stated below:

- Knowledge on gender equality and women's empowerment is systematically documented and publicly shared

- Communications and advocacy include gender and women's empowerments as an integral component of internal and public information dissemination

- Participates systematically in inter-agency co-ordination mechanisms on gender equality and the empowerment of women

- Job descriptions for all staff related to programme and management revised to include gender mainstreaming as a requirement

[81] For a summary see AFDB (2011) Mainstream Gender Equality – a road to results or a road to nowhere?: An evaluation synthesis. Addis Ababa: African Development Bank

- Assessment of gender equality and the empowerment of women integrated into performance assessment for all staff and above
- A capacity development plan is established and updated at least every five years
- On-going mandatory training for all levels of entity at HQ, regional and country offices
- Reporting on gender equality and women's empowerment results in relation to the CMP
- All key data is sex-disaggregated, or there is a specific reason noted for not disaggregating data by sex
- Evaluations meet the UNEG gender related norms and standards
- Operational guidance fully integrates gender analysis
- The financial resource tracking mechanism in use to quantify disbursement of funds that promote gender equality and women's empowerment
- Per cent of UNCDF's resources will be allocated for promotion of gender equality and the empowerment of women

An implementation plan specifying institutional mechanisms and processes will be developed in a later phase to institutionalize and operationalize these minimum standards in UNCDF. The minimum standards are a minimum only and UNCDF should strive to go beyond these standards wherever possible

Annex 10. Client Protection Principles

Under the Nepal Rastra Bank's directives, rules and regulation, microfinance institutions will adopt following code of conduct to protect microfinance clients and strengthen the industry.

Microfinance Institutions commit to:

- Provide microfinance services to low-income clients - especially focused to women, Dalit (so called "untouchable" caste) and other excluded ethnic groups to uplift their socio-economic status;
- Ensure quality of services to clients, appropriate to their needs, and delivered efficiently in a convenient and timely manner;
- Maintain high standards of professionalism based on honesty, non-discrimination and customer centricity and protect against fraud and misrepresentation, deception or unethical practices.
- Deliver products and services in a manner that is ethical, dignified, transparent, equitable and cost effective and all practices related to lending and recovery of loans are fair and maintain respect for clients' dignity and with an understanding of clients' vulnerable situation;
- Provide complete and accurate information to clients regarding all products and services offered;
- Create awareness and enable clients and all other stakeholders to understand the information provided with respect to financial services offered and availed;
- Safeguard personal information of clients, allowing disclosures and exchange of relevant information with authorized personnel only, and with the knowledge and consent of clients;
- Ensure high standards of governance and management within the organization;
- Monitor and report social as well as financial data and monitor implementation and effectiveness of client protection guideline/code of conduct.
- Develop mechanism for getting feedback and suggestion from clients;
- Provide a formal grievance redress mechanism for clients.

Principle wise code of conduct:

i. Prevention of over-indebtedness: *Providers will take adequate care in all phases of their credit process to determine that clients have the capacity to repay without becoming over-indebted. In addition, providers will implement and monitor internal systems that support prevention of over indebtedness and will foster efforts to improve market level credit risk management (such as credit information sharing).*

- MFI management regularly monitors level of borrower over indebtedness and uses that information to improve, products, policies and procedures.
- MFI will offer multiple and flexible products and services to address borrowers' need e.g. diversified product and services with suitable terms and conditions.
- MFI will evaluate borrowers' repayment capacity, cash flow and loan affordability in addition to guarantees (peer guarantees, co-signatures or collateral).
- MFIs will check, when needed, credit history of borrowers from other MFIs to know their debt level and the repayment history.

- MFIs will develop loan appraisal mechanism for checking household debt level, lending practices and violations etc. in internal audits and other monitoring system.
- Provide next cycle of loan based on proper utilization of previous loan.
- Conduct PGT/CGT compulsorily for all members (new and replacement members.)

ii. Transparency: *Providers will communicate clear, sufficient and timely information in a manner and language clients can understand so that clients can make informed decisions. The need for transparent information on pricing, terms and conditions of products is highlighted.*

- MFIs will ensure that prices, terms and conditions of all financial products are fully disclosed to the clients prior to sale, including interest and charges, insurance premiums, minimum balances, all fees, penalties etc.
- MFIs will train their staff to communicate effectively with all customers, ensuring that they understand the product, terms and conditions and explain to clients in their local languages.
- MFIs will use suitable channels such as brochures, orientation sessions, meetings, posting information on branch offices, flex banners etc. to disclose clear and accurate information about the products.
- MFIs will develop loan deed which includes all the charges and fees and terms and conditions clearly. MFIs will provide loan repayment schedule which mentions the total principle and interest to be paid.
- MFIs must provide passbook to maintain client's account for the services taken from the MFI and regularly updated.
- Clients are given adequate time to review the terms and conditions of the product they are supposed to buy. If clients need more clarification, MFI will give them the opportunity to ask.
- The collection sheet; group/center meetings collection details can be signed after explaining the collection details by the group/center representative as acknowledgement of their acceptance.
- Formal records like receipts, maintain ledger etc. of all transactions must be maintained in accordance with all regulatory and statutory norms, and borrowers' acknowledgment/acceptance of terms/conditions must form a part of these records.
- MFI will provide accurate and updated information regarding clients' account (loan, savings, insurance etc.) at any point of time to the concerned client and regulator.
- MFIs must ensure regular checks on client awareness and understanding of the key terms and conditions of the products/ services offered / availed. (As part of internal audit systems or through some other regular monitoring)
- New clients must be informed about the organization's policies and procedures to help them understand their rights as borrowers.
- MFI will incorporate client protection code of conducts in their policy and procedures/guidelines.
- Clients will be well informed on bundled products and services. The only exceptions to bundling may be made with respect to credit life, life insurance & live-stock insurance products, which are typically offered along with loans. The terms of insurance should be transparently conveyed to the client. Consent of the client must be taken in all cases.

- MFIs should adopt directives issued by NRB regarding adoption of Transparency in all aspects of operation.
  While providing and requesting credit information of the clients MFIs should mention the date when that client joined the institution.

iii. Responsible pricing: *Pricing, terms and conditions will be set in a way that is affordable to clients while allowing for financial institutions to be sustainable. Providers will strive to provide positive real returns on deposits.*

- MFI will set price for their products based on competitive market rate i.e. on the basis of financial analysis of costing and pricing.
- MFI will not charge additional cost to cover institutional inefficiency other than specified during the time of loan contract.
- MFI will earn reasonable rate of return for its growth while satisfying the clients on offered prices of the products.
- MFI will maintain sustainability and growth but also maintain social mission for well-being of clients by increasing quality of services.
  MFI will fully disclose any hidden costs before providing services like pre-payment penalties, late payment fines or account closure fees and other penalties.

iv. Appropriate collection practices: *A financial institution measures up to this principle by treating customers with dignity even when they fail to meet their contractual commitments.*

- MFI will incorporate acceptable and unacceptable debt collection practices in their policy with focus on courteous language, maintaining decorum and are paying respect to cultural sensitivities during all interaction with clients. The MFI do not indulge in any behavior that in any manner would suggest any kind of threat or violence. They will not visit clients at inappropriate occasions such as bereavement, serious illness etc., to collect dues.
- MFI will train their staff and the agents (directly involved in collection of repayment) on acceptable and unacceptable collection practices.
- MFI will develop policy on acceptable pledges of collateral, including not accepting collateral that will deprive borrowers of their basic survival capacity or further impoverish them.
- MFI will develop loan repayment mechanism like loan restructuring, refinancing and re-scheduling policies and procedures following a written protocol to address un-wilful default.
- MFI will provide a valid receipt (in appropriate form decided by the MFI) for each and every payment received from the borrower.
- MFI will not collect shortfalls in collections from employees and their HR policies must categorically denounce this practice.

v. Ethical Staff Behavior: *A financial institution measures up to this principle by creating a corporate culture that values high ethical standards among staff and ensuring safeguards are in place to prevent, detect and correct corruption or customer mistreatment.*

- MFI will implement written code of business ethics which defines organizational values and the standards of professional conduct to be adopted by all staff. This code of conduct acts as guide for all staff.
- MFI will develop appropriate HR policy including code of conduct (specifying do's and don'ts of the employees). This policy should mention to enforce code of conduct, policy approved by the board. MFI board will review and approve the HR policy/code of conduct time to time. The policy should also mention about the actions to be taken in case of violation of the code of conduct. The policy should include assessing new employees for compatibility with organizational values.
- Based on HR policy MFI will ensure that staff and persons acting on their behalf are oriented and trained to put code of conduct into practice.
- MFI will review staff ethical behavior/ code of conduct regularly and will be incorporated in staff performance evaluations.
- MFI will develop a strong auditable system that detects customer mistreatment, such as soliciting kickbacks and favors or using coercion and monitor staff ethical practices on regular basis.

vi. Mechanisms to readdress client grievances: *Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients and will use these mechanisms both to resolve individual problems and to improve their products and services.*

- MFI will implement written policy to address clients' complaints which will investigate and resolve in a timely manner without any bias.
- MFI will establish dedicated feedback and grievance redress mechanisms to correct any error and handle/receive complaints.
- MFIs will inform clients about the existence and purpose of these mechanisms and how to file the complaints.
- MFIs will designate at least one grievance redress official to handle complaints and/ or note any suggestions from the clients and make his/ her contact numbers easily accessible to clients. This designated officer, if possible should not be loan officer and loan approving officer.
- MFI will establish a mechanism (internal audit and other monitoring system) for appropriately monitored clients' on handling grievances and resolution progress on addressable grievances. MFI should recognize effort of the grievances handling person/unit.
  MFI will incorporate client's grievances/complaints redress mechanism in their policy, operation, product and services.

vii. Privacy of client data: *The privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions. Such data will only be used for the purposes specified at the time the information is collected or as permitted by law, unless otherwise agreed with the client.*

- MFI will implement written privacy policy for gathering, processing, use and distribution of client information.
- MFI will have systems to secure clients' information and staff will be trained to protect the confidentiality, security, accuracy and integrity of customers' personal and financial information.

- MFI client will be informed about the use of their information/data and a written consent from the client will be required to disclose the client data.
- MFIs will agree to share client data as required to credit information bureau.
- MFIs must obtain copies of relevant documents from clients, as per standard KYC norms set by Nepal Rastra Bank. Additional documents sought must be reasonable and necessary for completing the transaction.
- MFI may take consent from the client whether or not to provide transaction information to one nominated family member.
- MFIs should respect and adhere to directives issued by NRB regarding Privacy of Client Data.

Annex 11. Risk Log

#	Risk Factor	Category	Description of Risk	Impact & Probability	Countermeasures / Management response
1	Production and Market Risk	Environmental – Economic	Profitability of value chain actors (especially small holder farmers) activities adversely affected Impact on repayment capacity and possible defaults in on – time loan repayment	Probability (P) = 3 (medium) Impact on project should risk occur (I)= 5 (very high)	Financial institutions are cautious in their assessment of repayment capacity of clients; FIs keep diversified portfolio i.e. do not expose themselves towards one activity or areas; Investment strategies within BDS and Market Addition support growth of value chains. UNCDF and Sub component 1 MC collaborate closely on design of financial products and services
2	Value Chain Actors internal operational risks – UNNATI partner Sub Component 1 failing to deliver	Strategic	Manpower availability and quality Slow adaptation of improved technology Basic finance and operational risks Lower than projected net profit margins	P = 3 I = 5	Programme projections take into account risks identified and plan accordingly Regular stakeholder's feedback allowing for immediate change of course Technical Advisory services by MC for sub component 1
3	Commercial funding from FIs is lower than expected	Environmental – Economic	Outreach expansion lower than expected Growth rate in agricultural portfolio lower than expected	P = 3 (medium) I = 5 (very high)	Development of suitable products and services to support value chains NRB directives to support growth within agricultural value chain financing innovations Technical assistance to strengthen technical "know how" of financial institutions
4	Political instability	Political	Frequent changes in political establishment influences policy shifts	P = 3 (medium) I = 4 (high)	Policy dialogue and consultative process
5	Political Interference	Political	Political interference distorting credit culture, loan defaults	P = 3 (medium) I = 4 (high)	Sensitization of clients and awareness building through financial literacy will strengthen the credit discipline and culture reducing impact of potential political interference
6	Regulatory difficulties	Political	Critical policies and regulations fails to pass or progress in the legislative process	P = 3 (medium) I = 4 (high)	Regular coordination between UNCDF and relevant government bodies on A2F interventions and strategies Building internal capacity of NRB in areas relevant to MLVA sub – component

Annex 12. Logical Framework Access To Finance

Objective	Assumptions	Objectively Verifiable Indicators	Means of Verification Methodological Guidance
Inclusive Growth Programme in Nepal (GPIN)			
Programme Development Objective			
Promotion of sustainable, inclusive growth that reduces poverty and raises living standards	Given the fragile political situation in Nepal the main assumption is that the government will continue to see the private sector as the engine of sustainable and inclusive economic growth Enabling environment for commercial and agricultural activities is improved. Constraints for agricultural value chains are tackled.	• Number of households with additional income (by gender, social group, poverty status and location) • Number of farms and enterprises with increased profits • Net additional enterprise and farm income	Random selection of participating (i.e. treatment) and non - participating households (i.e. control). Use of financial diaries[82] (a mixture of qualitative and quantitative research instruments) to collect and measure changes in the indicators. Mid – term and Evaluation of the intervention using a mixed method approach (SPIRE methodology - refer to Section 5)
Component 1: The Value Chain Component			
Intermediate Objective			
Sustained improvement in competitiveness of selected value chains	Market conditions remain favourable for tea, ginger, dairy and other selected value chains	• Additional private sector investment in selected value chains • # of farmers who improve performance • # of MSMEs who improve performance	Random selection of participating (i.e. treatment) and non - participating households (i.e. control). Use of financial diaries (a mixture of qualitative and quantitative research instruments) to collect and measure changes in the indicators. Mid – term and Evaluation of the intervention using a mixed method approach (SPIRE methodology - refer to Section 5)

82 The Financial Diaries provide a view inside the household "black box"— this methodology gives a chance to observe how low-income populations live their lives on a daily basis, including the effects of particular social interventions. The goal is to capture key junctures when households use a particular innovation and compare the results to households without access to the innovation. In this way, Financial Diaries identify the impact of a project innovation on the overall well-being of the recipient of that service.

Objective	Assumptions	Objectively Verifiable Indicators	Means of Verification Methodological Guidance
Sub Component 1.2 Access to Finance			
Sub Component Objective			
Increased access to and use of a range of financial services by rural households and MSMEs	Profitability of agriculture value chain activities is sustained Limited or no political interference Banks and financial institutions show and maintain greater commitments to expand their offerings to agricultural value chains	Additional 250,000 clients are reached where: - 150,000 smallholder farmers and MSMEs (out of which at least 55% are women) actively use appropriate and affordable financial products to support their value chain activities on a national level. Out of these 150,000 clients, 55,000 are located in the EDR UNNATI districts; - Out of 150,000 clients at least 37,500 disadvantaged caste/ethnic groups actively use financial services and 7,000 are located in the EDR UNNATI districts - Additional 100,000 clients enrol in mobile and branchless banking service, with at least 25,000 are actively using mobile banking services. Out of 25,000 at least 7,000 are located in the EDR UNNATI districts; -	Quarterly Portfolio[83] reports prepared by FSPs and verified by UNCDF. The portfolio reports have a set of financial, outreach and other relevant indicators (quantitative) against which financial institutions report. Qualitative case studies on specific issues of interest e.g. inclusion of disadvantages caste/ethnic groups, impact of finance on women bargaining power in HH, workload burden, gender and do no harm review within FSPs, cost effectiveness of agricultural finance Qualitative case studies understanding benefits of mobile banking
1. Deepened Financial Services			
1.1 Improved Financial Competencies		100,000 farmers and MSMEs have improved financial competencies nationally, out of which 20,000 are located in UNNATI EDR districts (data disaggregated gender, social group, poverty status and location).	Qualitative case studies to examine changes in knowledge, skills and attitudes in relation to financial competencies Pre/Post tests to measure financial competencies with a small sample
1.2 Increased	Projected net profit margins are	At least 5 new financial products	Observation and Review of Processes and Procedures

[83] UNCDF verifies data of financial institutions through multiple methods. Triangulation of information, trend analysis, client interviews, and field visits are some of the methods used.

Objective	Assumptions	Objectively Verifiable Indicators	Means of Verification Methodological Guidance
number of new financial products	maintained	developed by FIs and in use (data disaggregated gender, social group, poverty status and location). Agricultural Product/Target Segment contribution to profit amount trend (data disaggregated gender, social group, poverty status and location).	around new products. Quarterly Portfolio reports prepared by FSPs and verified by UNCDF. The portfolio reports have a set of financial, outreach and other relevant indicators (quantitative) against which financial institutions report. Qualitative case studies on client satisfaction with products and services.
2 Strengthened Financial Services			
2.1 Improved efficiency and performance of agricultural portfolio	Technical recommendations implemented in time Manpower availability and quality assured Financial Institutions (FI) implemented MIS improvements in time	Portfolio at Risk of agricultural portfolio and overall (PAR) Ratio > 30 days (%) positive trend from baseline[84] Operational Self – Sufficiency (OSS) positive trend from baseline[85] Financial Self Sufficiency (FSS) positive trend from baseline[86] Amount decrease in costs per client[87]	Quarterly Portfolio reports prepared by FSPs and verified by UNCDF. The portfolio reports have a set of financial, outreach and other relevant indicators (quantitative) against which financial institutions report. Annual Performance reports Audit Reports Qualitative Case studies with financial institutions analysing behaviour and performance changes
3 Broadening of Financial Services for smallholder farmers and MSMEs			
3.1 Increased portfolio growth in agricultural finance	Funding to FIs is sustained (both donor and commercial) Financial Institutions (FI) implemented	Amount increase in agricultural loan portfolio[88] from baseline (data	Quarterly Portfolio reports prepared by FSPs and verified by UNCDF. The portfolio reports have a set of financial, outreach and other relevant indicators (quantitative) against

[84] Portfolio at Risk (PAR) is the most commonly used indicator to measure health of institutional portfolio. The indicators will be reported during baseline. Partners with the support of UNCDF will establish their targets, and will be accountable for meeting these. UNCDF will use international best practices as a guide.

[85] Operational self – sufficiency OSS indicates whether or not enough revenue has been earned to cover the direct cost, excluding the cost of capital but including any actual financing cost incurred. It shows the leverage for each dollar invested. The indicators will be reported during baseline. Partners with the support of UNCDF will establish their targets, and will be accountable for meeting these. UNCDF will use international best practices as a guide

[86] Financial self – sufficiency FSS indicates whether or not enough revenue has been earned to cover both direct cost, including financing costs, provisions for loan losses, and operating and indirect cost, including the adjusted cost of capital.

[87] Another good indicator of efficiency of financial institution, is cost per client. Cost per client looks at amount of US$ an institution spends to reach one client. Commonly at the start of an intervention costs per client are high, but as institutions streamline and improve their operations (as well as increase their client outreach) the costs go down. Therefore, cost per client is also a good indication of successful technical assistance.

Objective	Assumptions	Objectively Verifiable Indicators	Means of Verification Methodological Guidance
	MIS improvements in time	disaggregated gender, social group, poverty status and location).	which financial institutions report. Annual Performance reports Audit Reports Qualitative Case studies with FSPs to understand reasons behind decisions, reported results, performance and behaviour changes
3.2 Increased number of financial services points (branches and non-branches i.e. POS, mobile banking)	Profitability of opening new access points and/or branches is maintained Financial Institutions (FI) implemented MIS improvements in time NRB grants approval for new access points in time	# of branches and branchless banking access points (# of agents, POS machines)[89] disaggregated by location # of new customers nationally and EDR, UNNATI districts (data disaggregated gender, social group, poverty status and location)[90].	Quarterly Portfolio reports prepared by FSPs and verified by UNCDF. The portfolio reports have a set of financial, outreach and other relevant indicators (quantitative) against which financial institutions report.
3.3 Enhanced regulation capacity of NRB	NRB accepts recommendations of MAP	At least 3 financial inclusion recommendations implemented through directives, monetary policies and regulations.	Qualitative opinions of key informants and experts Review of secondary documents (such as NRB directives to the FSP sector, Monetary Policy Financial Sector Development Plan)

[88] A good indication of investment in agricultural activities as it shows if and how the financial institutions are investing in agricultural activities. This indicators is directly link with financial institutions confidence in investing in a sector

[89] This indicator shows the actual expansion of access points and overall physical presence of financial institutions. It is commonly used to show presence of financial institutions

[90] This indicators shows the breadth and depth of outreach and is commonly used to show reach of financial institution.

Annex 13 Budget

# DESCRIPTION KEY ACTIVITIES	TIME FRAME - YEARS					Total in US$	Total in DKK	BUDGET PER DONOR US$		BUDGET PER DONOR DKK	
	14	15	16	17	18			DANIDA	UNCDF	DANIDA	UNCDF
PROGRAMME COSTS											
OUTPUT 1: Deepening Financial Services for Smallholder Farmers and MSMEs											
ACTIVITY #1: Improved Financial Competencies											
1.1 Development of Financial Literacy Materials to be disseminated and implemented by financial service providers	x	x	x	x		129,450	701,101	129,450	0	701,101	0
1.2 Dissemination of Financial Literacy	x	x	x		x	120,000	649,920	120,000	0	649,920	0
1.3 Capacity Building for financial institutions and non - financial institutions focusing on sustainability and cost - effectiveness of financial literacy efforts past programme duration	x	x		x		55,000	297,880	55,000	0	297,880	0
SUB - TOTAL ACTIVITY 1						**304,450**	**1,648,901**	**304,450**	**0**	**1,648,901**	**0**
ACTIVITY #2: Financial Product Adaptation and Development											
2.1 Market Research	x	x				50,000	270,800	50,000	-	270,800	-
2.2 Product Design and/or Model development for the five product areas;	x	x	x	x		100,000	541,600	100,000	-	541,600	-
2.3 Capacity Building and strengthening of technical know – how	x	x	x	x	x	105,000	568,680	105,000	-	568,680	-
SUB - TOTAL ACTIVITY 2						**255,000**	**1,381,080**	**255,000**	**0**	**1,381,080**	**0**
Total Output 1						**559,450**	**3,029,981**	**559,450**	**0**	**3,029,981**	**0**
OUTPUT 2: Improved Capacity of Financial Institutions											
ACTIVITY # 1: Strengthening Management Information Systems of Microfinance Institutions											
1.1 Grant Support to Purchase MIS	x	x				207,000	1,121,112	207,000	-	1,121,112	-
1.2 Short Term Technical Assistance on installation, use, integration on MIS	x	x	x			60,000	324,960	60,000	-	324,960	-
SUB - TOTAL ACTIVITY 1						**267,000**	**1,446,072**	**267,000**	**0**	**1,446,072**	**0**
ACTIVITY # 2: Improvement of Systems and Procedures											
2.1 Short Term technical assistance for improvement of procedures within agricultural finance	x	x	x	x	x	250,000	1,354,000	250,000	-	1,354,000	-
2.2 Support to Expand Financial Services	x	x	x	x		260,000	1,408,160	260,000	-	1,408,160	-

SUB - TOTAL ACTIVITY 2						**510,000**	**2,762,160**	**510,000**	**0**	**2,762,160**	**0**
ACTIVITY # 3: Capacity Building in value chain finance and selected value chains											
3.1 Training in value chains	x	x	x	x	x	156,000	844,896	156,000	-	844,896	-
3.2 Exposure visits and knowledge exchange	x	x	x	x	x	150,000	812,400	150,000	-	812,400	-
SUB - TOTAL ACTIVITY 3						**306,000**	**1,657,296**	**306,000**	**0**	**1,657,296**	**0**
Total Output 2						1,083,000	5,865,528	1,083,000	0	5,865,528	0
OUTPUT 3: Broadening of Financial Services											
ACTIVITY # 1: Expanding Financial Frontiers Fund											
1.1 Expanding Financial Frontiers Fund	x	x	x	x	x	2,300,000	12,456,800	2,300,000	-	12,456,800	-
1.2 Technical Assistance F4VC	x	x	x	x	x	1,387,125	7,512,669	410,000	977,125	2,220,560	5,292,109
SUB - TOTAL ACTIVITY 1						**3,687,125**	**19,969,469**	**2,710,000**	**977,125**	**14,677,360**	**5,292,109**
ACTIVITY # 2: Regulatory and Policy Support											
2.1Financial Diagnostic MAP focusing on agricultural finance	x	x				1,464,996	7,934,418	400,000	1,064,996	2,166,400	5,768,018
2.2 Capacity Building Regulator	x	x	x	x	x	107,000	579,512	107,000	-	579,512	-
SUB - TOTAL ACTIVITY 2						**1,571,996**	**8,513,930**	**507,000**	**1,064,996**	**2,745,912**	**5,768,018**
ACTIVITY # 3: Brokerage Facilitation											
3.1. Organization of Investment Forum				x	x	86,121	466,431	86,121	-	466,431	-
SUB - TOTAL ACTIVITY 2						**86,121**	**466,431**	**86,121**	**0**	**466,431**	**0**
Total Output 3						5,345,242	28,949,831	3,303,121	2,042,121	17,889,703	11,060,127
Total Programme Outputs 1,2,3						6,987,692	37,845,340	4,945,571	2,042,121	26,785,213	11,060,127
MONITORING &EVALUATION, KNOWLEDGE MANAGEMENT											
Monitoring and Evaluation											
Monitoring and Evaluation	x	x	x	x	x	443,131.46	2,400,000	443,131	-	2,400,000	-
SUB - TOTAL ACTIVITY 1						**443,131**	**2,400,000**	**443,131**	**0**	**2,400,000**	**0**
Publications											
Reports, studies, events	x	x	x	x	x	51,460	278,707.36	51,460	-	278,707	-
Brochures, flyers	x	x	x	x	x	9,000	48,744.00	9,000	-	48,744	-
Writer/Editor	x	x	x	x	x	16,000	86,656.00	16,000	-	86,656	-
SUB - TOTAL ACTIVITY 3						**76,460**	**414,107**	**76,460**	**0**	**414,107**	**0**
Total Monitoring and Evaluation						519,591	2,814,107	519,591	0	2,814,107	0
Total Programme						7,507,283	40,659,447	5,465,162	2,042,121**	29,599,320	11,060,127
SUPPORT COSTS											
PROJECT SET UP AND RUNNING COSTS											
Custodial and Cleaning Services	x	x	x	x	x	3,500	18,956	3,500	-	18,956	-
Insurance	x	x	x	x	x	9,000	48,744	9,000	-	48,744	-

Common Services- Premises	x	x	x	x	x	20,000	108,320	20,000	-	108,320	-
Rent	x	x	x	x	x	27,000	146,232	27,000	-	146,232	-
Office Equipment	x	x	x	x	x	10,000	54,160	10,000	-	54,160	-
Transportation Equipment	x	x	x	x	x	500	2,708	500	-	2,708	-
Stationery & other supplies	x	x	x	x	x	6,500	35,204	6,500	-	35,204	-
Furniture	x	x	x	x	x	5,000	27,080	5,000	-	27,080	-
Rental & Maintenance of Equipment	x	x	x	x	x	10,000	54,160	10,000	-	54,160	-
Maintenance, Op. of Transportation E.	x	x	x	x	x	11,000	59,576	11,000	-	59,576	-
Land Telephone Charge	x	x	x	x	x	7,000	37,912	7,000	-	37,912	-
Mobile Telephone Charge	x	x	x	x	x	4,000	21,664	4,000	-	21,664	-
E-Mail-Subscription	x	x	x	x	x	15,000	81,240	15,000	-	81,240	-
Acquisition of Communication Equipment	x	x	x	x	x	1,000	5,416	1,000	-	5,416	-
Courier Charge	x	x	x	x	x	1,185	6,418	1,185	-	6,418	-
Utilities (Water, electricity, etc.)	x	x	x	x	x	5,000	27,080	5,000	-	27,080	-
Sundry	x	x	x	x	x	5,000	27,080	5,000	-	27,080	-
Audit Fees**	x	x	x	x	x	11,000	59,576	11,000	-	59,576	-
Purchase of Vehicles (1)	x					20,000	108,320	20,000	-	108,320	-
Travel local includes DSA with transport costs (flight/fuel)	x	x	x	x	x	50,000	270,800	50,000	-	270,800	-
Travel international includes DSA with flight costs	x	x	x	x	x	125,000	677,000	125,000	-	677,000	-
Sub - Total Project Running Costs						**346,685**	**1,877,646**	**346,685**	**0**	**1,877,646**	**0**
MANAGEMENT COSTS											
1.1 Staff costs											
UNCDF Programme Coordinator	x	x	x	x	x	*152,500*	*825,941*	*106,750*	*45,750*	*578,158*	*247,782*
Agricultural Finance Advisor	x	x	x	x	x	*112,941*	*611,688*	*112,941*	-	*611,688*	-
Value Chain Specialist (2)	x	x	x	x	x	*141,176*	*764,612*	*141,176*	-	*764,612*	-
Support Regional Level – Advisory and Quality Assurance	x	x	x	x	x	*437,500*	*2,369,500*	*437,500*	-	*2,369,500*	-
Monitoring and Evaluation Specialist National	x	x	x	x	x	*91,765*	*496,998*	*91,765*	-	*496,998*	-
Admin/Finance Officer	x	x	x	x	x	*56,471*	*305,845*	*56,471*	-	*305,845*	-
Secretary	x	x	x	x	x	*35,294*	*191,153*	*35,294*	-	*191,153*	-
Driver	x	x	x	x	x	*25,495*	*138,081*	*25,495*	-	*138,081*	-
1.2 **UNCDF GMS**	x					566,285	*3,067,000*	566,285	-	*3,067,000*	-
Subtotal management costs						**1,619,427**	**8,770,816**	**1,573,677**	**45,750**	**8,523,034**	**247,782**
					Total Support	1,966,112	10,648,462	1,920,362	45,750	10,400,680	247,782
						9,473,396	51,307,909	7,385,525	2,087,871	40,000,000	11,307,909

GRAND TOTAL (PROGRAMME + SUPPORT)

Notes on Budget:

- The total budget is US$ 9,473,396 (DKK 51, 307,909) where DANIDA's contribution is US$ 7,385,525 (DKK 40,000,000), and the remaining US$ 2,087,871 (DKK 11,307,909)** is funded partially by DFID US$ 1,064,996 (DKK 5,768,018) and UNCDF US$ 1,000,000 (DKK 5,416,000).
- All staff members are national staff;
- Regional Technical Advisor is an international position based in BKK responsible for technical and quality assurance and leadership to the project. The total cost of this senior position is US$1,750,000. It is estimated that this role will support the programme 25% of time. Hence, the budget allocation of US$437,000;
- International travel costs reflect costs of travel for international consultants, costs of national staff and NRB staff travelling out of Nepal to attend conferences, training and other similar activities.

Annex 14 Roles and Responsibilities Project Board

Roles and Responsibilities Project Board

Project manager

- Plan the activities of the project and monitor progress against the approved work-plan;
- Mobilize personnel, goods and services, training and micro-capital grants to initiative activities, including drafting terms of reference and work specifications and overseeing all contractors' work;
- Monitor events as determined in the project monitoring schedule plan, and update the plan as required;
- Manage requests for the provision of financial resources by UNDP, through advance of funds, direct payments, or reimbursement using the FACE (Fund Authorization and Certificate of Expenditures);
- Monitor financial resources and accounting to ensure accuracy and reliability of financial reports;
- Be responsible for preparing and submitting financial reports to UNDP on a quarterly basis;
- Manage and monitor the project risks initially identified and submit new risks to the project board for consideration and decision on possible actions if required; update the status of these risks by maintaining the project risks log;
- Capture lessons learnt during project implementation – a lessons learnt log can be used in this regard (MS Word template)
- Perform regular progress reporting to the project board as agreed to with the board;
- Prepare the annual review report, and submit the report to the project board and the outcome group;
- Prepare the annual work plan for the following year, as well as quarterly plans if required;
- Update the Atlas Project Management module if external access is made available.

Project board

- Provide overall guidance and direction to the project, ensuring it remains within any specified constraints;
- Address project issues as raised by the project manager;
- Provide guidance on new project risks and agree on possible countermeasures and management actions to address specific risks;
- Agree on project manager's tolerances as required;
- Review the project progress and provide direction and recommendations to ensure that the agreed deliverables are produced satisfactorily according to plans;
- Review combined delivery reports prior to certification by the implementing partner;
- Appraise the project annual review report, make recommendations for the next annual work plan, and inform the outcome group about the results of the review;
- Provide ad-hoc direction and advice for exception situations when project manager's tolerances are exceeded;
- Assess and decide to proceed on project changes through appropriate revisions;

UNCDF project assurance

- Ensure that funds are made available to the project;
- Ensure the project is making progress towards intended outputs;

- Perform regular monitoring activities, such as periodic monitoring visits and "spot checks";
- Ensure that resources entrusted to UNDP are utilized appropriately;
- Ensure that critical project information is monitored and updated in Atlas;
- Ensure that financial reports are submitted to UNDP on time, and that combined delivery reports are prepared and submitted to the project board;
- Ensure that risks are properly managed, and that the risk log in Atlas is regularly updated;

Project support
- Set up and maintain project files;
- Collect project related information data;
- Assist the project manager in updating project plans;
- Administer project board meetings;
- Administer project revision control;
- Establish document control procedures;
- Compile, copy and distribute all project reports;
- Assist in the financial management tasks under the responsibility of the project manager;
- Provide support in the use of Atlas for monitoring and reporting;
- Review technical reports;
- Monitor technical activities carried out by responsible parties.

UNCDF programme manager (UNDP resident representative or delegated authority):
- Ensure that resources entrusted to UNCDF are utilized appropriately;
- Ensure that the project is making progress towards intended outputs;
- Ensure national ownership, ongoing stakeholder engagement and sustainability;
- Ensure that the project's outputs contribute to intended country programme outcomes;
- Ensure that key results and issues pertaining to project performance are fed into the outcome and programme level monitoring;
- Approve budget for the first year in Atlas;
- Approve and sign the annual work plan for the following year.

Implementing partner (authorized personnel with delegated authority):
- Approve and sign the annual work plan for the following year;
- Approve and sign the Combined Delivery Report (CDR) at the end of the year;
- Sign the Financial Report or the Funding Authorization and Certificate of Expenditures (FACE).
- For more details, please see Programme & Project Management Arrangements in the POPP.

Annex 15 Managing the Monitoring and Results Measurement System

Effectively managing MRM has two key aspects: establishing an appropriate organisational culture and consistently enforcing MRM processes. For monitoring and results measurement to effectively contribute to accountability and programme improvement, a culture of honest, open enquiry is essential. The culture must promote acceptance of failures that leads to concretely improving implementation. Programme implementing organisations and the MRM Coordinator will be responsible for fostering this culture within their organisations. The EoD will be responsible for ensuring that this culture is established within the Steering Committee and the Management and Coordination Committee. MRM must also be a priority, not an afterthought, among all implementing organisations and governance committees. Managers and staff at every level will be held accountable for adhering to the MRM cycle described above, completing MRM tasks to a high standard and constantly being reflective about the extent of progress and how to maximize long-term results from the programme.

Monitoring Programme Processes

Implementing partners will also monitor and report on both external and internal programme processes.

External: The monitoring of programme activities will be centred on the Human Rights Based Approach (HRBA), specifically the principles of transparency, accountability, inclusion, participation and non-discrimination. Implementing partners will develop indicators, specific to their subcomponents, to assess each activity according to these principles. These process indicators will form part of the regular monitoring system; assessment of the indicators for each activity will be recorded in the partners' databases. This information will then flow into the regular to improve strategies and implementation. This process will help implementing partners ensure that all programme activities are conducted respecting the principles of the HRBA. When possible, this process will be done in cooperation with government or private sector partners.

Internal: It is equally important to monitor the quality of MRM and management processes internal to the programme. All implementing organizations, with support from the MRM Coordinator, will assess the quality and functioning of their MRM systems annually. In Year 2 and Year 4, the programme will undergo an audit of the MRM system according to the DCED Results Measurement Standard. An external, certified auditor will conduct this audit and the report will be shared with the implementing organizations, the MRM Coordinator and the Steering Committee.

Regular assessment of management systems will focus on the effectiveness of HR management such as performance and training systems for staff, the appropriate functioning of the consultation and governance committees, the appropriateness of partner contract management systems, the efficacy of systems to monitor and respond to fraud and weak transparency and the value of administrative and financial management systems. The implementing organizations and committees will routinely monitor these aspects of management according to their own procedures. This monitoring will be supplemented by an assessment of management processes as part of the annual programme review. These procedures will promote a cycle of continuous learning within the programme at all levels of management.

Reviews

Joint review missions will be undertaken annually as follows: after the inception phase, 1.5 years, 2.5 years, 3.5 years and close to programme completion. The review after the inception phase will assess the proposed adjustments of the programme and advise the Programme Steering Committee on possible revisions or adjustments of the programme and its components and sub-components. Joint annual reviews will be planned just after receipt of the annual report and the next year's work plan. The review will assess programme performance in light of these documents and take into account any changes in the programme context. The reviews may issue recommendations on modifications to the programme strategies and annual work plans.

The review at 2.5 years will look more in depth at the relevance, effectiveness and efficiency of the programme as well as its progress towards promoting sustainable improvements in value chains, rural infrastructure and the enabling environment. This review will inform the decision on a second phase of the programme. The final review will aim to draw lessons from an analysis of the programme's performance, effectiveness, efficiency and the extent to which improvements are likely to be sustained in order to inform implementation of a possible second phase and the design of other Danida programmes.

The EoD, with support from the MRM Coordinator, will be responsible for scheduling and coordinating the reviews. The Management and Coordination Committee will be responsible for following up the recommendations of the reviews.

Evaluations

Danida's Evaluation Unit may select the programme for an in-depth and wider ranging evaluation. This will be an independent evaluation that will serve to document the short-term and expected longer-term results of the programme at different levels and the extent to which the programme promoted sustainable improvements in value chains, infrastructure and the enabling environment that will promote inclusive growth over the long term. An evaluation would also document lessons learned and best practices developed for use in other Danida programmes and sharing with the wider development community.

Implementing partners may also conduct evaluations of their subcomponents according to the procedures of their own institutions. These evaluations will be shared with the MRM Coordinator, the Management and Coordination Committee and the Programme Steering Committee.

Reporting

Regular reporting will comprise of semi-annual and annual progress reports. Each of the implementing partners will be responsible for reporting on their subcomponent. The MC will report on Subcomponent 1.1 and on Component 2 with input from the DCCs, DTOs and DoLIDAR. The MRM Coordinator will be responsible for consolidating information on results across the components and preparing a consolidated programme reports. The semi-annual reports will address progress against annual work plans, performance against process indicators, issues encountered, lessons learned and revisions to annual work plans with rationale, as well as financial reporting. The annual reports will address the above as well as progress to date against LFA results indicators and projections of results to the end of the programme based on the activities to date. The annual report will also include projections of results for the programme development objective 2 years beyond the end of the programme. Finally the annual report will include an analysis of performance to date and relevant changes in the context in Nepal, as well as the implications of that analysis for improving programme strategies. The results reporting will enable the Programme Management and Coordination Committee to assess not only progress to date but also how that progress can be expected to contribute to the results by the end of the programme and 2 years beyond. The annual reports will also provide input into Programme Management and Coordination Committee's analysis of programme performance and decisions on programme strategy.

In addition to the above regular reporting, the MC and implementing partners will also provide the following special reports: inception phase report, midterm report and programme completion report. The reporting requirements are summarised in the table below.

Report	Main Content	Timing and Frequency
Inception report	• Situation analysis	7 months after

Report	Main Content	Timing and Frequency
	• Approach and methodology • Five-year investment plan, • 1 year work plan • Manning schedule with annexes (norms, guidelines, process documents etc) • Monitoring and results measurement guide	commencement – once
Semi-annual report	• Progress against annual work plan • Performance against process indicators • Issues and challenges encountered • Lessons learned in implementation • Revisions to annual work plan with rationale • Financial reporting	First report after one year – every six months
Annual report	Will be combined with semi-annual reports. • Content above for semi-annual report • Progress to date against LFA indicators • Projections of results to the end of the programme (and 2 years beyond for programme development objective indicators) based on activities to date • Analysis of programme performance • Analysis of relevant changes in the context of Nepal • Recommended changes in strategy with rationale • Annual work plan for the next year	1.5 years, 2.5, 3.5 years, 4.5 years
Mid-term report	Will be combined with the annual report produced at 2.5 years. • Content above for annual report • Revised investment plan for the remaining 2.5 years • Recommendations on major strategy changes (if appropriate) with rationale • Recommendations on the design of a second phase is appropriate	2.5 years - once
Programme completion	• Content above for annual report • Analysis of programme strategy,	End of the programme; once

Report	Main Content	Timing and Frequency
report	performance and lessons learned	