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RESEARCH HIGHLIGHTS
INSIGHTS INTO ACTION

Digitizing social security allowances in Nepal

In Nepal, shifting the transfer of social security allowances (SSA) from manual to digital means will lead to significant savings and increased efficiency. Savings will enable the Government to put more resources into health and education. Digitization will also give civil servants time to focus on other tasks like revenue collection and will improve service delivery to citizens. It will allow greater control over state resources as well — a major step towards better governance. This is the picture emerging from a report, promoted by the Ministry of Federal Affairs and Local Development (MoFALD) and supported by the World Bank and United Nations Capital Development Fund (UNCDF), based on research comparing areas where the Government piloted the shift and others where a manual system is still used. The study addressed a crucial question: how can SSA delivery be smoothed, bringing both efficiency and thoroughness?

The annual volume of 6.5 million SSA payments is currently handled by a cumbersome structure revolving around village development committees and district development committees, for a total annual cost of Nr 1.33 billion (US\$12.48 million), delivered in cash by local officials to 2.18 million beneficiaries three times per year. The staggering cost, compounded by many leakages and inefficiencies, led MoFALD to explore alternate channels and

strengthen its safety-net systems by establishing a management information system (MIS), grievance redress mechanism and integrated banking system for cash transfers.

Comparative benchmarking of the manual and digital models suggests that digitization can potentially reduce overall cost by more than 60 percent, to Nr 475.09 million (\$4.47 million). It would also allow greater leakage control through data digitization and de-duplication checks; enable local officials to focus on core activities by re-assigning their tasks to the bank in charge of payments; simplify the report-generation process through a digital MIS; secure authentication through a biometric mechanism; and introduce beneficiaries to a broader range of financial services, thus advancing financial inclusion.

However, both MoFALD and the payment service provider (PSP) need to tackle a set of challenges: initial costs of setting up a cash-in/cash-out (CICO) network; technical issues (e.g., authentication-system failures based on PIN codes or biometrics); infrastructure access (i.e., electricity and mobile connectivity); low awareness of CICO payment systems; geography (i.e., limited accessibility and scarce populations); difficulties for senior and differently abled beneficiaries; liquidity management in early periods of the shift; and a remuneration structure that many agents still find inadequate.

Yet, the study clearly demonstrated the case for the shift. Drawing from positive results of similar initiatives elsewhere (e.g., Brazil and South Africa), the Nepalese Government can give the initial push by adopting a two-pronged approach. First, it can broaden participation of various PSPs for delivering funds. Along with banks, it may partner with other institutions (e.g., remittance service providers and mobile network operators) to enhance outreach and address infrastructure development. Second, it may provide incentives to partner PSPs by partially covering the transaction price that builds in fixed and recurring expenses, recognizing the specific geographic challenges in plains, hills and mountains.

FOR MORE INFORMATION

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 MOBILE MONEY FOR THE POOR

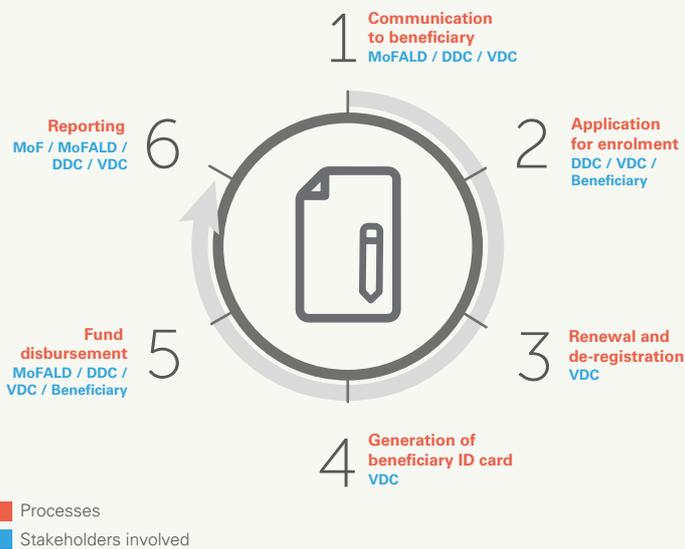
Using an activity-based costing methodology, the study compared traditional and alternative methods of SSA transfer. It was based on extensive fieldwork conducted across the country, including meetings and interviews with beneficiaries, agents, officials of village development committees and district development committees, branch staff of banks, senior managers at head offices of banks, and the social security section at MoFALD, for a total of 174 interviews. The study compared process flows and stakeholder roles for both traditional and alternate methods (see figures I and II) and identified pros and cons of each (see tables 1 and 2).

Delivering social security allowances in Nepal: A few numbers



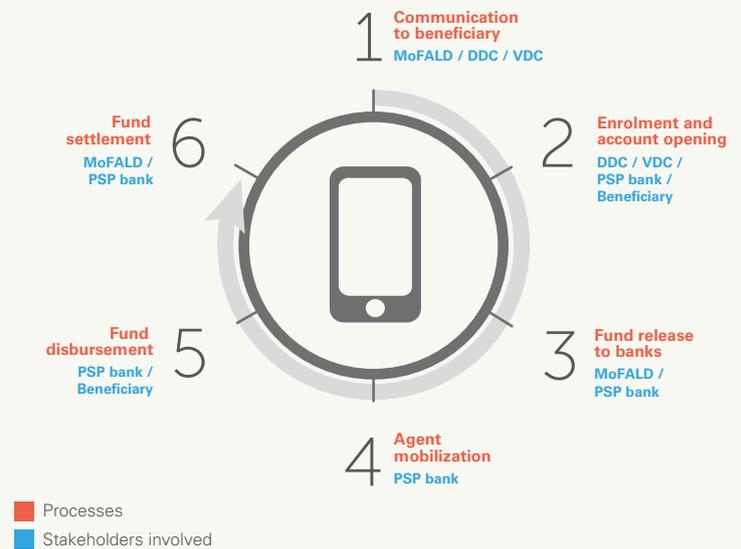
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Figure I
Processes and stakeholders: Traditional method



Acronyms: DDC, district development committee; MoF, Ministry of Finance; MoFALD, Ministry of Federal Affairs and Local Development; VDC, village development committee

Figure II
Processes and stakeholders: Branchless banking method



Acronyms: DDC, district development committee; MoF, Ministry of Finance; MoFALD, Ministry of Federal Affairs and Local Development; PSP, payment service provider; VDC, village development committee

Table 1
Pros and cons: Traditional (manual) method

+ PROS

- Pre-existing administrative infrastructure on the ground (village and district development committees), making it unnecessary to set up a separate chain for operations
- Familiarity of beneficiaries with officials of village and district development committees, facilitating communication

- CONS

- Manual recordkeeping
- High workload
- Misuse of social security funds
- Risk of theft/robbery
- Ghost beneficiaries and leakages
- Delays in fund disbursement

Table 2
Pros and cons: Digital method

+ PROS

- Control of leakages
- Focus by staff on core activities
- Digital MIS
- Secure authentication mechanism
- Financial inclusion

- CONS

- High set-up cost of CICO channel
- Low awareness of CICO (non-branch-based) payment system
- Restricted banking services offered
- Geographic challenges
- Difficulties for senior and differently abled beneficiaries
- Unsustainable remuneration structure

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