

Making Access Possible



# Nepal

Financial Inclusion  
Country Report

2014

## PARTNERING FOR A COMMON PURPOSE

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

*its design, MAP seeks to strengthen and focus the domestic development dialogue on financial inclusion. The global project seeks to engage with various other international platforms and entities impacting on financial inclusion, using the evidence gathered at the country level. The MAP methodology and process have been developed*

*jointly by UNCDF, FinMark Trust (FMT) and the Centre for Financial Regulation and Inclusion (Cenfri) to foster inclusive financial sector growth.*

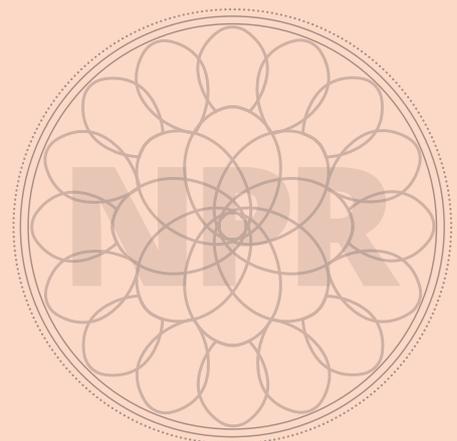
*At country level, the core MAP partners collaborate with government, other key stakeholders and donors to ensure an inclusive, holistic process.*



Empowered lives. Resilient nations.

### The cover symbol

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



## ABOUT MAP Nepal

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

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Note on the use of the FinScope Survey 2014: Within this document (unless otherwise referenced), demographic, income and financial usage data is obtained from the 2014 FinScope Consumer Survey. A summary report and presentation of FinScope Nepal is available as a separate deliverable, and the FinScope dataset is available on request for future research at [map.uncdf.org](http://map.uncdf.org).

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## Nepal at a glance

GDP: **US\$21.3 billion.**

Total adult population: **15 million.**

Average annual income: **US\$812.**

Percentage of population engaged in agricultural activities: **66%.**

Percentage of population based in rural areas: **81%.**

Percentage of adults owing a mobile phone: **85%.**

Contribution of remittances to national GDP: **28%.**

Contribution of informal sector to GDP: **38%.**

Percentage of adult population living below international poverty line: **25%.**



## US\$/NPR Currency Exchange Rate

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



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## Government policy objectives to improve financial access

A long-term development strategy for Nepal is in the process of being formulated, and the international seminar 'Envisioning Nepal 2030', which was convened by the National Planning Commission on 28 March 2016, formed an important landmark in the process. This initial engagement included international development experts, development partners, policy makers and representatives of civil society organisations. The seminar confirmed that, following the adoption of the country's new constitution, the focus is on empowering Nepal's people and ensuring higher, sustainable and equitable growth, helping the country to graduate from least developed country (LDC) status by 2022, and to achieve the UN Sustainable Development Goals (SDGs) and become a middle-income country by 2030.

The seminar identified the need to include development strategies for key growth drivers. It will be important to ensure distribution of growth dividends to all Nepalis, help Nepal reap the demographic dividend of having a young population, and address sectors that have vast growth potential, including tourism and agriculture. At the same time, the development strategy will need to make provision for disaster risks, climate change, and vulnerabilities in the Nepali society and economy emanating from external shocks.

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

FINANCIAL INCLUSION GOAL	POLICY GOAL
Unlock constrained credit and savings market	<i>Ensure inclusive growth through sufficient attention to the circular nature of poverty and human security, which are linked through vulnerability.</i>
Improve payments system	<i>Ensure inclusive growth through sufficient attention to the circular nature of poverty and human security, which are linked through vulnerability.</i>
Bolster risk-mitigation capabilities	<i>Implement SDGs goals set for 2030. Issues such as human rights, access to justice, inequalities, social inclusion, infrastructure and sustainable development, which were not explicitly addressed in the MDGs, are now being addressed by the SDGs.</i>
Enhance and leverage locally based financial service providers	<i>The Government of Nepal has prepared an LDC graduation strategy paper that describes Nepal's prospects for achieving the target by 2022.</i>
Enhance financial inclusion support in national governance	<i>The Government of Nepal has prepared an LDC graduation strategy paper that describes Nepal's prospects for achieving the target by 2022.</i>
Strengthen consumer empowerment, protection and education	<i>Implement SDGs goals set for 2030. Issues such as human rights, access to justice, inequalities, social inclusion, infrastructure and sustainable development, which were not explicitly addressed in the MDGs, are now being addressed by the SDGs.</i>



## Geography:

landlocked, geographically diverse and prone to natural disasters.

Capital city: **Kathmandu**.

Shares borders with India and China, two of Asia's largest economies.

Geographically diverse terrain (lowest point 59 m; highest point 8,848 m).

Home to 8/10 of the world's highest mountains, including the highest point on earth: **Mt Everest**.

Southern Terai region is fertile and humid.

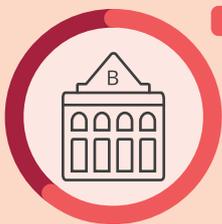
Five seasons: summer, monsoon (rainfall), autumn, winter and spring. Delayed monsoon can adversely affect crop growth cycles.

**No direct ocean access.** Nepal uses nearest port at Kolkata in India, under the Convention on Transit Trade of Land-locked States (UN 2015).

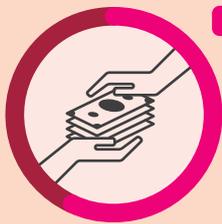
Located on edge of tectonic plate and highly vulnerable to earthquake risk: April 2015 quake had a devastating impact on infrastructure and overall economy – losses of NPR200 billion (US\$1.98 billion).

Natural disasters do not only affect economy but have lasting impact on livelihoods of the poor that are connected to industries vulnerable to these risks.

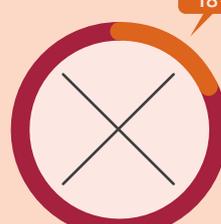
## Financial access in Nepal



61% of the adult population report using at least one financial service from a formal financial service provider.



57% of adults make use of informal financial services.



18% of adults are completely financially excluded (from formal and informal services).

### Breakdown of financial access in Nepal by product market



#### PAYMENTS

36% of transactions are made through digital channels.  
33% of adults remit; 19% of these do so through non-bank formal providers.



#### SAVINGS

40% of adults save with a formal financial service provider.  
31% of adults save in informal savings groups.  
16% of adults save at home in cash and assets.



#### CREDIT

29% of adults borrow from an informal institution.  
18% of adults borrow from a formal institution.



#### INSURANCE

11% of adults have formal insurance.  
41% of all those with insurance have life insurance.

**Development prospects:** limited infrastructure and delayed implementation of development plans. The topographical orientation of Nepal creates big challenges for infrastructure development – from the expansion of road networks to installation of transmission lines and telecom towers. Currently, the poor physical infrastructure delivery is a significant barrier to overall development.

The World Economic Forum's Global Competitiveness Report 2015/16 ranked Nepal 132/144 countries on the indicator of overall quality of country infrastructure. Since then, the 2015 earthquake has set the country's development back even further. Poor quality of infrastructure has been highlighted as the second biggest problematic factor for doing business in Nepal, coming second only to government instability (World Economic Forum 2015/16).

**Population profile:** young, minimally educated, mainly rural – with growing trend of migration.

- Total population: 26.5 million.
- Total adult population (18+ years): approximately 15 million (over 58% are younger than 40; 81% are located in rural areas – FinScope 2014).
- Under age 18: 11 million (CBS 2011).
- Gender split: 53% female; 47% male.

**Poverty levels:** high, but improving.

- In 2010–11, 25% of the Nepal population lived on less than US\$1.25 a day – an improvement on the 53% of the population that fell below this mark between 2003 and 2004 (World Bank 2015).
- Average monthly income: approximately NPR6,669 (US\$68) (FinScope 2014).

**Socio-economic development: also improving, from a low base.**

- 2013 global human development index (HDI) ranking: 145/187.
- 2012 global human development index (HDI) ranking: 157/187 (UNDP 2013).

**Income distribution: relatively equitable.**

Despite Nepal's underdeveloped country status, income distribution is relatively equitable by global and regional (other South Asian) standards (World Bank 2013):

- **Nepal: 32.8**
- India: 33.9
- Bhutan: 38.1
- Maldives: 37.4
- Sri Lanka: 36.4

*The Gini index measures income distribution among individuals or households of a country, and the commonly used measure of inequality – the gap between rich and poor – is based on the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual and household.*

**Education attainment and income: low attainment and low translation into increased income.**

- 60% of adult population (15+) considered literate in 2011 (World Bank 2015).
- 11% increase in literacy rates (i.e. percentage of adult population considered literate) between 2001 and 2011 (World Bank 2015).
- 69% (on average) of primary school pupils continued to lower secondary education (2010–15) (World Bank 2015).

However, few continue to and complete higher levels of education: only 52% of those enrolled in lower secondary continued to upper secondary-level education.

Key drivers:

- A lack of financial resources to pay for education.
- The high opportunity cost that attaches to keeping children from engaging in income-generating activities for the household: 22% of total enrolled students dropped out of school because they were needed to help at home (Nepal Living Standard Survey, Central Bureau of Statistics 2011).

**Economic growth: slow-growing economy, driven by agriculture and services.**

- GDP: NPR2,124 billion (US\$21.3 billion).
- Per capita GDP: NPR74,992 (US\$762) (Ministry of Finance 2014/15).
- Economy primarily driven by agriculture and service-based industries (e.g. trade, financial services, real estate, transport, communications).
- Past-decade economic growth: 4.1% average (growth rate only exceeding 5% in 2007/08 and 2013/14).
- Compared to developing economies of South Asia, Nepal's economic growth level has historically lagged behind.
- Economic growth has been greatly suppressed by the trend in recent years of significant capital underspending despite budget allocation (e.g. less than 75% of the total budget allocation was spent in 2014/15).

**Economic growth: remittance-dependent country.**

- Persistent political instability and lack of widespread job opportunities have made foreign employment an attractive alternative for Nepalis.
- Remittances play a significant role in the country's economic development.
- Remittances contributed almost 28% to national GDP in 2014/15 (Ministry of Finance 2015).
- Nepal ranks third among countries in terms of the contribution of remittances to GDP (World Bank 2015).
- 2014/15: Nepal received remittances amounting to NPR589.5 billion (US\$6.19 billion) – growth of almost 12% from the previous fiscal year, with an average year-on-year growth of 22% over the previous five years (NRB 2015).
- The huge inflow of remittance money has contributed significantly to uplifting the living standard of millions of Nepali people.

Some implications of remittance dependence:

- The large and growing contribution opens up Nepal to exposure to external shocks linked to remittance-sending countries.
- Remittance inflows have had a knock-on effect in terms of imports; as individual-level disposable income has increased, so has demand for imported goods (which, given the stagnation of local industries and lack of investment opportunities within the country, have become a lifeline).

- Despite the fact that education attainment levels beyond secondary school level are not common in the population, literacy levels are increasing; and yet levels of education attainment in employment are not increasing – likely driven by the high levels of migration of labour in response to the lure of earning remittances.

**Economic growth: informal MSMEs are major contributors.**

Micro, small and medium enterprises (MSMEs) account for:

- Approximately 80% of employment.
- Approximately 70% of total value of all exports (FAO 2009).

In Nepal, 12% of the population rely on their own business as their main source of income. The majority of MSMEs in Nepal are informal-sector enterprises. The high level of informal operation means that the number of MSMEs in the country is likely understated.

Informal-sector MSMEs:

- Generally initiated by individual families to make a subsistence living using their traditional craft and trading skills.

Formal-sector MSMEs:

- Mainly initiated by NGOs or government agencies with the intention of creating an income source for poor and underprivileged families.

The MSME landscape, with the inclusion of the informal, is dominated by large numbers of micro-enterprises that are mainly involved in retail trade.

**Economic growth: informal sector highly significant.**

- Contribution of informal sector to GDP: 38%.
- Nepal ranks 76th out of 120 countries in terms of informal sector contribution to GDP.
- Of those 120 countries, the size of Nepal's informal sector earns it the label of country with the largest 'shadow economy' (Scheider et al. 2010).

**Political stability: adoption of new constitution a positive move.**

Nepal has undergone prolonged political crisis, fuelled by a shift in political regimes from an absolute monarchy to a federal democracy (from 2008 onwards). This occurred on the back of a 10-year insurgency followed by a prolonged period of transition to the new regime. The result is a changing society with high levels of instability. Nepal's adoption of a new constitution in September 2015 is a move towards a three-tier federal structure comprising federal, state and local government, and a big step towards entrenching the new democratic regime and gaining increased political stability (Secretariat 2015).

## Regulatory context

### **Financial inclusion identified as strategic priority.**

Currently, less than half of the adult population in Nepal is classified as 'banked'. Lack of access to and usage of financial services limits the capacity of Nepali people to mitigate risk, smooth consumption, accumulate assets and invest in productive activities.

The central bank (NRB) is currently implementing a five-year strategic action plan (2012–2016), which has identified financial inclusion as a strategic priority. The strategic plan is built on seven strategic pillars, one of which is financial sector stability – under which enhancing financial inclusion is a strategic priority.

### **Slow enforcement of reforms, acts and regulations.**

Political and regulatory-sector transition has left the country's financial sector operating under outdated regulatory frameworks for considerable time, with an extremely slow pace of adoption of financial-sector reforms, acts and regulations; in some cases, the process of consolidating and replacing separate acts with a single act has taken more than two decades.

### **Structure of financial regulatory framework.**

The country's **financial sector** is supervised by the **Ministry of Finance**. The ministry disaggregates supervision of financial service providers between a number of **dedicated supervisors**:

- **Registered banks (class A–D) and large financial cooperatives** are supervised by NRB (under the supervision of the ministry).
- The majority of **cooperatives** are supervised by the **Ministry of Cooperatives**.
- **Insurance companies** are regulated by the **insurance board**.
- The activities of the **stock market** are overseen by the **securities exchange board**.
- A large number of **savings and credit cooperatives (SACCOs)** are registered under the **Department of Cooperatives** and come under its purview.

These supervisory bodies exercise a high level of autonomy, although major policy changes require approval and endorsement from the Ministry of Finance.

### **Classes of banks**

The Central Bank of Nepal has categorised banking and financial institutions into four classes – commercial banks (class A), development banks (class B), finance companies (class C), and micro-finance institutions (class D) – as per the Bank and Financial Institution Act 2006. The distinction between the classes is primarily based on minimum paid-up capital; besides this, different classes are subject to different regulations.

**Commercial banks:** Commercial banks are required to function at a national level with a minimum paid-up capital requirement of NPR2 billion (US\$20.28 million). However, recent monetary policy (2015/16) requires commercial banks by 2017 to maintain four times the current cap. In addition, commercial banks must maintain a capital adequacy ratio of 6% on core capital and 10% on their capital fund, while complying with the capital adequacy framework of 2007.

**Development banks:** Development banks can be further categorised into national, regional (4–10 district coverage) and district (1–3 district coverage) levels, with minimum paid-up capital of NPR640 million (US\$6.49 million), NPR200 million (US\$2.02 million), and NPR100 million (US\$1.01 million), respectively. As with the commercial banks, the monetary policy 2015/16 has from 2017 increased the minimum paid-up capital to four times for national and district level, and six times for regional-level development banks.

**Finance companies:** Like the development banks, finance companies are segmented into national, regional and district levels. The current minimum paid-up capital limit figures are NPR200 million (US\$2.02 million) for the first two levels, and NPR100 million (US\$1.01 million) for the district level; although by 2017 the limit will be increased to four times those figures. Unlike commercial banks, the finance companies and the development banks do not have to comply with the capital adequacy framework, and have a lower minimum capital adequacy ratio on core capital at 5.5%; although the requirement on the capital fund is marginally higher (11%).

**Micro-finance institutions:** Divided into three levels, the MFIs must maintain a minimum paid-up capital limit of NPR60 million (US\$608,519), NPR20 million (US\$202,839), and NPR10 million (US\$101,419) on national, regional and district levels, respectively. Regarding the source of funds for MFIs, the trend seems to be that classes A, B and C banks offer MFIs credit as a part of the banks' deprived sector lending. Currently, MFIs are entitled to provide up to NPR200,000 (US\$2,028) non-collateral based loans and NPR500,000 (US\$5,070) collateral-based loans; however, there have been proposals to increase the limit to NPR300,000 (US\$3,042) and NPR700,000 (US\$7,099), respectively.

**Large number of regulated financial institutions burdening supervision.** The 250 banks and non-bank financial institutions licensed by NRB, and the 17,491 financial cooperatives (2014 figures), make regular inspection a daunting task. NRB has adopted a risk-based supervision approach as a means of dealing with this. The ongoing consolidation of banks is likely to reduce the number of institutions and simultaneously the supervision burden for NRB.

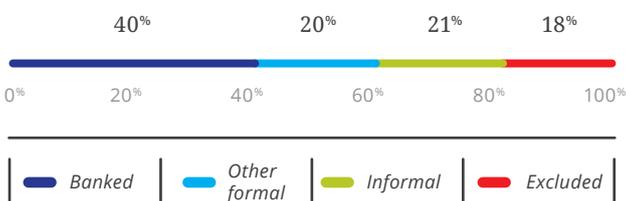
## Understanding Nepali consumers

**High financial inclusion in terms of access:** both formal and informal channels used. The country has a high level of financial inclusion in terms of access to financial services (formal and informal): 82% of adults have some access to financial services.

The financial access strand, which FinScope uses to enable comparison of levels of financial inclusion, comprises four categories:

- Banked.
- Other formal.
- Informal.
- Excluded.

**Informal channels emerge as most popular.** When the overlaps in the use of financial channels are considered, informal channels emerge as the most popular: 57% of the adult population report uptake of financial products through informal channels.



Financial inclusion access strand (Nepal)

Source: FinScope 2014

### A closer look at the FinScope financial access strand

FinScope uses the financial access strand to enable comparison of levels of financial inclusion across market segments or countries. The access strand adopts a hierarchical approach in order to depict 'banked' versus 'other formal':

**Banked:** The percentage of adults having/using financial products and/or services that are provided by A, B, C or D class banks regulated by NRB under the Bank and Financial Institution Act (No. 2063). This is not necessarily exclusive usage – these individuals could also be using financial products from other formal financial institutions, or informal products.

- On the basis of the functional categorisation of banks in Nepal, this research further classified banked into two categories:

- Category 1 - includes A, B and C class banks.
- Category 2 - includes D class banks.

**Other formal:** The percentage of adults with financial products from non-bank formal financial institutions, but lacking bank access for these products. These individuals could also be using informal products.

The 'banked' and 'other formal' segments combined form the formally financially included population. The financial access strand calculations also then classify consumers in terms of 'informal' and 'excluded':

**Informal:** The percentage of adults not formally served, but using informal financial products or mechanisms. This is exclusive informal usage and does not include individuals who are within the banked or other formal categories of the access strand who also use informal services.

**Excluded:** The percentage of adults not using any financial products – formal or informal – to manage their financial lives.

**The access strand does not show overlaps between the various categories.** Consequently, the 'other formal' or 'informal only' segments do not indicate total usage of non-bank formal or informal financial services but rather only those individuals using a non-bank financial service but not a bank account, or an informal financial service but no formal financial service; an individual using both a formal and an informal financial product would only appear under formal uptake.

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

In Nepal, there is certainly evidence of consumer use of a portfolio of financial services:

- Of adult consumers: 58% use more than one type of financial service.
- Of those using two types of financial service: the most popular combination is savings and payments services (12% of adult consumers).

Such uptake takes place over a range of providers, with a high degree of overlap between products accessed from formal and informal financial service providers. Analysis of depth of usage shows that higher-income individuals with consistent income have access to a greater portfolio of products. A small proportion (7%) of the adult population uses all four types (services from all four financial product classes).

**Lack of good-quality, relevant financial products.**

Although 60% of Nepali adult consumers have access to formal financial services, the following is worth noting: 25% of the total adult population use formal services to access only one type of service – either savings, payment, credit or insurance. This points to the low usability of existing products on offer and/or the lack of products that meet the needs of the target market.

FinScope data has shown the following in terms of use of formal channels:

- 9.3% of the population use them for borrowing only.
- 8.3% use them for payments only.
- 7.2% use them for savings only.
- 7% use them for all four products classes.

The fact that only 7% of adult consumers use formal channels for all four product classes suggests underlying issues relating to lack of availability of good-quality, relevant financial products.

**Formal versus informal? Contrast in key providers for rural and urban areas.** Most of the adult population resides in rural areas; therefore, when absolute numbers are considered, rural adults have greater financial access (7.2 million) than urban adults do (1.1 million). However, when the percentages are compared, both groups are equally included: 82% of adults in each of these areas (FinScope 2014).

The financial service providers that service these needs differ across the two groups, however:

- A high percentage (71%) of urban adults are formally financially included.
- A lower percentage of rural adults (58%) are formally financially included, with proportionally more having access to informal financial services.

**Potential to increase access exists, but barriers will require consideration.** Despite the comparatively high levels of access to financial services, and evidence of this access covering a range of products, there remain geographical areas where the population is underserved – mainly in the more mountainous regions, where road access is limited and the population is scattered.

Generally, a number of barriers exist in both the ability to access products and in subsequent usage.

In terms of access:

- For the majority of the population, proximity to formal providers and ease of travelling to such institutions is something of a challenge, with 65% of the adult population having to travel more than 30 minutes to access a bank.
- This barrier is overcome by the presence of both formal and informal locally based financial service providers, although this solution limits the range of choice and competition in the market for the consumers in question.
- While the adaptability of product features to unique community needs from these sources is higher than in the case of more remote providers, some products then



Multiple financial product usage by Nepali consumers  
Source: FinScope 2014

become more expensive because it is not possible for providers to leverage economies of scale.

- This phenomenon of local/locally based FSPs eases eligibility barriers for consumers – simultaneously serving as a barrier for entry in the case of larger, formal and more remote FSPs.

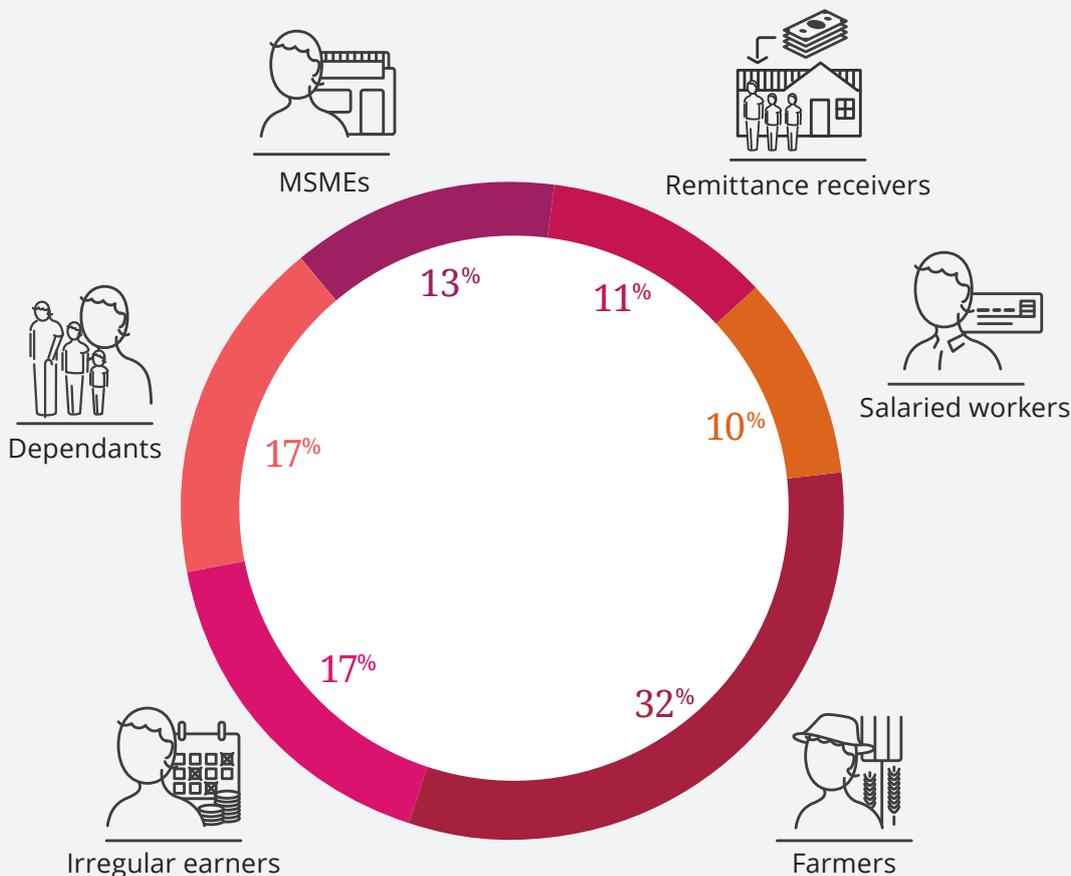
- Remote FSPs are those that work on a wide-reaching model that allows them to be placed wherever suits their business model best.
- Locally based FSPs are those that tie their business model to community connections.

In terms of usage:

- Once financial services are accessed, the low income levels and low literacy rates across the population lower the potential for high-value and meaningful engagement with providers.
- The barriers of low income and low literacy levels are partly overcome by products that cater for low-value inputs and by peer-to-peer learning at the locally based provider level. Nevertheless, these barriers remain a consideration in terms of the potential to increase financial services on the whole.

## Segmenting the population: six target market groups

To assist with exploring the nature and dynamics of the need for increased financial inclusion, the MAP diagnostic has segmented the adult population into six distinct target market groups on the basis of main source of income. The population split and main features of these groups are as follows:



Size of target markets as percentage of total adult population (Nepal)  
Source: FinScope 2014

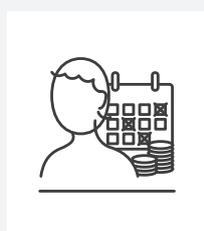
*In a highly patriarchal society, the fact that the majority of remittance receivers are female means a significant shift of wealth into the hands of female members of the population.*



**Farmers**  
(4,667,010 individuals – the largest target market at 32% of total adult

population) – those who obtain their income from farming activities. Of these, 75% are subsistence farmers.

- Majority are based in rural areas.
- Majority have only primary or lower educational attainment.
- The gender split is more or less equal.
- 65% of this target market use primarily informal financial services.



**Irregular earners**  
(2,395,851 individuals – the third largest target market at

approximately 17% of total adult population) – those engaged in piecework (i.e. paid according to their work output) as main source of income.

- Majority are based in rural areas.
- This group is the least literate.
- Majority are males.
- Has the lowest access (of all the target markets) to formal financial services
- 33% of this target market primarily use informal financial services.



**Dependants**  
(2,475,569 individuals – the second largest target market at approximately

17% of total adult population) – those whose main source of income is family and/or friends, often a household member. Also includes recipients of government grants and welfare benefits.

- Majority are based in rural areas.
- Majority (53%) have attained only primary or lower education levels.
- Majority are females.
- The poorest target market.
- 29% of this target market use formal financial services, while 33% remain excluded.



**MSMEs** (1,912,428 individuals – the fourth largest target market at 13% of total adult population) – those whose main source

of income is from owning and running a micro, small or medium enterprise.

- Majority (68%) are based in rural areas. (But given that 81% of the adult population are rurally based, MSMEs are actually proportionally more urban.)
- The second most educated group.
- Majority are males.
- The second highest income earners.
- 51% of this target market use formal financial services.

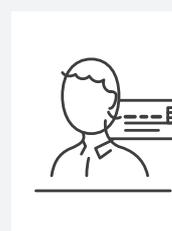


**Remittance receivers**  
(1,601,042 individuals – the second smallest target group at 11% of total

adult population) – those who rely on remittances sent by relatives or friends (internationally or domestically).

- Low education levels.
- Majority are females.
- Worth noting: the third highest income earners.
- 52% of this target market use formal financial services.

In a highly patriarchal society, the fact that the majority of remittance receivers are female means a significant shift of wealth into the hands of female members of the population. Most migrants are males, which increases the likelihood that the female left behind has to become a decision maker in day-to-day financial services usage, even if major decisions are still made in combination with the male spouse or family member who has migrated.



**Salaried workers**  
(1,415,766 individuals – the smallest target group at 10% of total adult population) –

those whose main source of income is salaries drawn from employment in private companies and in government or public enterprises.

- Most urbanised of the target markets.
- Highest levels of education of the target markets.
- Majority are males (the target market with the most males).
- The highest earners.
- Majority of target market (66%) use formal financial services.
- Only 15% of this target market use all four types of financial services; most (40%) use only one or two.

## Key and varying financial service needs exist across these target markets:



**1.4**  
million

Salaried workers

- Cost-effective transaction account for salary receipt, with functionality and affordable pricing that enable digital transactions.
- Affordable, accessible and flexible credit and savings options appropriate for low-value amounts.
- Products that support long-term wealth building, such as long-term savings and credit products, and risk-mitigation products (e.g. insurance).
- Insurance products, as this is the main potential market for insurance.
- Potential to use bundling of products to increase access further.



**1.9**  
million

MSMEs

- Cost-effective and easily accessible payment mechanisms.
- Very big need for working capital; also need for investment capital to support business activities e.g. credit and savings products.
- Products to assist with mitigating risk attached to household and business – especially products that reduce key-person risk.
- Committed savings products to help in consumption smoothing.
- Viability-based financing models.



**1.6**  
million

Remittance receivers

- Cost-effective, reliable and accessible remittance channels.
- Consumption-smoothing financial products (driven by quarterly remittance receipts).
- Products to facilitate wealth building and protect against risk, especially due to high-income nature of target market.



**4.6**  
million

Farmers

- Both depth and breadth focus.
- Upfront capital and flexible repayment options to match seasonal income flows.
- Risk-protection mechanisms to mitigate agriculture risks and key-person risks (due to production link to human capital).
- Input financing services and storage-of-value accounts.
- Consumption-smoothing financial products (driven by seasonal income receipts).



**2.3**  
million

Irregular earners

- Consumption-smoothing financial products (driven by irregular income receipts).
- Products to facilitate investment in productive potential and skills training.



**2.4**  
million

Dependants

- Consumption-smoothing financial products (driven by irregular income receipts).
- Products to invest in human capital, such as improving skills and ability to generate an income.

### Key target market needs

**Poorer, more rural target markets make up the majority of the population.** Farmers, dependants and irregular earners are the largest target markets in Nepal. They are, on average, poorer and more rural than the overall population. They are also the target markets with the lowest levels of education.

**Even 'higher-income earners' are often earning low salaries.** By contrast, salaried workers and MSMEs have the highest income among the target markets, as well as the highest education levels. However, even within this group of higher earners there are people earning less than US\$10 a day.

**Target markets have a strong gender dimension.** The target markets that have more direct control over their income generation (salaried workers, MSMEs, farmers and irregular earners) are for the most part male-dominated. Those with less direct control over income generation (remittance receivers and dependants) comprise mainly females.

**Mobile phone penetration high across the board.** The wealthiest target markets have high mobile phone penetration – although this is generally high across the board.

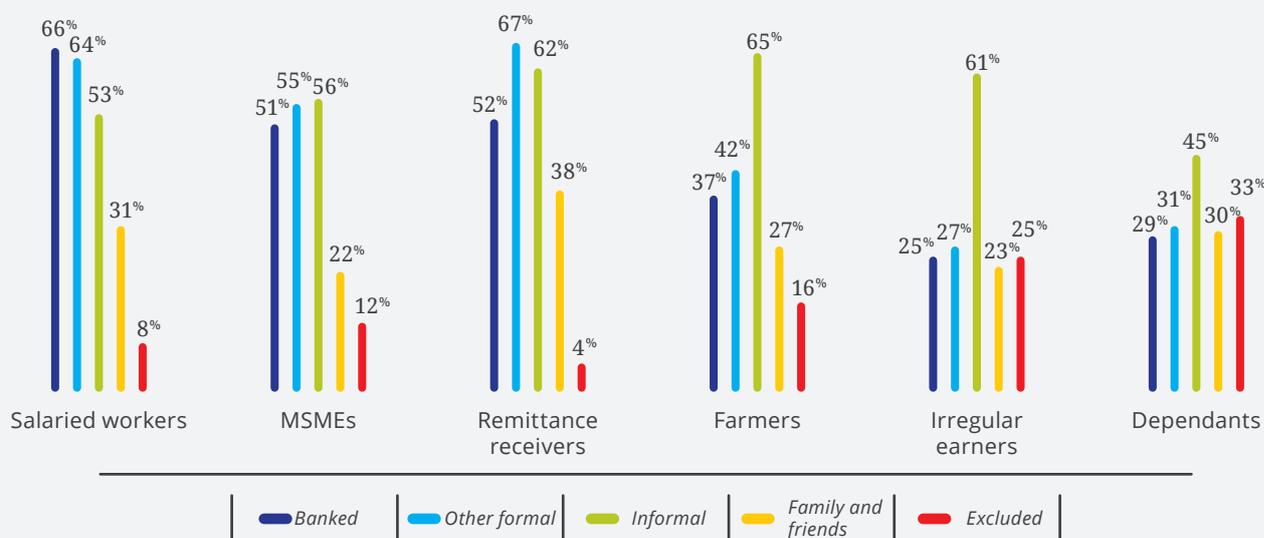
**Greater usage of financial services by wealthier target markets.** Financial service usage is positively correlated with income: salaried workers and remittance receivers, who have relatively higher and consistent levels of income, are the best-served markets (overall); while the poorest target markets – of dependants and irregular earners – are the least served (higher levels of financial exclusion). MSMEs are better served than farmers and dependants, but less well served than salaried workers and remittance receivers.

**Informal usage relatively high across the board.**

- Usage figures for informal financial services are relatively high across all target market segments.
- Formal financial services show relatively lower uptake among the more rural and lower-income segments (farmers, irregular earners, dependants).

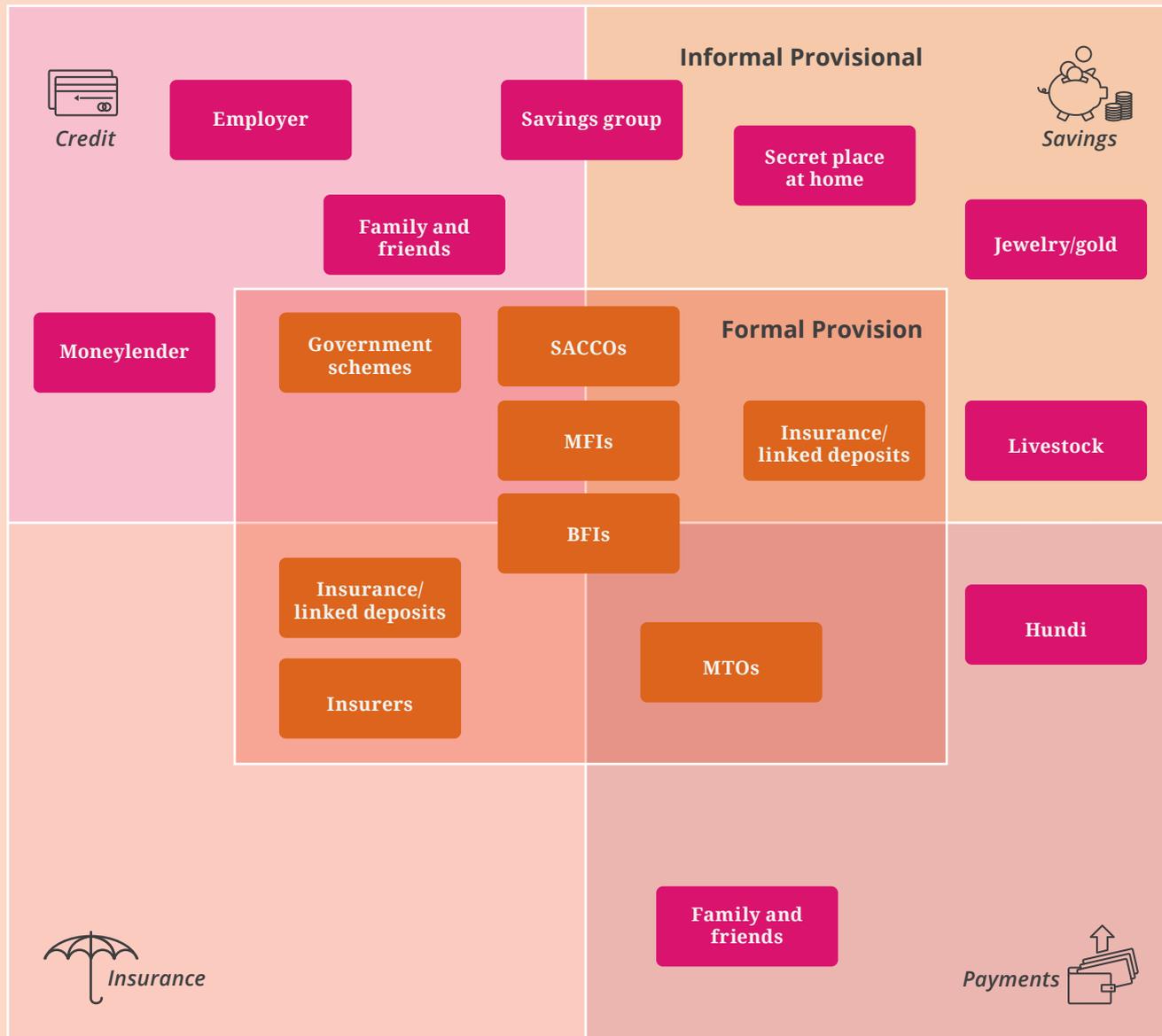
**Majority of the population reliant on subsistence farming.** The MAP diagnostic has segmented the adult population into six distinct groups according to their main source of income. The reality, however, is more nuanced, in that most Nepalis have multiple sources of income. Farming and remittances are key income sources in this regard. In the case of farming, this 'additional income' often occurs on an in-kind basis among family and friends through barter or trade of farming outputs. This links back to the significant figures in terms of subsistence farming in Nepal, where 75% of adults in the farmers target market are purely subsistence farmers.

**Nepali diaspora population growing larger annually.** Government data indicates that in the past six years the Department of Foreign Employment has issued 2.2 million Nepali adults with labour permits to work abroad, with this number growing on average by 19% annually (Department of Foreign Employment 2013/14). Actual numbers could be significantly higher than reported because many people travel through the relatively 'porous' border with India without officially registering. Although Nepalis working abroad are not a direct target market for financial inclusion in Nepal, they should be considered as being among the key drivers, in that they enable the other target markets through remittances. For this reason, financial inclusion strategies should consider leveraging this sector to the extent that they play this enabling role.



Financial service usage, by target market (Nepal)  
Source: FinScope 2014

## The landscape of financial services provision



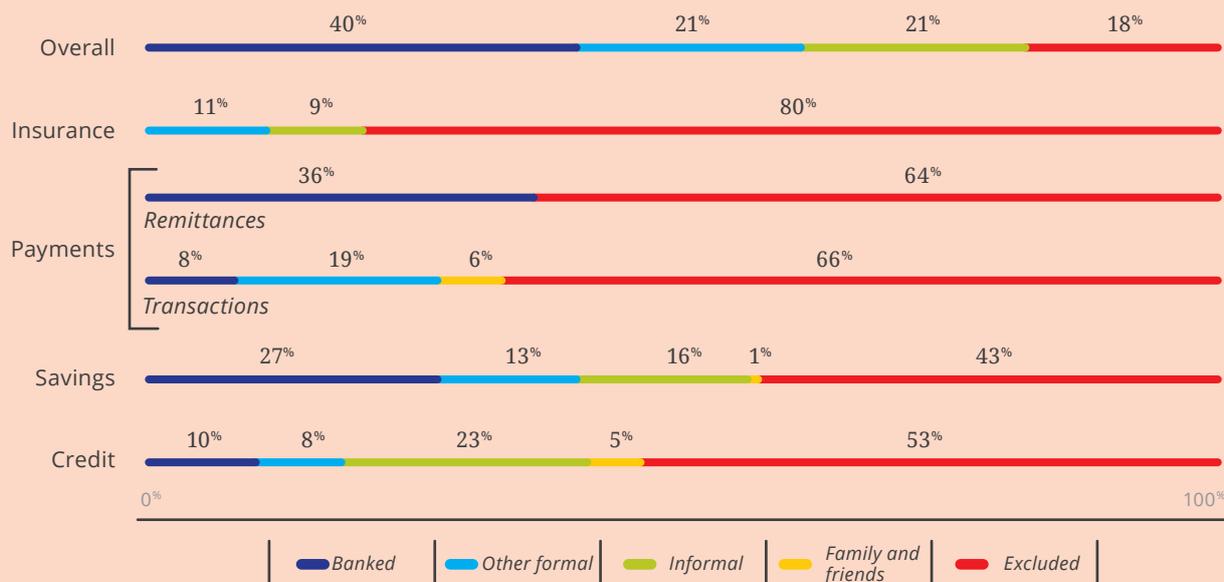
### Overview of providers currently operating in Nepal

**Formal providers dominate the market.** The financial services market in Nepal has a high density of providers. Due to sheer numbers, no single player has been able to gain a majority market share. In terms of value held, formal providers dominate market share:

- For savings and credit: SACCOs and banks lead the market in terms of total revenue.
- For remittances: the non-bank formal money transfer operators (MTOs) dominate.
- Insurance: the insurance companies are naturally the dominant providers.

**'Local' is a significant consideration.** However, in terms of market share of clients held, the provider story is skewed towards locally based formal and informal financial service providers. In the formal space, this means SACCOs and MFIs; and in the informal space, it means moneylenders, savings groups and family and friends. Overall, these locally based players provide for a high proportion of financial services access.

**Poor banking infrastructure, and alternative distribution systems still developing.** With the exception of SACCOs, formal providers' traditional distribution channels are largely focused on urban areas and based on the high-cost model of branches. Alternatives – such as partnership through models like agent-based financial services provision, and/or usage of other digital channels such as debit and credit cards, Internet and mobile



**Nepal – financial service usage across the four product markets (savings, payments, credit, insurance)**

Source: FinScope 2014

banking – remain nascent outside of the remittances market. There is, however, evidence of alternative digital channels beginning to gain momentum. The investment in information technology has resulted in an increase in the number of ATM terminals (to 1,362) and uptake of internet banking (328,434 users), debit cards (3,641,960 card holders) and credit cards (57,898 card holders). Partnering with alternative distribution partners (e.g. retailers, the post office, mobile technology) and adoption of technology hold the potential to lower operating costs and leverage existing infrastructure to expand geographical reach. Locally based formal and informal providers hold the advantage, in this space, of closer distribution proximity to their consumers, and local knowledge. At the same time, though, they face limitations in terms of being able to increase distribution beyond their immediate community basis.

**Savings and payments most commonly used financial services.** Savings are the most commonly used product for the adult population, with 59% indicating that they save. This is followed by 46% accessing credit and a lower percentage (36%) taking up transactions, remittances (33%) and insurance (20%).

**Both formal and informal savings products are key.** Of those who do not save in a bank, 13% use other formal products, and a further 16% of adults without access to formal services take up informal saving. When overlaps between usage are taken into account, though, 31% of adults overall use informal providers, making these the dominant channels for savings (FinScope 2014).

**Informal providers are key players for credit.** Credit is the second most-accessed financial service. Most borrowers access credit through informal channels:

- In total, 29% make use of credit from informal sources.
- 23% access credit exclusively from informal sources.
- 18% access credit exclusively from formal services, although only half of this formal usage is through a bank.

**The majority of Nepalis rely on cash or barter for transactions.** Payment networks in Nepal are still in their infancy. Banks are effectively the only provider of digital transactions, with 32% of adult consumers transacting from a range of account types (FinScope 2014). When those with bank accounts were surveyed, only 10% indicated that they use the account to transact (FinScope 2014). Transacting to purchase goods and services is a need that applies to a large percentage of the population, and therefore the low formal uptake is an indication that the majority of transactions are likely taking place informally – through cash or barter of goods and services.

**Intermediated remittances most common.** Just over a third of the adult population (33%) make use of remittance products, with the majority doing so through ‘other formal’ providers. Access via this channel is by 19% of those that do not use banks, and 21% of the total adult population. In terms of total uptake, use of banks (8%) for remittances is closely followed by use of family and friends (6%).

Insurance uptake is low. A very small proportion of the adult population in Nepal has formal insurance, with 80% completely excluded from the insurance market. Of the 20% of adults that are insurance users, the split between use of formal and informal providers is very close: 56% with formal insurance; and 52% with informal insurance (including overlaps between the two channels).

## Opportunities for increasing financial inclusion

The MAP diagnostic has identified **six priority opportunities** for increasing financial inclusion.

Intervention in the six priority areas is believed to hold the potential to achieve the greatest impact on the greatest number of adult consumers, in terms of meeting needs for financial services and products.

### 1. Unlock constrained credit and savings markets

**Mobilise saving on a large scale and unlock credit, to improve the ability of Nepali adults to invest efficiently in assets and productive capacity.**

Unlocking savings and credit markets will help households to better manage their cash flow, smooth consumption, accumulate wealth and cope more effectively with risk. Furthermore, unlocking savings services can help institutions to build a relationship with their customers, potentially leading to greater demand for credit, insurance and payment services.

**What are the demand- and supply-side constraints?** On the demand side, low levels of income and low financial literacy levels constrain uptake of savings and credit. However, in Nepal there are also supply-side constraints in that it is difficult to come up with a viable business model for savings and credit provision. The high levels of consumer uptake in informal markets are evidence of latent demand, suggesting that informal providers could work on improving the value already offered, and that formal providers could compete if they were able to unlock the correct value proposition for the market.

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

**Constrained credit reduces the ability of formal providers to provide high returns on savings.** The ability to gain an adequate risk-weighted return from investing or on-lending available deposits is an important growth link between the savings and credit models. Without the ability to invest, or to invest at rates that promise a viable return, providers are limited in terms of providing attractive returns to deposit customers. In the Nepali financial services landscape, a further reason for providers to seek out this return on investment is the lack of a liquid capital market. A constrained credit market has the knock-on effect of oversupply of short-term liabilities in financial institutions that are currently not willing or able to adequately intermedicate. The resulting low rates of deposit in formal institutions, coupled with competition from the returns offered by non-financial assets and investment in the securities markets, act as a further disincentive to consumers to commit to longer-term savings products. Institutions are in turn unable to fulfil their crucial role of intermediation in support of the long-term asset financing market. Such a constrained credit and capital market makes it extremely difficult to unlock formal savings markets through increasing the attractiveness of potential returns.

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

### 2. Improve payments systems

**Deliver benefits to the majority of the population through development of a cost-effective, reliable and accessible payments system.**

The improvement of the payments system would benefit two big product categories: remittances and transactions. Remittances are already a key income source in the economy; and improving transactions would reduce the cost of doing business or running a household.

**Enhance payments to support both cash and digital transactions.** Nepal is a highly cash-based economy, and improving the ability to transact in this environment holds the potential to facilitate both digital and cash-based means of payment. In the long term, movement towards digital transaction is key for increasing system efficiencies and opening up the ability to transact remotely; but in the short to medium term there is still a need to facilitate access to cash to support cash transactions. This drives the need for increased access to cash-out points through increasing the spread of cash networks.

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

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

Remittances are one example of fairly optimal system functioning. The one system element that functions fairly optimally is the remittance network. This covers not only the easier-to-serve urban areas but also – largely through the use of agents – the rural areas. The higher level of development of these systems goes hand in hand with the fact that remittances are a key source of income

for the population, but it is also worth noting that formal providers have developed sufficient value in their product offerings to create a market landscape where they can dominate over alternative providers.

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

**Resolving payments system issues will assist with reducing barriers for other product markets.**

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

### 3. Bolster risk-mitigation capabilities

**Improve people's capabilities to weather risk events that potentially have a significant impact on their financial situation, both current and future.**

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

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

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

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

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

**Risk-mitigation support to FSPs needed.** Risk impacts are felt not only at the consumer level but also by financial service providers (FSPs), especially in the case of widespread events such as natural disasters. Risk-mitigation support can be a vital tool for ensuring that

FSPs can sustainably provide services to the market. Insuring MFI loans against natural disaster risks may be an opportunity to help to mitigate the risks that MFIs face in extending credit, particularly to farmers. It might also be more viable for insurance providers to contract directly with an MFI rather than providing cover to each of its clients.

## 4. Enhance and leverage locally based financial service providers

**Recognise a key supply-side player in the financial inclusion space and explore how it might be possible to expand its impact.**

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

**Enhancing, partnering with and emulating locally based FSPs to increase inclusion.** There are three levels of intervention that could further leverage the existing financial inclusion reach of locally based FSPs:

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

## 5. Enhance financial inclusion support in national governance

**Advocate for increased support from national governance as a key intervention area for achieving effective financial inclusion across the board.**

Financial inclusion initiatives are best supported when

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

#### ***Legislative support for financial inclusion stalled.***

To be effective, policy needs to be applied, through legislative instruments and regulatory and market action. A legislative framework for financial services functioning is currently in place, but with multiple elements that are either outdated or inadequate in terms of their reach. Corrective action has taken place in the form of efforts to draft new bills and underlying instruments, but many of these remain in the pipeline for approval without final action. Updating this framework is a priority, to ensure that the best possible supportive foundation for financial inclusion is in place.

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

## **6. Strengthen consumer empowerment, protection and education**

### **Strengthen the financial capabilities of consumers with a view to enabling them to extract optimal value from financial services.**

By 'financial capability' is meant more than simply consumers' literacy levels. It suggests consumer ability to engage confidently and appropriately with financial services, having effective communication skills, an understanding of how to engage with financial service

providers, and access to sufficient resources and information to be able to correctly assess financial services opportunities. Numerous stakeholders are already involved in attempting to improve the status of consumer empowerment and awareness in Nepal. Government agencies, donor organisations and NGOs have all been making contributions in this regard. As already mentioned, the country has a wide range of financial service needs, and a lack of good-quality, relevant financial products. There is also limited consumer protection legislation and an absence of consumer protection institutions.

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

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

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

***Build on consumers' existing understanding.*** Often consumers do not understand official financial terminology, and yet are familiar with the underlying financial concept. Respecting and leveraging the financial

knowledge that consumers already have can help to increase consumers' financial understanding, build relationships with consumers, and better serve their needs by providing more appropriate products.

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

## Going forward

The Government of Nepal, through its prioritisation of financial inclusion, has already attained financial inclusion (in terms of access to financial services and products) of over 80% of the adult population. Despite this relatively high figure, actual usage of financial products remains low, especially with regard to insurance and transactions.

There is potential both to increase the value provided by the products that are currently used, and to innovate to provide a more heterogeneous range of products.

Existing financial services and products are skewed in favour of the segments that are the most urbanised, and have the highest salaries and levels of education. By the same token, lower-income, rural residents, who tend to have lower levels of education than other segments, are currently underserved. This is largely due to the absence of appropriate products and access points. There is a need for access to low-cost, more flexible and more diverse financial products, better tailored to the unique needs of different target markets, that can enhance the ability of individuals to manage their financial lives, increase income, manage risk and build wealth over time.

The MAP Nepal financial inclusion roadmap, which is based on the comprehensive diagnostic of the entire sector, focuses on the six priority areas for intervention that the diagnostic has identified as presenting the greatest potential impact. The result of extensive research and consultation with key financial inclusion stakeholders, the roadmap sets out a detailed programme of action for addressing the identified priority areas. It will provide a platform to consolidate current efforts being made in Nepal by multiple government agencies and development partners in the field of financial inclusion, and will thus help to maximise resources and avoid duplication. It is envisaged that the roadmap will be used to inform new strategy and provide input for current amendments being proposed to key financial policies and acts, and will help to guide future initiatives around the immediate priorities for financial inclusion.

The implementation of the proposed initiatives is anticipated to deepen and broaden financial services and directly improve household welfare through introducing relevant products, addressing key needs, and fostering sustainable business models and partnerships that more efficiently and effectively serve consumers. This will also support broader economic growth, and contribute to the development of Nepal's human capital.



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