Nepal Financial Inclusion Action Plan

(Approved by NRB Board on 26 December 2017)

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UNNATI-Access to Finance (A2F) Project

Microfinance Promotion and Supervision
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Nepal Rastra Bank
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We deeply appreciate the feedback and inputs provided by different departments within NRB, other government stakeholders, private players and development partners. Under this, 45 stakeholders were consulted, a detailed list is in Annex 6.1.

Finally, we would like to thank all the individuals who contributed for materialisation of this action plan; from the government sector to financial service providers, industry bodies, technology providers, telecommunications operators and donor agencies, for their invaluable time, and their ongoing efforts to extend financial services to the excluded. We believe this action plan will play a crucial role in collating efforts of various stakeholders to expand financial inclusion in Nepal.

Foreword

Access to affordable financial services plays a crucial role in supporting the growth of the economy and reducing income inequality and poverty levels. Furthermore, it also benefits lower income segments by enhancing their ability to sustain livelihoods, improve living conditions and sustain shock events by improving their ability to manage risks. Being a Least Developed Country (LDC), Nepal aspires to be a Middle-Income Country by 2030. Achieving this national goal without a robust financial system is next to impossible. Considering this, the Government of Nepal has adopted the Financial Sector Development Strategy (FSDS), which calls for a coordinated approach for addressing the weaknesses and challenges that the financial sector faces. The strategy has identified financial Inclusion as one of the areas that need to be promoted to achieve inclusive economic growth. Being a member of the Alliance for Financial Inclusion (AFI), Nepal Rastra Bank is committed to providing opportunities to and addressing challenges faced by the unbanked population and has been continuously working towards achieving financial inclusion. Towards this end, together with the support from development partners, the National Roadmap was prepared after a detailed analysis of the demand and supply side of the financial services and with an overall goal of providing access to affordable finance for all by 2030, with increased access to formal financial services. Identifying the key drivers of financial inclusion, the MAP Roadmap leads to the development of national financial inclusion approach and recommends the actions required towards achieving it.

A more detailed analysis and recommendations on financial inclusion is covered by UNCDF's multi-country initiatives to support financial inclusion through a process of evidence-based country diagnostic and stakeholder dialogue, called Making Access Possible (MAP). The Roadmap and Action Plan was produced as part of UNCDF's MAP Nepal Initiative. The Roadmap, launched in July 2016, supports the government, regulators, meso-level institutions, market participants and development partners in development plans and avoiding duplication/overlaps in order to work towards the goal of achieving financial inclusion in Nepal. The overall goal of Roadmap has been identified as "Access to affordable finance for all by 2030, with increased access to formal financial services" with a focus on making available a portfolio of affordable and relevant financial services in accordance to the needs of the people, while facilitating an accountable and expanding marketplace. It is expected that the Roadmap will assist the Government of Nepal, the Central Bank as well as the private stakeholders to work towards the common goal of increased financial inclusion in Nepal.

The Action Plan, developed subsequently to the National Financial Inclusion Roadmap, broadly outlines the short and long-term strategies and identifies specific activities that can be undertaken by the government to achieve the priorities outlined in the Roadmap. It intends to increase financial inclusion through unlocking constrained credit and savings market, improving payment systems, bolstering risk mitigation capabilities, enhancing and leveraging locally based financial service providers, enhancing financial inclusion support in national governance, and strengthening consumer empowerment, protection and education. I believe that the financial services and tools on payments, savings, credit and insurance, that reach the vulnerable segments of the society would increase their income generating and risk bearing capability. It will also bring about the habit of saving surplus income in the formal financial sector, thereby helping the economy to mobilize sufficient deposits for investment in productive sectors.

As the Government of Nepal has placed top priority on the implementation of the Financial Inclusion Roadmap, a High Level Financial Inclusion Roadmap Implementation Committee has been set up with the representation of senior officials from Central Bank as well as Government of Nepal. The implementation of the MAP Financial Inclusion Action Plan will require not only the coordination and involvement of different departments of the regulating bodies but also active participation of a number of national and international agencies working in this field. The committee is expected to work for the effective implementation of the action plan and mobilize necessary resources as well.

I would like to express my appreciation to the entire team of UNNATI Access to Finance Project and UNCDF for being instrumental to prepare the Roadmap and this action plan. My humble thanks also goes to the Government of Denmark and UKAid/DFID for their generous support in this course. I would also like to thank the consultant team and the members of MAP Nepal management for shaping this action plan in this form.

Chiranjibi Nepal, PhD
Governor
Nepal Rastra Bank
Baluwatar, Kathmandu
March 2018

Preface

Making Access Possible (MAP) program 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. United Nations Capital Development Fund (UNCDF) has been assigned as a global implementing agency of MAP program to ensure that the global results are fully achieved, using a consistent methodology across all countries, supporting UN member states to translate and operationalize their G20 and Maya Declaration commitments. MAP program is being implemented in 13 countries of Asia and Africa, including Nepal.

MAP Nepal was managed under the overall umbrella of UNNATI–Access to Finance (A2F) project implemented by Nepal Rastra Bank (NRB), the central bank of Nepal, and funded by the Government of Denmark (Danida), UK-Aid (DFID) and UNCDF partnering with United Nations Development Program (UNDP). All the activities concerning MAP Nepal were guided by a National Steering Committee (NSC) chaired by the central bank with the participation of Ministry of Finance (MoF), the Central Bureau of Statistics (CBS) and the concerned donor agencies. In consultation with the steering committee, the MAP methodology and process was developed jointly by UNCDF and the concerned international consulting firms; i.e. the FinMark Trust, South Africa and the Centre for Financial Regulation and Inclusion (Cenfri), South Africa.

With the overall purpose of measuring the level of financial access and utilization of financial products by all bankable adults, a demand side survey was carried-out under the MAP program during December 2014–January 2015. The diagnostic quantitative study was undertaken by the FinMark Trust in cooperation with a local consulting group Inter Disciplinary Analysts (IDA). The study, entitled 'FinScope Survey' incorporated a total of 4014 respondents of 18 years and above age groups from 669 local units 'wards' (considered as Enumeration Areas--EAs) at national, regional, ecological and urban/rural level covering 70 districts of Nepal.

The demand-side diagnostic study revealed that the level of financial inclusion within the country was very moderate with only 40% formally banked (A, B, C and D class financial institutions), 21% found aligned with other formal financial entities (i.e. cooperatives, remittance companies, financial NGOs, insurance companies, postal banks etc.), another 21% were involved with informal sector (i.e. users' groups, money-lenders, *'hundi'*, '*dhukuti*', informal networks, friends, relatives etc.) and remaining 18% were using no form of financial services at all. The final report of demand-side study was launched jointly by the Finance Minister Dr Ram Sharan Mahat and the Governor of Nepal Rastra Bank Dr Chiranjibi Nepal during the validation program held in Kathmandu on 13th August 2015.

Based also upon the facts highlighted by the demand-side research, a supply-side study was also carried-out during October 2015–March 2016 under the MAP program. The qualitative research was under-taken by the Cenfri in cooperation with a local consulting group Beed Management Pvt. Ltd. The research broadly covered stakeholder interviews, focused group discussions, respondent interviews, mystery shopping, in-depth analysis of secondary data and review of regulatory framework. Some 132 stakeholders including government regulators, banks and financial institutions, associations, cooperatives, insurance companies, capital market players, remittance agents were interviewed during the study to understand incentives for and constraints to financial inclusion and obtain insights into key market trends and data. Three focused group discussions were held among different groups and associations. A total of 50 respondents were interviewed to get insights into the nature of peoples' financial lives and their interaction with various financial services. Some on-the-spot mystery shopping were also carried-out at the counters of different financial institutions to gain the customer's perspective while shopping for financial services. It was also aimed at gathering all relevant information, including pricing, eligibility and terms and conditions on relevant financial products. Besides, in-depth analysis of data contained in regulatory databases or obtained from suppliers was also carried-out along with a literary review. Relevant legislations and other documents pertaining to the regulatory framework were also analysed during the course.

The key barriers identified by the research for low level of financial inclusion in Nepal includes: i) high level of irregular income and non-affordability of formal financial services, ii) poor financial and infrastructural facilities; which hinder expansion of access in rural areas, iii) lack of asset or assets deemed fit to be used as collateral, iv) tendency of avoiding formal channels, v) low level of literacy rate and awareness, vi) complexity of requirements for formal financial transactions, vii) lack of appropriate financial products for un-served market, viii) lack of strong consumer protection provisions, and ix) lack of financial awareness and customer education. Besides, the research has highlighted some of the market drivers which will help to unlock the barriers to financial inclusion. Some of these include: i) proximate reach of formal providers to the majority of the population is an issue, ii) locally based financial service providers dominate provisions, iii) relationship and community connections foundation for formal financial services functions, iv) tiered banking sector creating a well-structured market, but in need of greater differentiation of licensed competencies, v) there is a high level of dormancy and limited utilization of bank accounts, vi) commercial banks are mandated to provide deprived sector lending, vii) homogeneous product provision the status quo, viii) banks lack the willingness and ability to serve a wider base of retail customers, ix) consolidation and adjustments to capital requirements could have financial inclusion benefits, x) the insurance sector is yet to witness remarkable growth, and xi) across the board, the supervisory environment for financial service providers is highly engaged in the finer details of market operation. Overall, the research has identified six target market segments in defining and prioritising measures to improve financial inclusion in Nepal. They are: i) salaried workers, ii) micro small and medium enterprises (MSMEs), iii) remittance receivers, iv) farmers, v) irregular earners, and vi) dependents.

Based on the detailed studies of three major areas, i.e. demand, supply and the regulatory aspect, the road map for financial inclusion for Nepal has been developed. The final MAP report entitled "National Financial Inclusion Roadmap 2017-2030" was jointly released by the Vice Chairman of National Planning Commission Dr. Yuba Raj Khatiwada and Governor of Nepal Rastra Bank Dr. Chiranjibi Nepal during a grand program organized in Kathmandu on 15 July 2016. With a focus on making available a portfolio of affordable and relevant financial services in accordance to the needs of the people, the overall goal of the roadmap is set as *“Access to affordable finance for all by 2030, with increased access to formal financial services”*. The report has helped Nepal to define the financial inclusion agenda at national level which has highlighted six priorities for improving access to formal financial services in the country. They are: i) unlock constrained credit and savings market, ii) improve payment systems, iii) bolster risk-mitigation capabilities, iv) enhance and leverage locally based financial service providers, v) enhance financial inclusion support in national governance, and vi) strengthen consumer empowerment, protection and education. The study has highlighted 15 different interventions to address those six priorities.

For the implementation of the roadmap, MAP Nepal Financial Inclusion Action Plan has been subsequently developed. The action plan broadly outlines the short and long-term strategies and identifies specific activities that can be undertaken to achieve the priorities outlined in the roadmap. The action plan has been approved by the Board of Nepal Rastra Bank (NRB) on 26 December 2017 with constituting a high-level committee to implement the roadmap. The six-member committee is represented by the Senior Deputy Governor of NRB as coordinator and Deputy Governor of NRB, Joint Secretary (Financial Sector Management Division) of Ministry of Finance, department chiefs of NRB's Microfinance Promotion and Supervision Department and Payment Systems Department as members and department chief of NRB's Financial Institutions Regulation Department as member secretary.

Representatives of other institutions/bodies may also be invited in the meetings of the committee as per the requirement. A focal point consultant may be appointed to oversee the implementing task.

The MAP Nepal Financial Inclusion Diagnostic Report forms the basis of both the roadmap and the action plan. The diagnostic report provided a comprehensive assessment drawn from both the demand and supply side analysis. Before finalizing these reports, a series of discussions were arranged with different stakeholders/agencies and their inputs were incorporated as far as possible. The key agencies include Ministry of Finance, Nepal Rastra Bank, Central Bureau of Statistics, Bank and Financial Institutions, Associations of Bankers, Remittance and Payment Companies, Insurance Board, Insurance Companies, Department of Cooperatives, Associations of Cooperatives, Nepal Telecommunication Authority, Telecom Service Providers, Employees Provident Fund, Credit Information Bureau, different NGOs, World Bank, Asian Development Bank, KfW, Koica, Danida, DFID, etc. The Sustainable Development Goals (SDGs) set by United Nations, Financial Sector Development Strategy, Financial Literacy Strategy (proposed) and 'Envisioning Nepal 2030' were also taken in consideration while finalizing these reports.

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Abbreviations and Acronyms

A2F	Access to Finance
ABBS	Any Branch Banking Service
ADB	Asian Development Bank
ATM	Anytime Teller Machine
BFI	Bank and Financial Institutions
BLB	Branchless Banking
Cenfri	Centre for Financial Regulation and Inclusion
DCGF	Deposit and Credit Guarantee Fund
DFID	Department for International Development
DMAT	Dematerialized
EPF	Employee Provident Fund
FI	Financial Inclusion
FSDS	Financial Sector Development Strategy
FY	Fiscal Year
GNI	Gross National Income
GoN	Government of Nepal
IB	Insurance Board
IRDAI	Insurance Regulatory and Development Authority
KYC	Know Your Customer
MAP	Making Access Possible
M&A	Merger and Acquisition
MFI	Micro Finance Institutions
MoF	Ministry of Finance
MoCPA	Ministry of Co-operatives and Poverty Alleviation
MSME	Micro, Small and Medium Enterprises
MTO	Money Transfer Operators
NBA	Nepal Bankers Association
NEPSE	Nepal Stock Exchange
NIA	Nepal Insurance Association
NMBA	Nepal Micro-finance Bankers Association
NPS	National Payment Switch
NRB	Nepal Rastra Bank
PPF	Public Provident Fund
POS	Point of Sale
PSP	Payment Service Provider
PSO	Payment Service Operator
POT	Point of Transaction
R&D	Research and Development
ROE	Return on Equity
RTGS	Real Time Gross Settlement
SAARC	South Asian Association for Regional Cooperation
SDG	Sustainable Development Goals
SEBON	Securities Board of Nepal
SIPS	Systematically Important Payment System
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
USD	United States Dollar
VDC	Village Development Committee

1 Executive Summary

The MAP Nepal Roadmap and Action Plan was produced as part of the MAP Nepal Initiative. The Making Access Possible (MAP) Nepal Financial Inclusion Action Plan outlines the short and long-term strategies and identifies specific activities that can be undertaken by the government to achieve the priorities outlined in the MAP Nepal Financial Inclusion Roadmap 2017-2030. The MAP Nepal Roadmap and Action Plan intends to assist the government as well as private stakeholders to work towards the common goal of increased financial inclusion.

The MAP Nepal Roadmap was approved by the MAP Steering Committee and launched in July 2016. The Roadmap supports the government, regulators, meso-level institutions, market participants and development partners in developing plans and avoiding duplication/overlaps in order to work towards the goal of achieving financial inclusion in Nepal. The overall goal was identified as *being* ***"Access to affordable finance for all by 2030, with increased access to formal financial services"*** with a focus on making available a portfolio of affordable and relevant financial services in accordance to the needs of the people; while facilitating an accountable and expanding marketplace.

The MAP Nepal Financial Inclusion Diagnostic Report forms the basis of both the roadmap and the action plan. The diagnostic report provided a comprehensive assessment drawn from the Nepal FinScope Survey 2014 and a supply side analysis. The diagnostic revealed that the level of financial inclusion within the country was very moderate with only 40% formally banked and 18% using no form of financial services at all. The low levels of inclusion were a result of key barriers; such as 1) the high level of irregular income and non-affordability of formal financial services, and 2) poor financial and infrastructural facilities; which hinder expansion of access in rural areas.

The MAP Nepal Roadmap therefore identified six priority opportunities for increasing financial inclusion:

- Unlock constrained credit and savings market;
- Improve payment systems;
- Bolster risk-mitigation capabilities;
- Enhance and leverage locally based financial service providers;
- Enhance financial inclusion support in national governance; and
- Strengthen consumer empowerment, protection and education.

Interventions in these six priority areas hold the potential to achieve the large-scale impact in terms of meeting needs for financial service and products for a large number of adult consumers. The availability of a portfolio of financial services including payments, savings, credit and insurance; would not only help vulnerable segments to smooth consumption and protect from shocks (including vulnerabilities to catastrophes); while increasing their income-generating capacity, but also aid in the growth of the larger economy through mobilization of savings in productive sectors.

The implementation of the action plan will require coordination and involvement of different departments of the regulating bodies with the MAP Steering Committee taking the lead role. This would entail efforts of multiple ministries and institutions under a framework that pools in the resources and expertise of the actors involved.

Access to affordable financial services plays a crucial role in supporting the growth of the economy and reducing income inequality and poverty levels. Furthermore, it also benefits lower income segments by enhancing their ability to sustain livelihoods, improve living conditions and sustain shock events by improving of their ability to manage risks.

2 Introduction

The MAP Nepal Financial Inclusion Action Plan outlines the short and long-term implementation strategies for the Nepal Financial Inclusion Roadmap 2017–2030. The MAP Nepal Roadmap was approved by the MAP Steering Committee and was launched on 15th July 2016 with the participation of Honourable Mr. Bishnu Prasad Paudel, Minister, Ministry of Finance; Dr. Yuba Raj Kathiwada, Vice Chairperson, National Planning Commission; Dr. Chiranjibi Nepal, Governor, Nepal Rastra Bank; Ms. Judith Karl, Executive Secretary, UNCDF; His Excellency Kirsten Geelan, Ambassador, Embassy of Denmark to Nepal; and Dr Gail Marzetti, Head, UK Aid, Nepal.

The MAP Nepal Roadmap was developed in consultation with a wide range of stakeholders within the government, development partner community, service providers and other relevant organizations in Nepal. The overall goal was identified as being "***Access to affordable finance for all by 2030, with increased access to formal financial services***". The focus will be on making available a portfolio of financial services that are affordable and relevant to the needs of the people; while facilitating an accountable and expanding marketplace. While at the initial phase, private providers will require a favourable environment and incentives for innovative product development and adoption of new delivery mechanisms, the incentives need to be gradually eliminated to support free competition in the market.

The MAP Nepal Roadmap, which has now been adopted as the National Financial Inclusion Roadmap for Nepal, was initially produced as part of a series of documents in the MAP Nepal initiative. With the adoption of the roadmap, further consultations, research and analysis was conducted to prepare an Action Plan which details the suggested interventions and activities to attain the goal of the Roadmap. The ownership of this Action Plan lies with the Government of Nepal and therefore the government will be the lead agent in mobilizing development partners to support the action plan. The plan will be gradually built into ministerial and departmental work plans and budgets to form the country's long-term development plans.

This Action Plan will support the government, regulators, meso-level institutions, market participants and development partners to develop plans and avoid duplications in order to work towards the goal of achieving financial inclusion in Nepal. The Action Plan needs to be understood by all stakeholders to provide the needed direction and assist in the preparation of a multi-year rolling plan, annual plans and related budgets.

The adoption of the roadmap and implementation of the Action Plan will contribute the following specific benefits:

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

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

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

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

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

2.1 Financial inclusion in Nepal

According to the Making Access Possible (MAP) Country Diagnostic, Nepal's financial access shows that 61% of the adult population have access to formal financial services of which 40% are formally banked while 21% use other formal products. The other 21% of adults use only informal financial services, while 18% use no form of financial services at all, as shown in Figure 1.

Figure 1 Financial inclusion access strand (Nepal)

Source: FinScope 2014

Savings and transaction services are the most popular combination among those who use financial services in Nepal. FinScope shows that 59% of adults save (formal and informal), and around a third (33%) of adults use remittance products and digital transaction services (32% of adults), respectively. However, a majority of the adult population still use cash extensively to transact.

The FinScope Survey revealed that usage of financial services is positively correlated with income. Salaried workers and remittance receiver, who have relatively higher and consistent levels of income, are the best-served markets (overall), while the poorest target markets – dependants and irregular earners – are the least served; with the greater levels of exclusion. On the other hand, informal financial services are used relatively widely across all target markets, and formal financial services show relatively less uptake among the more rural and lower-income segments (irregular earners, farmers and dependants).

In terms of the percentage of people who have access to formal financial services, 71% of urban adults are financially included, compared to only 58% of rural adults. Meanwhile a larger percentage of rural adults have access to informal financial services than their urban counterparts. In terms of gender, males have marginally higher levels of access than their female counterparts. While 45% of male access financial services via bank accounts, the figure stands at only 36% for female. On other hand, females substitute this with greater use of informal and 'other formal' services. In terms of education levels, formal access to financial services is highest among those with tertiary education, while financial access is highest among those with only primary education; where informal and 'other formal' channels play a greater role than at higher levels of education.

2.1.1 Financial Inclusion for Development

Improving financial inclusion has been a key priority for the Government of Nepal with policies encouraging financial inclusion in place since the 1990s. The government's Sustainable Development Goals (SDG) 2016-2030 emphasizes the need to improve access to finance and facilitate inclusive and sustainable development.[1] Under this, access to credit for small and marginal farmers has been identified as a constraint and thereby is a focus area for intervention. The specific SDG 10 for Nepal includes raising the proportion of farm households with access to micro-finance from 24% in 2014 to 40% in 2030.

The UN Development Assistance Framework (UNDAF) for Nepal focuses on improving access to economic opportunities and adequate social protection for vulnerable groups. Under this, the aim is to improve the capacity of financial service providers and avail incentives to responsibly extend financial services to vulnerable groups.[2] The availability of a portfolio of financial services including payments, savings, credit and insurance; would not only help vulnerable segments to smooth consumption and protect them from shocks (including vulnerabilities to catastrophes); while increasing their income-generating capacity, but also aid in the growth of the larger economy through mobilization of savings in productive sectors.

2.1.2 Financial Sector Stability Scenario

The World Bank defines a stable financial system as one that is capable of efficiently allocating resources, assessing and managing risk and is able to absorb the shocks; primarily through self-corrective mechanisms, preventing adverse events from having a disruptive effect on the real economy. A stable financial system is crucial for the implementation of financial inclusion programs and expansion of access to underserved and unserved markets. The broad scenario in Nepal is as follows:

- ***Consolidation in the banking sector***: NRB's mandatory regulation to increase BFI's capital base by the end of FY 2016/17 along with the provisions offered in Merger and Acquisition (M&A's) policies has led to a substantial financial consolidation in the banking sector. The increased capital will not only strengthen banking sectors investment and risk absorption capacity, but also help them to invest in infrastructures required for accelerating growth; such as opening new branches, venturing into other aligned businesses, adopting new technologies, developing well equipped human resource, and R&D amongst others. Banks need to venture into newer markets with innovative products and services as the existing market is highly competitive and saturated.

- ***Capital market needs geographical diversification:*** The capital market is currently catering mostly to the residents of Kathmandu valley which contributes over 95% of the total transaction and turnover in NEPSE. With the implementation of dematerialized (DMAT) securities transaction in the stock market since January 2016, there is greater opportunity for people outside Kathmandu valley to participate in the secondary market as a lot of logistical issues such as sending physical certificates to Kathmandu for ownership transfer and other processes such as signature verification need not be done. Currently only five cities outside Kathmandu valley has stock brokering offices that provide brokering services. Moreover, initiatives are in place to introduce online trading of shares with the Securities Board of Nepal (SEBON) planning to implement semi-online trading system to enable online trading while the process to implement a fully automated system is underway.

- ***Insurance has tremendous scope for growth:*** With the objective to enhance the overall

1 http://www.npc.gov.np/images/download/23rd_Jan_final_for_print_Sustainable_Development_Goals.pdf
2 http://www.np.undp.org/content/dam/nepal/docs/legalframework/UNDP_NP_UNDAF%202013-2017.pdf

risk-taking capacity of insurance companies, the Insurance Board (IB) is planning to increase the minimum capital requirement of insurance companies. With the increment in capital requirements, insurance companies can be expected to invest in infrastructure such as branch expansion, human resource, product and service development, awareness programs and marketing, and technology amongst others.

Moreover, to provide access to insurance for low income people, the regulator has made it mandatory to distribute micro insurance up to 5% of the total portfolio. Furthermore, the government provides subsidies to farmers taking insurance; under the Crops, Livestock and Poultry Insurance Directive of 2013, and has allocated specific districts to each non-life insurance company to extend agriculture insurance.

2.2 Barriers to financial inclusion in Nepal

The research highlighted a number of barriers to the use of formal financial services and products in Nepal which are summarised in the paragraphs below.

- Irregular income and non-affordability of formal financial services is a major barrier for financial inclusion in Nepal. People lack assets; which can be used as collateral, resulting in lower uptake of credit services from financial institutions.

- Poor financial and other infrastructural facilities in rural areas prevent rural adults from accessing formal means of financial services. The geographical terrain and low levels of infrastructure development exacerbate proximity barriers.

- Lower literacy rates and awareness levels among consumers has led to lower levels of appreciation of financials services and a decreased ability of people to engage with formal financial institutions.

- Banks in Nepal offer a range of homogeneous products that are limited in terms of their usefulness to most of the population. Most financial products and services are designed to serve needs of the urban/semi-urban population and lack innovation.

- Lack of strong consumer protection provision is also an issue as there is a general lack of awareness of customers' responsibilities. Meanwhile the system for handling grievances is inefficient.

Other barriers to financial inclusion in Nepal include:

- Filling of the Know-Your-Customer (KYC) forms is often seen as a hassle by a majority of people; discouraging them from entering the banking system. Also, as a quarter of the adult population in the country lack citizenship certificates, they are rendered ineligible to access formal banking channels.

- Existence of a large informal economy means a culture of avoiding formal channels wherein entering formal channels is met with resistance. Higher costs attached to documentation requirements and the potential for increased tax scrutiny act as disincentives in associating with formal providers.

2.3 Implementation approach

The activities recommended in the action plan will require the involvement of different departments of the regulating bodies – Ministry of Finance, Nepal Rastra Bank, Securities Exchange Board of Nepal, Beema Samiti and Nepal Telecom Authority, other related public and private sector entities; with the Steering Committee playing the lead role. This would entail the efforts of multiple ministries and institution under a framework that pools in the resource and expertise of the actors involved.

The MAP Technical Committee will make recommendations on the action plan where after the UNNATI project executive board will review the recommendations and subsequently approve the action plan. Nepal Rastra Bank's Micro-finance Promotion and Supervision Department forwards the action plan to the Governor's office for approval, the process then entails the report being forwarded to NRB's Board of Directors for final approval.

Nepal Rastra Bank will anchor the project as the lead implementing agency with technical support from UNDP and UNCDF. The project is funded by DFID and the Government of Denmark.

The key stakeholders required in the implementation process are shown below:

	CATEGORIES	ROLES & RESPONSIBILITIES
1	Regulatory Authorities	1. Regulatory and supervisory support to FI 2. Advice and guidance to institutions on achieving Financial Inclusion targets.
2	Ministries	1. Championing and coordination of specific Initiatives 2. Budgets 3. Ensure that initiatives within ministry comply with Policy statements and with best practice
3	Associations & Networks	1. Represent and communicate members' ideas in Financial Inclusion 2. Encourage best practice among members
4	Sector Entities (Public And Private)	1. Implementation of best practices 2. Feedback to coordinating bodies
5	Development Partners	1. Financial and Technical support 2. Coordinate amongst each other and with Government

Table 1 Roles and responsibilities of stakeholders

The activities to be undertaken during implementation stems from the six roadmaps. The Steering Committee will retain the overall responsibility for the activities and will delegate to relevant sub-groups or departments for actual implementation. The action plan details the activities within each priority area, and these will form the basis of subsequent work plans.

2.3.1 Development Partners' Context

The action plan will provide a platform to coordinate the efforts of development partners to ensure synergy and facilitate positive development of the financial sector. Nepal has witnessed a variety of development driven initiatives related to the strengthening of the country's financial sector and aimed towards improvement of access to finance. There has been a close correlation between development partner policies and the country's financial sector development.

The action plan will outline the immediate priorities for financial inclusion based on customer needs and the national context while also accommodating stakeholder views including development partners. This will help to ensure that efforts are not wasted on duplication and existing projects and expertise is leveraged. The action plan can be an important basis to help guide future initiatives by development partners.

The key development partners that are currently playing leading roles in supporting financial inclusion at a national level include:

S. No	Development Partner	Active Projects	Amount
1.	World Bank	Nepal Third Financial Sector Stability Credit Project	USD 100 million
		Strengthening Systems for Social Protection and Civil Registration Project	USD 150 million
2.	Asian Development Bank	Capital Market and Infrastructure Capacity Support Project	USD 5 million
3.	DfID	Access to Finance Programme	USD 28.78 million
		Sakchyam Access to Finance	USD 29.6 million
4.	UNCDF	CleanStart	USD 1.3 million
		Mobile Money for the Poor (MM4P)	USD 1.9 million
		Nepal – Access to Finance (A2F)- UNNATI	USD 1 million

Table 2 Key projects supporting access to finance in Nepal

3 Implementation Areas

The MAP diagnostic has identified six priority opportunities for increasing financial inclusion. Interventions 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. The same has been highlighted below:

- Unlocking the constrained credit and savings market to ensure wide-scale savings mobilisation and improve the ability of Nepali adults to efficiently invest in assets and improve productive capacity.
- Improving payments system to develop a cost-effective, reliable and accessible payments system that can benefit a vast majority of the population.
- Bolster risk mitigation capabilities to improve the capabilities of adults in facing risk events that will have a significant impact on their financial situation; both current and future.
- Enhancing and leveraging locally based financial service providers to note a key supply-side player in the financial inclusion space and explore how it might be possible to expand its impact.
- Enhancing financial inclusion support in national governance.
- Strengthening consumer empowerment, protection and education.

The implementation areas for this action plan has been categorized as interventions for each priority and the subsequent activities required to implement the intervention. These activities are further categorized as short-term and long-term depending on the time frame required to fulfil the activities.

Priority 1: Unlock constrained credit and savings market

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

Intervention 1: Expand and promote non-collateralized loans products

Financial institutions in Nepal provide loans, a majority of which are asset-backed and collateralized. At present, there are limited non-collateralized loan products offered by financial institutions based on group guarantees, cash flow or under project financing. The percentage of non-collateralized loans in the overall portfolio is modest and case specific. This has been a primary inconvenience for the uptake of credit for people who do not have fixed assets, whose need for loan is not large or who fail to meet the stringent requirements for availing non-collateralized loans, resulting in the sourcing of credit from informal providers. It therefore becomes important to promote innovative and risk-based mechanisms to avail credit without collateral for the excluded and underserved population to reduce the uptake of informal credit and facilitate uptake of formal credit while also providing adequate risk mitigation cushions for the providers.

Short Term

- **Accelerate the Implementation of Secured Transaction Registry**

  The financial market in Nepal is likely to see progress with reform measures put in place to increase access to credit through the implementation of Secured Transactions Registry (STR) and related Acts/Regulations. The STR Act was endorsed by the Parliament in 2006 to allow lending to individuals based on the registration of certain categories of movable and intangible assets. In addition, the Act has provided a legal framework for: (i) the establishment of an entity to be called the Secured Transactions Registration Office; (ii) the creation of a registration database in which public record of obligations secured by movable property can be made; (iii) the establishment of priorities in case multiple obligations of the same security giver are secured by the same collateral; and (iv) a means to uniformly enforce security interests, should the security giver default. Currently, the Ministry of Finance has mandated the Credit Information Bureau for implementation and operation as the STR Office.

This legal structure is unique to Nepal and may be challenged during its implementation but there needs to be adequate resolutions to cope with implementation issues. One of the issue is related to the security agreements that were made prior to the start date of the registry and the claims the previous financial institutions will have. Therefore, measures need to be deployed to cope with the problems to ensure effective use of collateral in increasing access to credit especially for the SME segment and the poor who do not own assets. FSDS has also identified these implementation issues and have recommended for the review of the Secured Transaction Act and ensure its effective implementation.

Implementing Agency: *At present Ministry of Finance has mandated Credit Information Bureau (CIB) to operationalize the Secured Transaction Registry. CIB has put all the system and process in place to implement the STR, however operational issues encountered in the implementation of STR needs to be resolved jointly by NRB, NBA and other BFI Associations. MOF needs to review the status and work jointly with CIB, NRB and NBA for immediate implementation of STR.*

- **Developing and Promoting Value Chain Financing**

The nature of farming in Nepal is largely subsistence based with very little savings creating a funding gap for working capital and small investments, thus, compelling farmers to take credit from informal sources at high interest rates. Although at the rural level, saving and credit cooperatives and MFIs are providing credit, this is limited and is generally provided as a livelihood strategy and is not backed by any technical services or support. In addition, though they remain an important finance provider to the rural segment, they are limited in their capital and have little potential to strengthen the value chains. Thus, providing a flow of funds across value chains offers opportunities to reach out to all actors including those at the bottom line. This approach in Nepal is not new but is yet to be widely used; except for a few interventions initiated by development partners (e.g. warehouse receipt schemes and contract farming). This approach largely operates to strengthen the linkages between financial institutions and value chain actors to recognize and formalize lending. In order to sustain, the government should devise activities/services and embed this approach as part of the larger strategy for increasing loans and making financial markets more inclusive; such as encouraging the development of VCF products as part of the priority sector or deprived sector lending through BFIs.

Implementing Agency*: Under the current provision of priority sector lending and deprived sector lending by BFIs, NRB can co-ordinate with BFI Associations to introduce value chain financing products. The development partners can provide technical assistance to help financial institutions in development and implementation.*

- **Effective operation of Credit Guarantee schemes**

Government initiatives to encourage/assure credit to small borrowers with provisions backed by guarantee are already in place but has not come into full operation. A Deposit and Credit Guarantee Corporation (DCGC) was established to undertake credit guarantee for loans provided to priority sector by commercial banks. However, this proposition was changed through a Deposit and Credit Guarantee Fund Bill, 2073 which set up a Deposit and Credit Guarantee Fund (DCGF); wherein Banks and financial institutions (BFIs) will have to pay 0.5% of their proposed paid-up capital to the Fund (Deposit and Credit Guarantee Fund, n.d.).

As per the Bill, the DCGF will operate two separate funds – a Deposit Guarantee Fund and a Credit Guarantee Fund. Under the Credit Guarantee Fund, loans taken under Livestock Deprived Sector SME and Agriculture are guaranteed. However, there are issues on operational procedures for claiming bad credit under priority sector lending under this scheme which requires streamlining to ensure efficient and effective implementation. FSDS also recommends the development of legal and institutional structure for credit guarantee to increase the scope and limit of coverage by the credit guarantee scheme.

Credit guarantee is important as it enables providers to move into newer markets and provide formal credit through innovative and customer focused products. Thus, full implementation and operation of DCGC is important for expansion of credit and financial inclusion and needs to be pushed.

Implementing Agency: *Ministry of Finance needs to take a lead to assess the lag in implementation of Credit Guarantee by DCGF. These institutions along with NRB and NBA can jointly work together to implement the Credit Guarantee Scheme.*

Long Term

- **Expanding the coverage of the Credit Information Bureau**

One of many ways to bring about reform in the financial sector in order to improve access to credit is to increase information on potential borrower's creditworthiness through the establishment of a Credit Information Bureau. Credit Information Bureau has been incorporated as per NRB Act, 2002 with the mandate to collect and collate credit information of borrowers who borrow more than NPR. 1 million from lending institutions. This will prove beneficial in ensuring transparency and improving the performance of credit markets through information sharing on the pool of borrowers and defaulters.

Presently, NRB mandates that all A, B, C and D class BFIs engaged in credit must furnish details of borrowers to the Credit Information Bureau. However, this has not been set as a mandatory requirement for cooperatives with transactions above 50 thousand. On doing so, it will prove to be immediately beneficial in a number of ways such as:

- Facilitate in tracking loans and prevent cases of multiple borrowings from MFIs.
- Credit reports from CIB will help the BFIs to conduct credit appraisals based on credit history of the client.
- The CIB would have a more comprehensive database of the borrowers as well as the quality of the assets.

In the implementation of borrower records from MFIs, the CIB must progress towards carrying out credit rating of individuals using different parameters/information collected from a wide variety of sources (Telecom, Electricity, Water etc.). Although the concept is new in Nepal, this system has been in existence in more developed financial markets. Moreover, credit bureaus even keep record of an individual's credit score; based on their credit history and income, based on which lenders and credit card companies decide whether the individual qualifies for a loan, as well as what interest to charge.

FSDS has recommended in formulation of the special act for Credit information to facilitate debtor's financial evaluation.

Implementing Agency: *NRB should take the lead in making it mandatory for all MFI's to provide information to the CIB. NRB, CIB and NBA can jointly explore on developing credit products based on credit scoring. Development partners working in the areas of access to finance can provide technical assistance to develop modalities to help BFIs introduce these products.*

Challenges

The Nepali financial market is not developed enough to bring into implementation newer concepts and ideas of STR, VCF or individual credit rating. Thus, implementation is challenging as these concepts will be relatively new to Nepal and there will be inadequate resolutions to cope with its implementation. These issues include the willingness of banks to implement or promote value chain based financing given the market situation and the risks associated with little margins. Similarly, BFIs also do not have the expertise to execute them. Additionally, MFIs are under capacitated to participate in such provisions, meanwhile there may also be unwillingness on the government front to enter the murkiness of politics governing these MFIs.

Intervention 2: Affordable and relevant credit products

Despite expansion of credit by BFIs along with the penetration brought about by the development of MFIs and cooperatives in the last 10 years, a large segment of the population still does not have access to credit and are borrowing from the informal sector. Most of the rural population do not have access to credit because they do not meet all the criteria required for borrowing from banks; in terms of collateral, reporting, cash flow etc. This therefore provides an opportunity to develop affordable and relevant credit products for this segment leveraging the current provision of NRB on priority and deprived sector lending.

Short Term Activities

- **Leverage the network of MFI to ensure effective implementation of Deprived Sector Lending Provision:**

  Commercial banks have been lending through MFIs—class 'D' financial institutions—to meet the mandatory percentage requirements of deprived sector lending set out by NRB. Apart from commercial banks, development banks (class 'B' institutions) and finance companies (class 'C' institutions) are also required to float a percentage of their total loan portfolio to the deprived sector set by NRB (NRB, 2016).

  NRB has limited the interest rate spread for MFIs at 7% and halted the issuance of new MFI licenses. NRB has also issued a circular, capping the interest rate ceiling that can be charged by MFIs at maximum of 18% (NRB, 2016). Despite all these measures, interest on the loans have been the biggest expense. People living in the remote areas are still outside the reach of MFIs. However, cost is not always the key factor that determines borrowings, rather credit products that meet the particular needs plays a significant role.

  This could be achieved through enhanced collaboration and co-ordination with providers that already exist such as MFIs, cooperatives community based lending etc. to leverage their local knowledge and network to expand credit. Working modalities such as the agency model can be developed with these institutions to scout and introduce mature borrowers to commercial banks to meet their credit requirements. These institutions can also be used to monitor and keep track of loan disbursed under their recommendation. This can be achieved only if this is encouraged and legally provisioned by the NRB.

***Implementing Agency**: Nepal Rastra Bank should take the lead and create an enabling environment to encourage partnerships between BFIs and MFIs to work together to ensure proper implementation of deprived sector lending to ensure that credit facility is made available in remote areas.*

Challenges

The success of innovative way to implement deprived sector lending of BFIs using the network of MFIs is reliant on the collaboration between BFIs. However, there are possibilities of failure as BFIs may utilise their branches and networks instead of joining hands with MFIs. Similarly, there may be cases of conflict resulting from difference in working modalities and requirements.

Intervention 3: Long term savings products with real returns

Long terms saving products promote asset accumulation which help in creation of a buffer against financial shocks and help to relax credit constraints. Currently long-term savings are limited to fixed deposits (FD) with a general term of two years. This is due to the absence of a well-developed bond market as BFIs are unable to benchmark long term interest rates. The FDs offered by majority of the BFIs, offer interest which is lower than the inflation rate. These FD products are further subject to tax which erodes the returns on deposits. Hence, there is a need for saving products which provide real returns in the long run along with tax benefits to incentivize investment in long term saving products.

Short Term

- **Introduce Long term saving products by BFI's**

  For a majority of Nepali adults, savings is the key financial product used for meeting education expenses, retirement expenses, emergencies and starting or expanding businesses. The usage case of savings indicates the need for long term saving products to meet these long-term goals. There is scope for BFIs to design, develop and market long terms saving products for these usages. The majority of saving products currently offered by providers are short term products with low returns. Even fixed deposits are for short duration spanning between 1-2 years. The introduction of long term saving products will help BFIs to reduce deposit credit mismatch currently faced. Long term saving products will benefit consumers in the sense that long term savings will yield higher return while banks will have long terms deposits at their disposable which can be used to finance productive sectors of the economy or invest in long term projects.

  In order to introduce long term saving products; a collaborative workshop with various stakeholder in the banking and financial sector should be organized to identify best regional and international practices followed for developing long term saving products. This includes identifying and highlighting the short comings of the current regulatory framework and recommending the necessary amendments to key policies, rules and regulation in order to excite BFIs to market long term saving products.

  ***Implementing Agency**: Nepal Rastra Bank will be the lead agency for developing the necessary rules and regulation for long term saving products. The implementing institution are BFIs who will work on developing long terms saving products based on the rules and regulation set forth by the NRB.*

Long Term

- **Explore possibilities of introducing Government led savings schemes**

  Introduction of government guaranteed long term savings scheme with tax benefits will motivate people to save for long term goals such as retirement, education, and asset accumulation as well as meeting unforeseen life events.

  These schemes can be debt instruments issued as savings certificates (National saving certificates in Indian or Saving Bonds in USA) backed by the government. It is necessary that these saving schemes should be in small face value denomination with various maturity periods enabling even the lowest income individuals to save. The saving certificates should be liquid in the sense that it can be mortgaged to gain access to credit. This will also enable BFIs to offer longer term Fixed Deposits as interest rate can be benched marked against the rate of return of such saving bonds.

  The incentive for the government for introducing such long term saving schemes is that it can be used as instruments for promoting long term savings as well as a medium for raising funds for financing national priority projects which leads to prosperity of the nation. It is important to explore possibilities of introducing government led savings schemes by conducting an in-depth feasibility study of possible government saving schemes and type of products that could be introduced. The feasibility study should consider few of the successful government led saving schemes in the global context and align it as per the country's requirement.

  On the basis of the feasibility study a recommended framework of activities will be developed for introducing government led savings schemes. The recommended framework will clearly enumerate the various policies that need to be adopted, the governance structure, the institutions responsible for implementation of the scheme, areas of deposit mobilizations and the regulatory framework for introducing government led savings schemes. Based on the recommended framework, it will be important to hold a workshop for all the stakeholders. The objective of conducting the workshop is to disseminate the findings of the feasibility study, discuss the recommended framework, role of various stakeholders, understand the various challenges for each of the stakeholder and formulate solutions and recommendation to be made. Based on the feedback and recommendation from stakeholders, the recommended framework will be amended.

  Implementing agency: *The Ministry of Finance should conduct an in-depth study on the feasibility of government savings schemes and products that can be managed through EPF, PPF or designated BFI'*s.

Challenges

Though there are no restrictions from the Nepal Rastra bank on marketing of long term saving products BFIs have not introduced long-term saving products. Hence, one of the biggest challenge is the reluctance and willingness of banks and financial institutions to offer long term saving products. One major challenge for introducing government-led saving schemes will be identifying the institution that will govern the saving schemes. In this context, there may be a need to setup an autonomous agency attached to the Ministry of Finance to initiate all policy matters and issue directives for the execution of policy decisions of the central government and review the national savings schemes from time to time. The other challenges include introduction of policies and regulations for the governance of the government led savings schemes under the current state of political instability.

Intervention 4: Relevant affordable savings product

Given the diversity of financial conditions, social settings and economic circumstances of Nepali adults, there is no one-size-fits-all savings solution to support every low to moderate income level. In the current context saving products offered by BFI's are homogenous. There is a mismatch in the demand and supply of savings products. Hence the functionality of the existing savings products needs to be expanded to include the broader objectives of savings.

Short Term

- **Innovative approach to formal banking by leveraging digital payment channels**

  Proximity to formal financial service providers is a key impediment for access to finance. Many people refrain from saving in formal institutions because the cost of savings is higher than the savings itself. The cost of saving is especially high in rural areas because banks are located far away.

  A key problem to providing financial services in rural areas through branches is the high costs inherent in traditional brick and mortar banking methods. Also, the amount of money spent by the financial service provider to serve customers in rural areas with small balances and conducting small transactions is simply too great to make such accounts viable. By leveraging low cost digital payment channels in partnership with non-bank payment service provides and financial service providers; saving products can be offered in a commercially viable way by reducing fixed costs thereby improving ease of access which encourage customers to use the service more often. With the introduction of non-bank payment service providers, traditional saving products can be offered through shared infrastructure thereby minimizing fixed and operational costs.

  In order to leverage digital payment channels there is a requirement for a USSD (Unstructured Supplementary Service Data) gateway channel dedicated to financial services. The USSD channel enables users to transmit information using GSM network channels without the need for internet connectivity. Hence, in the context of Nepal, smartphone and smartphones applications which connect users with providers through the internet still exclude the vast majority of the poor in rural areas, while short message services (SMS) have security and user experience shortcomings. Thus, the introduction of USSD channel is a cost effective mobile technology that enables users to access mobile financial services at a low cost.

  The Nepal Telecom Authority (NTA) will have to develop clear guidelines on USSD channel for financial services. Further there will be a need to consult various stakeholders to drive discussion on the pricing policy of USSD channels with telecom operators, non-bank payment service providers and financial service providers which facilitates competition and participation

  Further there is opportunity to collaborate with MFIs to provide financial services by leveraging their network in rural areas. The concept here is to move away from the individual agency model to partnering and creating institutional agents that are secure, regulated and have the knowledge and capacity to manage liquidity. The institutional agency model minimizes fixed costs by leveraging the existing network and infrastructure of MFIs and which reduces the need for class A, B and C banks and financial institution to invest in their own infrastructure.

  Implementing agency*: NTA will need to develop guidelines on USSD for financial services including develop a pricing policy after consultation with various stakeholders. MOF and NRB to consider regulatory issues relating to use of digital systems for increasing savings. Consultative meetings with non-bank payment service financial service providers will be necessary for the necessary regulations to be developed and accepted. Multi-laterals could assist the NTA in developing guidelines related to USSD channel.*

Long Term

- **Introduce market driven low cost commitment saving products**

  It is necessary for financial institutions to provide low cost savings products which can be a simple and effective way to encourage savings accumulation towards life goals and large lump sum expenditures. There are limited options available for low income household who want to save rather than take credit. Given the challenges of saving such as need for funds for everyday expenses, lack of banking services in rural areas, low cost banking services tailored to the needs of low income groups may overcome some of the hurdles to savings. Evidence shows that low-income households can and do save, though not as much or as frequently as they want to, often due to immediate temptations. Hence products such as commitment savings products work because they allow household to set aside money for a predefined goal that they are keen to achieve in future. Commitment accounts help people regulate themselves by forcing them to save for specific purpose for a certain period for example, education savings accounts, medical saving accounts, automatic drafts from checking to investment accounts and direct debits from pay checks are all forms of commitment savings products.

  Commitment savings accounts can be used for consumption smoothing when changes in income over time are predictable. It often leads to long-term behavioural changes and big increases in investments. The accounts appear to increase savings in the short term, and generate longer-term benefits. They are popular with banks as well as customers as such accounts often stabilize bank portfolios. The self-employed (MSMEs) and irregular income earners can use commitment savings accounts to save money from high-income periods to support consumption in low-income times. Remittance receivers and dependents can also use such products for consumption smoothing and risk mitigation (precautionary savings).

  The flow of remittance in Nepal have a strong bearing in the national economy. Remittances inflow has transformed the lives of rural population. However, the retention of remittance in formal channels is low. Hence, there is opportunities for BFIs to introduce commitment products that aim at channelizing remittance to specific savings.

  In Nepal, commitment saving products may help solve many of the issues faced by low income target market segments with relation to financial commitments. To introduce commitment saving products it will be necessary to conduct research on the various types of commitment saving products designed for low income target markets and their impact on the standard of living. Based on the findings of the research, a feasibility study should be conducted to ascertain what type of commitment products are suitable keeping in mind the demographic profile and income level of the adult population of the country.

  Implementing agency*: DFID can provide technical assistance to help existing financial institutions to include commitment savings products in their product service. Financial assistance can be provided by donor agencies to the providers to encourage and incentivize market innovation.*

- **Implement One Household One Account policy with a free zero balance account to unlock savings**

  GoN's financial inclusion plan of one household one account should be implemented strategically to include the households of the rural areas of Nepal. A free zero-balance bank account and a debit card which allows for electronic payment can be provided through such accounts. People in the rural areas can be provided banking facility along with government subsidies and social security benefits directly credited to the accounts of beneficiaries, enabling them to draw money from the bank or business correspondents in their village itself (Vijay, 2013). In the later stage, micro-insurance and pension schemes can also be provided for those in the unorganized sectors (Gakhar & Nataraj, 2014). To ensure draw in of users for the scheme, accounts under the scheme should be bundled with additional frills and benefits such as accidental insurance, life insurance, deposit guarantee, credit facilities to attract individuals to take up this scheme. Likewise, it will be necessary to include financial literacy programs aimed at disseminating information on the scheme.

Although the GoN through its budgetary speech has announced the concept of one household one account policy there is need to conduct a study to determine the modality for implementation of the one household one account policy. The study should make a clear assessment of the payment flows in a manner that priority actions are drawn from the study. While conducting the study it is also important to take into consideration the various works that are being done by other departments in relation to digitization of government payments including Social Security and Allowance payments.

Implementing agency*: The Ministry of Finance, NRB and BFIs should be able to work closely with MoF taking the lead with technical assistance of institutions such as World Bank, UNCDF, DFID who are already working in this area.*

Challenges

Leveraging of digital platforms for affordable saving products come with several challenges especially with a country having access to limited infrastructure. The availability and reliability of digital platform depend on the robustness of the data networks in place in rural areas. Though mobile connectivity is greatly expanding there are still large areas with limited or no mobile data connectivity. Further the absence of USSD channels for introducing a low cost secure and reliable mobile transactions is seen as a major challenge for introducing financial services.

Under the institutional agent model, agents operating under the digital platform may not have adequate training to help resolve issues related to transaction problems and fraud. Further to leverage the digital platforms the regulators have yet to determine what financial services will be allowed or what entities can provide the digital services. The willingness of BFIs to introduce low cost commitment savings products is a major challenge as low value of savings may not be attractive to banks. The value of savings of low income target market segment may not justify the operation cost of such commitment products.

The GoN's announcement to make banking facilities available to all households in Nepal is a positive step towards financial inclusion. The major challenge seen of such a scheme are those of account duplication and account dormancy. The challenge of duplication can arise from target based account open approach taken by banks. Dormancy will be a major challenge because zero balance accounts still cost the bank in terms of maintenance of account. As a result, banks could be hesitant to support such schemes.

Intervention 5: Enabling Regulation

The financial sector has seen a rapid growth in size and volume, attributed to the exponential number of providers providing financial products and services. Despite this growth, a large segment of the population still does not have access to formal financial services due to both access and usage barriers. In the context of the changing financial markets- expansion (or development) of financial products and services is limited by the absence, or at times due to the narrow scope of the existing regulatory framework. Thus, it becomes imperative to draft/amend the regulations to facilitate for development and expansion of financial services.

Short Term

- **Legal Review of Insolvency law and Commercial bench**

  Since the inception of the Insolvency Act in 2063 (2006), there has not been much progress or achievement in terms of pursuing insolvency proceedings thus limiting the ability to discern solutions to persisting problems. Contradictions and overlap between different commercial laws and its interpretation has further limited the effective implementation.

  Similarly, in 2009, the Commercial Bench was established for appropriate and speedy dispensation of justice in commercial case. These Commercial Benches are provided with jurisdiction to look after cases of Secured Transaction Act, 2063, Competition Promotion and Market Promotion Act, 2063, Company Act, 2063 and Insolvency Act, 2063 and Banking Offence and Punishment Act, 2066. No special procedure is prescribed for Secured Transaction Act and Banking Offence Act. The Commercial Bench has jurisdiction over the Banking Offense Statute, but it does not have jurisdiction over Banking and Financial Institutions Act (BAFIA).

Both the insolvency law and commercial bench is vital in the expansion of credit markets and especially in the context wherein banks are introducing innovating non-collateralized loans. However, the laws need to be reviewed to assess the gaps, update the provisions and provide recommendation to strengthen its implementation FSDS has also highlighted the need to review the Insolvency Act to harmonize it with other related acts.

Implementing Agency: *A joint task force under the leadership of Ministry of Finance and including representatives from NRB, BFI Associations, Insolvency Practioneers Association to review the current problems with the Insolvency Law and revisit the mandate given to the Commercial Bench to make it more comprehensive and facilitate its working areas.*

Long Term

- **Establish supervision mechanism for Co-operatives**

  Financial access and penetration currently achieved by MFIs and cooperative are highly commendable. However, their rapid growth and expansion have raised the need for these institutions to be brought under the purview of strong regulatory and supervisory parameters. A policy input paper entitled 'Legal and Supervisory Structure for the Financial Institutions that are not Under Supervisory Perimeter of NRB' prepared by NRB states that formation of a second-tier institution would help prevent financial crisis resulting from the lack of monitoring and supervision of such institutions. It is important to establish a supervision mechanism for co-operatives as some of them have been working with large portfolios. Lack of strong monitoring mechanisms (both human and financial) has also limited the potential expansion of financial products through the cooperatives. The new co-operatives Acts has mandated NRB to supervise co-operatives that have transactions above 50 crores. Thus, it is suggested that a supervision framework and mechanism be designed, developed and implemented to govern the cooperative sector and ensure financial stability. It also becomes important to build the capacity and provide assistance to the co-operatives on the best practices and financial reporting.

  Implementing Agency: *Ministry of Finance and Ministry of Cooperatives and Poverty Alleviation to take the lead based on the study carried out by NRB and in consultations with the BFI Associations to develop a supervision mechanism for Co-operatives. The technical support and expertise required for developing the supervision mechanism and strengthening and building the capacity of co-operatives on reporting can be supported by the development partners.*

Challenges

The implementation of the supervision mechanism for cooperatives will be a challenge because of the large number of cooperatives that exists. This makes it a daunting task as it may limit the government's willingness to take on such a reform. Similarly, there are other avenues which have not been explored and executed such as the full implementation of the insolvency law and the commercial bench. The pilot of these reform measures will open possibilities on a wide range of complexities, confusion and delays as well as opportunities to address the issues to ensure smooth implementation and create a favourable environment.

Priority 2: Improve Payment System

Objective: Deliver benefits to the majority of the population through development of a cost-effective, reliable and accessible payment systems.

Intervention 1: Develop retail payment infrastructure

A well-functioning payments infrastructure will affect the speed, reliability and cost of domestic and international transactions. In a highly cash-based economy, development of retail payment infrastructure will improve the ability to transact remotely and will also facilitate remittance which is a key income source in the economy. The adoption and usage of digital payments would entail the increased usage of payment cards, direct fund transfers, direct debit transfers, mobile money and payment instruments such as e-money instruments, internet and mobile payments.

The current usage of payments infrastructure is inefficient as sufficient touch points are unavailable for customers to access their digital money. Retail infrastructures are limited in number and largely concentrated in urban areas whereby it is crucial that investments are made in expanding the infrastructure within and outside urban areas in Nepal so to increase the uptake of digital money. In a highly cash based economy like Nepal, the adoption of digital payments requires the presence of different layers of retail payment infrastructure. The following activities can be adopted to support the development of retail payment infrastructure.

Short Term

- **Encourage Payment Service Providers to invest in digital infrastructure**

  In Nepal, BFIs currently are the key payment service providers. The recent directive from NRB has recognized and regulates Non-Bank Payment Service Providers including operators managing payment infrastructure Expansion of digital transaction capabilities requires investment in IT infrastructure, human resource and telecommunications. When establishing a payment infrastructure, providers need to work within their cost structure ensuring that they can cover the cost of such services. This would entail charging the customers for the additional or upgraded services being offered.

  NRB's circular on service fee only allows BFIs to charge customer service fees equivalent to the cost of the specific services. This to an extent discourages investment in improved or new infrastructure as this could entail charging fees higher than other competitors. This creates a lack of incentive for providers to upgrade system or invest in the expansion of payment infrastructure. The Central Bank needs to review and explore incentives for the providers to invest in digital infrastructures. The Central Bank needs to review and explore incentives for the BFIs to establish digital infrastructures. The circular on transaction fees can be reviewed such that instead of a blanket restriction on the fees levied by banks, the regulation can enable banks to charge for transactions after a certain threshold. For instance, up to 5 transactions a month through ABBS can be made free while transaction exceeding this limit can be charged a nominal fee on per transaction basis. This will at one end meet the regulators' concern regarding service charges discouraging uptake of formal banking service while on the other end will also encourage banks to invest in banking infrastructure to avail digital banking services.

In terms of ATMs, the current coverage of ATM is around 1 ATM for 9,433 adults. World Bank data shows that Nepal has 8.88 ATMs per 100,000 adults while the global average is 43.97 ATMs per 100,000 adults. To support the usage and uptake of digital instruments, it is crucial that ATM and POS machines are available at enough retail counters such that consumers can fluidly use cards which are more prevalent in Nepal. Currently, banks are managing their ATMs through in-house cash management, ATM maintenance, security and other logistical arrangements. This is an expensive modality that restricts BFIs from investing in expanding ATM networks. In this scenario, White Label ATMs and third-party cash management companies should be introduced and encouraged to increase retail distribution footprint.

***Implementing agency**: NRB can issue the relevant regulation to incentivize and encourage payment service providers to invest in banking and payment infrastructure. NRB can be the lead agency coordinating support from government, private sector and development partners. DfID's Access to Finance program and UNCDF can be partnered for implementation.*

- **Collaborate with MFIs to utilize their network as cash in cash out touch points**

Agent based banking models has been in practice in Nepal and have a certain degree facilitated the increase in uptake of financial services from banking to insurance. However, liquidity management for these individual agents has been a key concern with payments being denied due to insufficient fund with the agents. Only some financial institutions provide overdraft facility to their agents to manage the liquidity. In terms of adoption of digital payments, the existence of enough cash-in cash-out (CICO) points is crucial for increasing the acceptance of digital money. In Nepal, MFIs have established networks in rural areas with a significant customer base. Banks can collaborate with MFIs to leverage their network for expansion of different banking services.

These networks can be used as a touch point for electronic money including mobile money. In the early stage, these networks can be used for remittance transactions including domestic fund transfer and international remittance pay-out. MFIs can also be used to generate awareness and disseminate information regarding the advantage and usage of electronic money. This will assist in the goal of expanding access through overcoming both geographical and business model-based barriers through partnership between different providers. After the roll-out of Non-Bank Payment Service Providers licenses, the central bank can look into the regulations for these providers to collaborate with MFI's.

***Implementing agency:** NRB in collaboration with NTA can consider facilitating and encouraging telecoms (non-bank financial service providers), MFIs to work in partnership with banks to use the existing infrastructure to strengthen the retail payment ecosystem. The payment service provider directive issued by NRB has allowed the Telecom companies to operate as PSPs only through registration of a subsidiary wing.*

- **Further the coverage of Branchless Banking Outlets and devise strategy for its sustainability**

NRB has recognised the importance of expansion of financial services and has issued the directive outlining the norms on branchless banking. Nepal Rastra Bank allows 'A', 'B' and 'C' class banks to operate branchless banking operation is allowed in areas outside of metropolitan and submetropolitan area. NRB has commenced the mapping of financial services digitally, which enables NRB to see remotely the branches of banks in different parts of Nepal and branchless banking points available around those areas thus enabling NRB to direct BFIs on where to open branches or branchless banking points

The Monetary Policy 2016/17 emphasizes branch expansion of existing institutions, branchless banking and mobile banking services in regions with low financial access. This is done with the aim of building on to assist the government's campaign of one account for each household. As of 2016, a total of 812 branchless banking centres were established. In a country with 217 municipalities and 3,157 VDCs with mostly scattered households, proximity to formal banking service providers remains a key barrier. As of mid-September 2016, there were 213,084 branchless banking customers (NRB, 2016), implying an uptake of approximately 262 clients per outlet. However, the ratio of registered users versus active users' needs to be explored to gauge the sustainability of the outlet.

Moreover, for financial institutions to invest on branchless banking outlets, it is crucial that the cost of operation justifies the business acquired through the outlet. The regulatory requirement for maintaining physical documentations and KYC documents require dedicated resources. This can be replaced through a more cost-effective provision of e-KYC to avail larger banking services and NRB has been working in this domain to address the need. To ensure uptake of financial products through branchless banking outlets, it is crucial that products are designed to meet the needs of the customers. Based on the MAP research, it is evident that there is a need for low value commitment savings product, micro pension or savings scheme, savings account with incentives such as agri-training, savings tied with insurance and low value loans among others. The sustainability of branchless banking outlet is dependent on its ability to garner sufficient active low-end clients and serve them profitably.

Implementing agency: *NBA in coordination with DfID can build on to existing program to further the branchless banking outlets in Nepal.*

Long Term

- **Expedite the development of retail payment systems**

NRB's National Payment System Development Strategy emphasizes the development of retail payment system which is efficient, sound and interoperable and supports a wide range of payment and services. This would entail the existence and operation of a Financial Switch, ATM Switch, and Card Schemes among others. It is crucial that the payment system can handle large volume of transaction which is key to support the retail payment ecosystem.

In the current scenario, interbank card-based switching and clearing services are being provided by private non-bank payment service providers and consortium of banks. The Payment and Settlement Bylaws prioritizes the establishment of a National Payment Switch (NPS) which will be the payment gateway under the direct purview of NRB. A thorough feasibility assessment needs to be carried out to gauge the ability of private switch to be upgraded and integrated into a national switch before investing on a separate national switch system. Moreover, the regulator should be equipped to monitor the operation of ATMs to track downtime of the system. To build confidence in the payment system, the available infrastructure should be reliable. In the current scenario, despite the availability of ATMs, the reliability is low given the high down time which is currently not being monitored or penalized. At the later stage, the establishment of RTGS should be looked at, since RTGS is the critical piece of infrastructure to address sound risk management in large-value fund transfers.

The full implementation of MICR-encoded cheque has made cheque clearing operation efficient than the previous manual clearing system. To develop the retail payment system, National Clearing House's (NCH's) capacity should be upgraded to enable automated interbank payment system for electronic retail payment instruments including Direct Credit and Direct Debits among its members.

It is crucial that NRB establishes prudent structure for oversight of payment and settlement system. Provisions should be in place to monitor existing and planned systems to assess how they are functioning and introduce changes in a timely manner such that the payment system is secure and efficient. FSDS has also proposed the development of a secure, healthy, and effective payment and settlement infrastructure.

Implementing agency: *NRB's Payments and Settlement department should take the lead utilizing the current technical assistance from DfID, WB, IMF and UNCDF.*

Challenges

The investment in retail payment infrastructure by only a few financial institutions will not suffice to develop the country's retail payment infrastructure. Even when financial institutions are provided with incentives to invest, it may not necessarily lead to expansion of digital infrastructure touch points from urban areas to rural areas where the demand and traffic might still be low. Moreover, MFIs are already conducting banking business and may not necessarily be incentivized to partner with commercial banks or non-bank financial service providers to act as cash in cash out points.

However, non-bank payment service providers can partner with banks based on a mutually agreed incentive structure. The integration of multiple private switches can be met with conflicts, compatibility and operational issues. The regulator should encourage positive market activities including interconnection and better usability for end customers.

Intervention 2: Increase usability of digital payments

The limited or in some cases lack of interoperability in the existing system given the presence of multiple switches, no mandated push for providers to be interoperable and no consolidated electronic clearing and settling institution has resulted in cumbersome functioning between banks. The 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 transaction. In this sense, the value of digital payments can be increased through expanded usability across spot payments, bill payments, salary payments, welfare payments among others. The following activities are recommended to increase the usability of digital payments in Nepal.

Short Term

- **Establish and implement provisions for interoperability of service providers**

  Payment switches, banks and non-bank payment service providers in Nepal share a degree of interoperability through network interoperability or parallel system interoperability agreements. Globally, the presence of interoperable payments system has fostered competition, facilitated reduction in fixed costs and enabled economies of scale which has ultimately made payments service affordable and convenient for end users. In terms of existing payments services being provided by BFIs (cards, internet banking and mobile banking), selective interoperability already exists with the ability to conduct person-to-person transfers and limited merchant payments facilities. This needs to be expanded for more fluid usage of cards and electronic banking.

The availability of inter-bank retail fund transfer would gradually reduce the usage of cheque and cash. While this will reduce traffic to bank branches freeing the organization from the requirement of investment in additional branches and staffs to operate the branch, however at the user end, it avails a more cost and time efficient method of conducting business or day-to-day transactions. In a free market economy, the charges levied on such services should be left to the market competition.

However, NRB should regularly monitor the fees levied to ensure that providers do not collude to fix higher charges for services. Moreover, mechanism to manage payment system risks should be initiated to control liquidity, settlement, operational, foreign exchange and systemic risks. In the same line, regulations and risk monitoring mechanisms should be in place to ensure that the payment system is secure and the vulnerability of end users to fraudulent activities is well accounted for.

FSDS has also recommended preparation of a regulatory structure for control and monitoring of interconnectedness between providers.

***Implementing agency**: NRB's Payments and Settlement department should take the lead with support from registered financial institutions and non-bank financial service providers.*

Long Term

- **Implement government's aim of channelling pay out through banking channel**

  The adoption of formal financial services can be driven through mandatory government provision of pay-outs through banking channels. The budget for 2016/17 has announced that cash transfer by the state will be done through bank accounts. This is also aimed at implementing the government's campaign of one account for each household. This forced usage of formal channel by the customers will open the path for adoption of a portfolio of financial services provided by the formal financial services providers. Moreover, payment infrastructure revenue model lies in high volume transaction. Globally, the government is the largest user of payment services. Government of Nepal has emphasized the payment of benefits through electronic channels with the aim of continuing to reduce the use of cash and cheques. In order to successfully implement the government's plan, it is crucial that incentive structures for participating BFIs is established.

  The FSDS also recommends promotion and use of electronic payment mechanism for government expenditure and revenue collection system to make it more transparent, effective and cost effective.

  In this regard, the key agencies requiring upgrading of the system would be the Ministry of Finance, Ministry of Federal Affairs and Local Government, Inland Revenue Department and Customs Department such that the provision of electronic revenue collection and payments disbursement is successfully implemented.

***Implementing agency**: Ministry of Finance should take the lead role and guide other line ministries to restructure their financial management system to enable electronic revenue collection and payments disbursement.*

- **Remittance and bundled products through MTOs and digital channels**

  Remittance is a key income source for a significant section of Nepali adults whose primary financial need is the availability for cost-effective, reliable and accessible remittance channels. International remittances and domestic remittance should be made available through a cost effective and convenient channel. The improvement of the payments system will greatly benefit the remittance receiver. Nepal has a good network of traditional Money Transfer Operator (MTO) agent network which can be leveraged to provide basic banking and payment services. Digital channels such as the branchless banking network, mobile money/wallet and PSPs can be integrated with the current functioning of MTOs. Given the high level of trust, acceptance and usage of MTOs, this can be leveraged to bring the rural population into the formal banking channel.

Recently, Oxigen Services India Pvt. Ltd. and IME Ltd started offering remittance services between Nepal and India (IME, 2016). The partnership of a digital payment service provider and money transfer operators ensures larger cash in and cash out option for the sender and receiver. The success of such models can be replicated to reach a wider customer base.

Implementing agency: *NRB can take the lead to role to connect BFIs, MTO, PSP and PSOs to offer a portfolio of affordable financial services.*

- **Provision availing payment for e-commerce, goods and services payment**

  E-commerce has been picking up lately in Nepal and is expected to further increase in volume in the near future. However, these e-commerce avenues are yet to enable digital payment option although sites provide the option of payment through third party payment service providers. Utility payments along with payments for purchase of goods and services should be enabled through digital medium. The usability of electronic money across these avenues will greatly encourage the uptake of electronic payments. Utilities in terms of electricity, water and drainage should have electronic billing mechanisms with the ability to reflect real time bill payments. This is necessary to build confidence in the electronic means. Private Service providers such as internet subscription, cable subscription, newspaper subscription and many other subscription-based services should be equipped with the option of digital payment. This will be the introductory step towards digital payments and will also develop acceptance for the convenience and time saved through remote payment capabilities.

  Implementing agency: *Government and private service providers such as Nepal Electricity Authority, Nepal Water Supply Corporation should upgrade their recording and billing system to allow digital payment option. Similarly, private companies and e-commerce websites should be encouraged to embed digital payment options.*

Challenges

Given the low level of financial literacy, the adoption of digital payments can be expected to be slow. Since the central bank has not specified the time limit by when all commercial banks need to be interoperable, this could still take time. Given that banks are operating in silos, the proposal to share non-competitive infrastructures might meet with resistance. In terms of government channelling payments through banking channel, although an incentive structure with financial institutions can be agreed on, the lack of cash out points in rural areas will be a key hindrance. Furthermore, in terms of availing the provision of online payments for e-commerce, goods and services payment, the private sector should take the lead to develop acceptance for digital payments.

Intervention 3: Enabling regulations

The payments sector is a newly regulated sector in Nepal and is witnessing a series of new or revised laws, by-law and circulars being introduced and third-party providers are now being taken under the supervisory authority of Nepal Rastra Bank. Forward looking regulation that fosters competition while keeping collusions in check is the necessity for the market. The following activities highlights the steps that can be taken to introduce enabling regulation for the growth of payments market.

Short Term

- **Enable third party managed payment infrastructure**

  Through the implementation of the Payment and Settlement Bylaw 2015, NRB intends to bring institutions and mechanisms operating payment and settlement services under its regulatory and supervisory purview.

  With the operation of registered PSP and PSO's the regulator should look into the provision for these organization to manage and host ATMs, POS machines and a common payment switch. While investment in larger payment infrastructure such as RTGS and National Payment Switch is currently being under taken by NRB, retail infrastructure such as ATMs and POS are currently being installed, managed and maintained by the respective banks. This entails rental cost, electricity cost, security cost and time cost of skilled human resource. These costs are the key drivers behind ATMs being mostly hosted on-site of branch offices with very few ATMs hosted off-site. Third party managed ATMs and POS machines can be the cost-effective way to expand digital infrastructure.

  ***Implementing agency**: NRB's Payments and Settlement Department can look into the provision of allowing third parties to host ATMs and POS, allowing sharing of infrastructure.*

Long Term

- **Explore the possibility of PSPs collaborating with BFIs**

  The NPS has clearly highlighted that the provision of the country's payment system should not remain in the exclusive domain of banks. PSPs under the current regulation can only provide payments services and are not allowed to provide banking or any other services as per the Policy for Licensing of Payment Related Institutions (Nepal Rastra Bank, 2016). If PSP are able to proliferate into the rural area through their agent network they should be allowed to work with banks to provide interest bearing low value savings account, low value loan disbursements among others. Globally PSPs are using the customer data and insights for cross selling and value-added services. Moreover, while developing the retail payment system, consideration should be made for provision of tiered arrangements to PSP and PSO.

  ***Implementing agency:** NRB's Payments and Settlement Department should take the lead through active monitoring of the market.*

Challenges

Since the payments sector is a newly regulated area, it would require a wide range of regulation as per the need of the market. Technological developments are occurring rapidly worldwide and will entail changes in the banking services being offered in Nepal as well. This would require technical expertise in the area to ensure that the regulation do not stifle the sector but encourage its growth. Moreover, the regulatory changes need to be introduced rapidly to adapt to the changes in technology, this can be demanding for the regulator and would require enhanced capacity of the regulator.

Priority 3: Bolster risk-mitigation capabilities

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

Intervention 1: Facilitate awareness generation on insurance as risk-mitigation tool

As evident through its prioritization in the government's policies and strategies, low levels of awareness as well as financial literacy continue to act as critical bottlenecks towards the uptake of financial products; particularly when it comes to insurance. In addition to lack of appropriate products for low income customers; usage barriers also stem from low awareness and low financial literacy. Moreover, low exposure to the insurance sector ultimately results in the sector being fraught with negative perceptions.

While various activities have been initiated by government when it comes to financial literacy, it is essential to specifically generate awareness on the multi-dimensional benefits of insurance as a valuable risk mitigation tool rather than as a sunk cost or a grudge purchase; as it is often perceived. Working towards financial literacy in particular is one of the major steps towards improving insurance awareness. While the Insurance Board has already taken concrete steps in generating awareness through radio programs as well as in partnership with insurance companies, the effectiveness and impact of these program are yet to be assessed and ascertained. The FSDS has also highlighted the need to promote insurance culture by developing new insurance services and emphasizing access to insurance and inclusion for the larger population.

Short Term

- **Assess effectiveness of prior awareness campaigns**

  While the Insurance Board on its own; as well as in conjunction with insurance service providers, have initiated multiple awareness programs through various channels, the effectiveness of these initiatives is yet to be assessed. Given that lack of awareness still features as one of the key barriers to insurance uptake, it is not only essential to continue with insurance awareness and education campaigns but also conduct an audit of ongoing or past awareness programs. This in turn will help identify their impact and effectiveness; in terms of whether the targeted audience has an improved understanding of insurance as a risk mitigation tool alongside wealth protection in times of crisis; which can prevent one being pushed back below the poverty line.

  A comprehensive review of the effectiveness of previously held awareness generation activities can be undertaken through targeted surveys. The survey report will subsequently help in assessing insurance education levels, identifying gaps in insurance awareness and education programs, areas that need to be focused on, meanwhile also filtering out initiatives that have had low or questionable impact and identifying those that have had a positive impact. The survey analysis will therefore facilitate increased effectiveness through replication of effective awareness models on a larger scale meanwhile removing ineffective ones; thereby ensuring greater reach and impact of awareness generation activities which would lead to increased insurance uptake. One such example of an effective model for instance is the use of voice broadcasts through mobile phone blasts undertaken by third party Payment Service Providers (PSP) such as Hello Paisa, which also provide statistics such as percentage of the target audience answering these calls; alongside data on the number of minutes listened. Such data can then be used to tailor awareness campaigns to specific target segments.

  Implementing Agency: *The lead agency undertaking the impact and effectiveness audit can be the Insurance Board as this will help in developing its institutional experience and capacity in this area; meanwhile also facilitating the insurance scenario for the private institutions under its domain. Meanwhile technical assistance in this matter can be provided by development partners or private institutions already working in this domain such as the DFID funded projects.*

- **Moving towards an institutional agent model**

  Proliferation of insurance; particularly in rural Nepal, has been heavily reliant on the agent model with agent ambassadors being the only interface with insurance for the rural population. This stems from the inability of insurance companies to open physical branches in rural areas due to high operational as well as infrastructure costs, and low volume of business. While the agent model has been a key tool; there have also been various issues such as the passing of insufficient information due to inadequate training of agents, or the loss of an insurance interface when agents leave their jobs; resulting in fines or policy lapses. Additionally, regulation does not permit clients to be reallocated to other agents in cases where the primary agent may no longer operational in the insurance sector.

  As a result, it would be favourable to the insurance sector, if a move towards institutional agent models are made in the short term; such as operating in partnership with regional private sector players; such as BFIs and MFIs, such that they engage with products focused on the low-income segments. As such, issues arising from the individual agent model; as identified above, are immediately solved. Such partnerships can be initiated by conducting consultation workshops with financial institutions, insurance companies as well are relevant authorities, to create an interface for discussion and work towards such partnerships. Such initiations have already been undertaken between some financial institutions and insurance companies resulting in products such as Bancassurance and MFI agents in urban and rural areas respectively. As Banks and MFIs already have physical branches as well a pre-existing network of clients; these can often be tapped into by insurance companies to remove access barriers that currently hamper insurance uptake; such as accessibility and putting in claims. Meanwhile pre-existing networks of financial institution also mean that they are better placed to facilitate effective insurance awareness, education and subsequently uptake, as has been evident through a few examples of the same.

  However, to encourage building the insurance sector as a whole; it is important to not rely heavily on the institutional agent model in the long term; instead facilitating the penetration of insurance companies themselves into growing rural markets to ensure stronger presence and service delivery for the low-income sectors. As such it is important to facilitate investment by insurance companies in capital, infrastructure and resources in growing markets to allow for all rounded development of the insurance industry.

  Implementing Agency: *The lead agency to undertake this activity can be insurance companies – life and non-life – as they will have the most to gain from such partnerships such as business expansion and rural market penetration. Meanwhile partnerships can be forged with FIs wherein as partners or agents they will have an additional source of income through the incentive scheme. Technical assistance in this area can be provided by the Insurance Board as well as development partners such as DFID and UNCDF to facilitate regulation, institution building and ensuring comprehensive insurance education.*

Challenges

While the insurance industry has a relatively large number of players particularly in the non-life segment; homogeneity in products; with most products focusing on the urban segment, continues to be a key barrier to uptake in rural areas. While micro insurance has broken the mould introducing innovative products that have been able to address access barriers such as affordability and eligibility; there is still space for improvement; particularly in areas that take into account irregular income segments of the population. Meanwhile establishment of Research and Development (R&D) in insurance companies will be key in understanding the specific needs of the population as well as the risks they face for the insurance sector in product innovation and development. Based on R&D it is also possibly to leverage on technology and payment systems to better cater to access and usage barriers that currently hinder insurance uptake.

Intervention 2: Improve insurer business models

While the insurance industry has a relatively large number of players particularly in the non-life segment; homogeneity in products; with most products focusing on the urban segment, continues to be a key barrier to uptake in rural areas. While micro insurance has broken the mould introducing innovative products that have been able to address access barriers such as affordability and eligibility; there is still space for improvement; particularly in areas that take into account irregular income segments of the population. Meanwhile establishment of Research and Development (R&D) in insurance companies will be key in understanding the specific needs of the population as well as the risks they are faced for the insurance sector in product innovation and development. Based on R&D it is also possibly to leverage on technology and payment systems to better cater to access and usage barriers that currently hinder insurance uptake.

Short Term

- **Expansion and Promotion of Micro-insurance**

  Through the Micro Insurance Directive, 2014the Insurance Board permitted the operation of different micro-insurance products such as livestock, crop, household, health, accident, micro-term life and micro endowment life insurance with prescribed maximum premium rates, sums assured, and commissions. There were no restrictions for other types of micro-insurance products but a pre-approval from the board is required. In order to promote micro-insurance, the Insurance board has made it mandatory for all insurance companies to have at least 5% of their portfolio as micro-insurance. Despite these steps, insurance penetration is still low especially in the rural areas. Due to the high cost of operation, many insurance companies are hesitant to operate in rural areas. As a result, formal insurance services are not accessible. Moreover, these products are not providing full-fledged protection from covered risks; monetary coverage is rather modest compared to actual damage or loss. Therefore, in conjunction with MFIs and co-operatives, insurance companies need to promote technology-driven micro-insurance products. A ground-up approach along with awareness programs and improved access to these services are required for increasing uptake of micro-insurance.

- **Support Research and Development within the insurance sector**

  Following accessibility and awareness issues, one of the main reasons behind low insurance uptake is the lack of targeted insurance products. While there are many players in the life as well as non-life segment, the insurance products on offer are largely homogenous with little to differentiate from competitors; as most products and features are developed replicating those in the Indian insurance market, or from the local market itself. So far there has been little research conducted by the Insurance Board as well as local insurance companies to determine actual insurance needs of the population; particularly in rural areas. Meanwhile product innovation in the market is also currently low, as companies investing in R&D are often unable to reap the benefits of their work, as products are generally copy pasted by other insurance companies on its success.

  The need for the development of such R&D departments in the Insurance Board as well as insurance companies can be initiated by conducting a study that analyses rural and urban market trends and identifies insurance products suitable for the different target segments; through an independent and recognized third party. Such an activity thereby helps strengthen R&D gaps in the short term leading to the development of better insurance products that are targeted to specific target markets in the short term.

  Meanwhile, facilitating development of a R&D departments in insurance companies; including in the Insurance Board itself, is crucial in the long term for development of targeted insurance products that consider the needs of the population; such as products based on source of incomes, risk events, etc. R&D activity will thereby facilitate innovative product development in addition to developing a deeper understanding of the target market needs and barriers to uptake.

Implementing Agency: *The activity will have to be initiated by the Insurance Board initially followed by involvement of insurance companies as well; however, such undertakings by insurance companies should be rewarded. Technical Assistance in establishing these departments can be provided by development organizations already working in the domain of insurance.*

Long Term

- **Financing option for insurance**

Research findings indicate that due to a large proportion of the population having either a seasonal source of income or irregular income, insurance uptake among such segments remain low. While micro insurance has addressed some of these issues through innovative credit life, hospitalization and accidental insurance packages for low income segments, there is still much scope for product innovation in these areas, and initiatives in these areas must be constantly supported and facilitated.

As insurance companies often require upfront payments for insurance policy coverage, irregular or seasonal income earners are often unable to procure insurance as they are incapable of making these periodic payments. As such a demand assessment should be conducted to identify the type of products or payment mechanisms preferred to ultimately develop insurance packages with flexible premium payment options tailored for specific target markets. For instance, with farmers, insurance payments could potentially be linked with harvest cycles through BFI financing or other financing mechanisms. Another potential product could be the development of bundled products which provide credit and insurance; whereby credit is provided to procure insurance, which is then paid off following harvest. Such activities will ultimately help in improving insurer business models meanwhile also expanding insurance uptake. Development of such tailored insurance packages could therefore be a key step in increased uptake of insurance in targeted segments.

Meanwhile technological advancements have also made an enormous impact to the financial inclusion landscape; particularly in the domain of payments. These technological advancements have facilitated the establishment and development of various PSPs in the Nepali market; thereby providing a wide range of opportunities for growth, product innovation and development in the financial sector; including insurance. With the insurance sector in particular where accessibility has been cited as key barrier to insurance uptake; as individual in rural areas are unable to make regular payments, introduction of digital payment platforms is crucial in solving these issues.

It is therefore essential to actively leverage such services for instance by introducing products such as commitments savings products, whereby a specific amount needs to be deposited within a specific timeframe; which can either be made in instalments or a lump sum payment as appropriate to the insured person. Another potential option could be partnering with PSPs such as Telecom authorities or e-payment networks such as e-sewa and Hello Paisa to provide even more flexible payment options. Telecom service providers in particular need to be explored as these networks are often well leveraged in other countries in conjunction with insurance. Meanwhile, while there are innovative crop insurance packages available with subsidies available for the same, inherent flaws in the design and the high cost of delivery for providers has resulted in low take up among the targeted population.

__Implementing Agency:__ Activities under this domain will have to be undertaken by insurance companies themselves with support from the Insurance Board in terms of approval of innovative products. Meanwhile Technical Assistance in this area can also be provided by the Insurance Board as well development partners working in the area. When it comes to leveraging technology insurance companies in conjunction with PSPs and supported by the Insurance Board can work to collaborate and partner in facilitating payments. Meanwhile Technical Assistance in this area can be provided by PSP's already providing such services or development partners working in this domain.

Challenges

Given that the insurance market is currently operating based on replication of insurance products from the Indian market, the lack of an R&D department in the Insurance sector; and particularly within the Insurance Board, will be a major challenging factor when it comes to venturing into rural markets and developing new insurer business models for them. So far there has been little research conducted by the Insurance Board as well as insurance companies to determine the actual insurance needs of rural Nepal. Meanwhile companies initiating such R&D work have been dis-incentivized from the same due to products immediately being replicated by competitors on approval of the new product from the Insurance Board; thereby leaving behind no comparative advantage.

Meanwhile despite the development of new insurer business models for targeted groups; what will still be challenging is that insurance companies will need to engage in Business to Consumer (B2C) marketing and subsequently take on the difficulties and costs related to it. Meanwhile, although technological advancements provide greater insurance penetration opportunities for the sector, overall low levels of literacy among the rural population pose a challenge for the providers to tap this market.

Intervention 3: Institutional capacity building of the Insurance Board

Having a stable environment and a fully capacitated regulatory authority is essential for the performance of any one financial sector. While the current regulatory framework is largely supportive of the insurance industry, there are certain regulatory issues that act as access and usage barriers, which can be solved through changes in the regulatory framework. Meanwhile, a review of demand side as well as supply side findings indicate a lack of capacity on the Insurance Board front to effectively deal with a growing insurance market.

Critical changes, if undertaken in the regulatory framework could help in changing the negative perceptions that are prevalent among certain segments of the population regarding insurance. For instance, moving towards a digitized and paper free insurance policies and systems can greatly facilitate the reach of insurance in rural areas. Similarly facilitating institutionalization of the agent model and allowing for reallocation of agents to insured clients; in the case the initial agent going inactive, can also facilitate insurance involvement of agents as well as clients. However, these changes have not taken place primarily due to the inability of the Insurance Board to effectively advocate on these issues.

Currently the Insurance Board is the sole regulatory body established to develop, systemize, regularize and regulate the insurance sector of Nepal under Insurance Act, 1992. Working towards the institutional capacity building of the Insurance Board could therefore help in facilitating certain changes that has widespread impact on the insurance industry as a whole; for instance, supporting innovation and facilitating unhealthy competition in the sector. This can be done by first conducting an institutional capacity assessment to identify gaps as well as key areas in which the Insurance Board can contribute on a larger scale. On identification of these key areas and gaps, trainings should be conducted to fill or improve these gaps. For instance, one such gap is the lack of a research and development department within the Insurance Board; the presence of which would otherwise exponentially improve the effectiveness of the regulatory authority in dealing with issues. Meanwhile, the presence of such a department would also help in improving the monitoring and evaluation capacities of the board; subsequently facilitating the determination of effective programs or products.

Similarly, a review of current operational guidelines and manuals should also be conducted to ensure that they are updated and in line with the current insurance trends and scenario. In the case that there are no guidelines; the same should be developed for long term sustainability and efficiency.

Implementing Agency: *This activity will have to be initiated within the Insurance Board itself whereby it lobbies with development partners for financial as well as technical assistance. IB can also collaborate with Insurance Regulatory and Development Authority of India (IRDAI) and training and capacity building institutions for this activity.*

Challenges

While the Insurance body has certain key regulatory policies in place a major challenge still lies in updating and strengthening the regulatory framework as well as certain operational guidelines for the insurance sector. Meanwhile lack of effective communication channels between the Insurance Board and related ministries has also been a recurring issue. While better capacitating the insurance, board could lead to more effective awareness generation mechanisms as well as the introduction of better insurer business models in the short to medium term, shaping the regulatory environment is a longer-term initiative as it requires other financial systems and instruments to be in place before they can be leveraged for the insurance sector.

Priority 4: Enhance and leverage locally based financial service providers

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

Intervention 1: Enable A, B, C class banks to use the network and expertise of D class banks.

Proximity to A, B and C class banks has been a key access barrier for Nepali adults, this vacant space is currently being served by MFIs with their extensive branch and agent network in the rural areas. Moreover, the human interface of MFIs has been the driving force for the uptake of financial services. Larger city based banks lack the network or the human resource to serve the fragmented rural population, however they have the financial and technical resources to push low value savings product, flexible credit product, and micro-insurance products among others.

Long Term

- **Encourage MFIs to adopt best practices in compliance and transparency**

  Keeping in perspective the issue of consumer protection, the MFIs that partner with commercial banks needs to undergo mandatory audit or certification such as SMART Principle for Customer Protection Certification. This process should include on-site due diligence and feedback to the financial institutions to improve processes and compliances in the institution. This will entail the establishment of internal systems and processes ensuring that these organizations function in a sustainable manner.

  Implementing agency: *NRB can issue relevant regulations while Bankers' Association and MFIs can work with technical assistance from development partners to certify the partner agencies.*

Challenges

Locally based financial service provider (MFIs) have extensive network in rural areas, however they may not be willing to act as an agent for commercial banks even when enabling regulations are in place. Since commercial banks are now mandated to disburse 2% of their loan portfolio to deprived sector lending, this will lead to introduction of low value savings product, credit products and other relevant financial products which can be easily replicated by the MFIs.

Priority 5: Enhance financial inclusion support in national governance

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

Intervention 1: Consolidation of all ongoing access to finance project in Nepal

Financial inclusion initiatives are best supported when driven by an overarching financial inclusion policy agenda. Policy and legislative frameworks are key determinants of action in the market. The ongoing financial inclusion programs in Nepal needs to be integrated to create a synergy effect and greater impact. Although key policies include financial inclusion as a strategic priority, there needs to be specific plans to implement the scattered strategies that are currently being implemented.

To consolidate the ongoing activities, it is crucial that the regulators, public and private stakeholders come to a common understanding of the policy level priority of the government. A formal body should either be created or an existing organization should be given the responsibility to oversee, monitor and evaluate the developments in the area of financial inclusion intervention.

Given the experience of the stakeholders in the field of financial inclusion, it is crucial that consultation occur at multiple level to analyse issues and recommend solutions. This will entail the development of relevant policies that will strengthen the policy platform for prioritizing financial inclusion. This will also lead to identification of overlapping and contradictory regulations along with a plan to introduce amendments for rectifications.

Monetary Policy for 2016/2017 has stressed on the implementation of Financial Sector Development Strategy (FSDS) after approval from the Ministry of Finance (MoF). FSDS will target financial stability, expansion of financial access and inclusion and promotion of corporate governance (NRB, 2016). A successful implementation of FSDS will require an assimilation of all ongoing access to finance programs in Nepal. Similarly, financial access through the "one bank account for each household" campaign as announced in the budget speech for 2016/2017 also requires an integration of the available banking and other financial services.

On a similar note, Nepal Rastra Bank (NRB) is implementing a five-year strategic action plan (2012-2016) with financial inclusion as a strategic priority. NRB has coordinated with the government of Nepal to set up different policies favouring an increase in financial access and inclusion. The consolidation of these strategies should entail the development of an umbrella financial inclusion strategy and a specific action plan to implement the priorities identified in the strategy.

Implementing agency: *Ministry of Finance and Nepal Rastra Bank can take a joint lead on initiating stakeholder consultations. Development partners such as UNCDF, DFID can provide the technical assistance to develop relevant policies. UNCDF through its Making Access Possible project can support the government in formulating the umbrella financial inclusion strategy.*

Challenges

Development partners have their own mandate to carry out their activities in specific field. Although there is a need to consolidate ongoing activities on financial inclusion, the government needs to be able to take the lead and direct development partners on the areas that require intervention. Unless the government adopts an overarching financial inclusion strategy, it becomes challenging to consolidate efforts in this sector.

Priority 6: Strengthen consumer empowerment, protection and education

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

Intervention 1: Develop consumer protection framework

The Central Bank has issued circular for consumer protection which covers aspects regarding transparency in fees, commissions, fines and other charges levied. The circular includes a point on grievance handling which requires registered banks to establish Information and Grievance handling desk along with a provision for a hotline and similar option in the website. Non-compliance with these provisions would entail punishment as per Nepal Rastra Bank Act 2058 section 100. The following activities are recommended to develop stronger consumer protection framework in Nepal. FSDS also points at the need to develop mechanism and structures to protect interest of financial service consumers.

Long Term

- **Strengthen existing Grievance Handling platforms**

  NRB's strategic plan included a strategic pillar on Infrastructure Development, Corporate Governance and Customer Services which focused on establishing arrangements for grievance handling to ensure quality customer services. This included the establishment of a permanent mechanism to address grievances of the public with BFIs and NRB (NRB, n.d.). Ministry of Finance has established *Bigool* which is a grievance handling desk which also registers complaints regarding BFIs and NRB. However, the online portal is not functioning well and has been receiving minimal complaints. The process to register grievances and the standard procedures thereafter needs to be clearly established and communicated such that actions are taken and the results are communicated or publicly disseminated. This will build public confidence in the system and will encourage customers to proactively file complaints. It is specifically important to establish provision for consumer protection on digital payment. The adoption of digital payments requires trust and confidence in the system and if the users do not feel adequately protected they will be hesitant to continue using the service.

  Implementing agency: *NRB needs to take the lead in coordination with Ministry of Finance to establish a permanent dedicated department for grievance handling. Development partners such as World Bank can provide the technical expertise to establish the department and outline the standards of operations for its functioning.*

- **Expand deposit insurance coverage**

  The Parliament has recently endorsed Deposit and Credit Guarantee Fund (DCGF) Bill 2073 which creates a legal framework for the functioning of DCGF. The fund plays the role of a deposit insurer with the statutory responsibility to perform deposit guarantee and credit guarantee. The current coverage of deposit guarantee is limited to NPR 200,000 (USD 1,887) per natural individual depositor and covers A, B, C and D class banks. While the credit guarantee currently covers livestock, SMEs including private sector, deprived and micro-finance sector. World Bank data shows that among the low-income countries, the average coverage of deposit insurance is USD 3,027 while that of Nepal is USD 2,021 as of 2013 (The World Bank, 2013). Deposit insurance is a key safety net for the financial stability of the country and protection of the consumer given a crisis situation. The coverage should be gradually expanded to ensure that small depositors up to NPR 500,000 (USD 4,717) is covered fully.

Implementing Agency*: Ministry of Finance should prioritize and support the functioning of DCGF while DCGF should take the lead with technical assistance from NRB for implementation.*

Intervention 2: Consolidate financial literacy and education programs

Financial literacy lies at the crux of financial inclusion as people need to understand how financial instruments can be used to manage their financial life. Effort to increase financial inclusion will not be impactful unless the users are aware of the financial services being offered. Currently numerous fragmented efforts are being undertaken to improve financial literacy and education scenario. However, to create greater impact, these efforts need to be consolidated. The following activities are recommended to increase financial literacy in the country.

The first step should be to take stock of the programs currently being implemented in the country,taking into consideration the districts being covered. There is also a need to map the level of financial literacy at district level such that focused interventions can be designed and implemented. It is necessary that programs are designed in local languages to increase the level of uptake. A national level strategy needs to be devised such that private stakeholders and development partners can take up specific activities towards the achievement of the common goal of financial literacy and the larger goal of financial inclusion.

- **Use multiple delivery channels for financial literacy campaigns**

  Given the low level of literacy, financial education programs should adopt innovative approach such as mobile phone applications, radio programs, TV programs, and short kits among others. The selection of channels will be dependent on the target market, for instance, local radio programs for farmers who listen to radio during their time at the field. Leaflets, brochures and other paper based promotional material can be used for target segments that have comparatively higher education. Short advertisements and catchy jingles on financial concepts along with short video clips on different themes of financial education can also be used.

  Implementing Agency: *NRB should take the lead in partnership with development partners implementing financial literacy and education programs.*

Long Term

- **Integrate financial literacy course materials into school curriculum**

  The higher secondary level from 9-12 should include a curriculum that equips students to take positive financial action. These courses should teach the students about the basic of having a savings plan, managing expenses, investing, and analysis of risk among others. Teaching personal finance courses at school level should be mandated and school teachers should be trained in the subject matter. This will ensure that overall literacy level in the country is in par with the financial literacy level of the population.

__Implementing Agency:__ Ministry of Education in partnership with NRB and development partners needs to develop comprehensive financial literacy course material for different levels.

Challenges

Despite establishing provision of consumer protection, its usage is still dependent on the awareness and proactive behaviour of the users. While strengthening grievance handling platforms, it is crucial that people are comfortable filing complaints and are aware of the procedure. This would require customer awareness and literacy programs. Implementing consumer literacy programs would be a challenge given the different level of education and usage of variety of languages in the country. Moreover, while introducing course materials in the higher secondary level, a significant section that drop out from primary school will still be excluded. In this sense, additional customer literacy programs would be required for people with primary or no education.

3.2 Potential Partner mapping

In addition to the earlier discussed context of development partners, this section discusses the possibility of donor coordination to attain the activities outlined in the implementation areas. To ensure the elimination of duplication and to cover unfunded gaps in the roadmap, the mapping of potential partners will assist the implementing partners (government, private and development partners) to engage in the roadmap and ensure quality and accountability.

The key development partners are engaged in the following broad areas which can form the basis for further analysis and engagement with development partners.

Summary of development partner support

Partner	Current areas	Potential areas
ADB	• Strengthen the institutional capacity for public debt management • Develop a government securities issuance strategy and market access • Develop the bond market infrastructure • Building the institutional and regulatory capacity of Securities Board of Nepal (SEBON)	• Capital Market

Partner	Current areas	Potential areas
DfID	• Expand financial access by introducing appropriate technologies • Expansion of MFIs' branches in remote areas to improve their outreach • Design, price and launch new, innovative financial products and services oriented toward the poor, women and Disadvantaged Groups (DAGs) • Traditional classroom-based lectures and mobile based to teach financial literacy • Introduce short video films, advertisement and jingles on financial concepts • Prepared leaflets, brochures and other paper based promotional materials for new and perspective clients of banks/FIs • Establish grievance redressal mechanisms • Reduce the vulnerabilities including weak financial reporting standards, insufficient regulatory oversight of the banking and cooperatives sectors and incomplete mechanisms for safeguarding the assets of financial services consumers by conducting special audits, conducting training on Nepal's Financial Reporting Standards (NFRS) • Technical support to strengthen risk-based supervision of the banking system • Diagnostic of insurance companies to identify weak institutions and their role in systemic vulnerability • Support the technical investigation of financial crimes through Department of Money Laundering Investigation (DMLI) and Police • Development of Supervisory Information System (SIS) at NRB and training of NRB supervisors to build capacity on risk-based supervision • Supervisory training and regulatory strengthening of Nepal Insurance Board and capacity strengthening of the regulatory body for cooperatives	• Small and Medium Enterprises (SMEs) • Mobile Banking and Branchless Banking • Remittance and micro insurance products, weather-based index insurance (WII), alternative guarantee mechanisms beyond traditional collateral • Financial Literacy • Client Protection • Regulatory and Supervision • Insurance Companies • Insurance companies and Cooperatives

Partner	Current areas	Potential areas
UNCDF (Activities envisaged here to be supported by UNCDF will be undertaken under the UNDP country programmes (mainly the Expanding Financial Access programme) as well as under the regional Shaping Inclusive Finance Transformations (SHIFT) programme. SHIFT will contribute to the challenge funds, some of the capacity building initiatives targeted at regulators and financial service providers, and a significant component of gender issues.)	• Support financial institutions to improve their technical knowledge and expand their products and services to rural areas and agricultural activities • Capacity Building for financial institutions and non-financial institutions focusing on sustainability and cost-effectiveness of financial literacy efforts past program duration • Increase portfolio size in agriculture and number of access points • Product Design and/or Model development • Strengthening Management Information Systems for MFIs • Improvement of Systems and Procedures including short-term technical assistance, trainings on value chains, exposure visits and knowledge exchanges • Organize one investment forum to bring together Nepali financial sector players with potential investors • Financial Sector Analysis and Diagnostic MAP focusing on agricultural finance	• Agriculture Finance • Micro, Small & Medium Enterprises (MSMEs) • MFIs • Brokerage Facilitation
The World Bank	• Enhance financial Sector development by adopting amendments to the NRB Act and BAFIA to give supervisors stronger legal tools for bank resolution and issuance of new regulations reflecting the enhanced bank resolution framework • Reduce vulnerability in banking sector by reducing the payment system risks by a) aligning the operating hours of NRB's banking department with the operating hours of SWIFT b) implementing online transfers of funds between NRB branches; and c) implementing a pre- settlement file system • Restructuring a consolidating financial system including increase in solvency of the banking system through directive to increase minimum Paid-up Capital • Strengthening the legal and regulatory framework for crisis management, banking supervision and deposit insurance through enactment of Deposit and Credit Guarantee Fund Act and the execution of a memorandum of understanding between DCGC and NRB governing cooperation and exchange of information • Enhancing the governance and transparency of the banking system including regulation issuance of AML/ CFT Acts	• Financial Sector Development

Table 3 Development partner initiatives

3.3 Gender and Community aspects

Financial institutions in Nepal has been offering products specifically for women, youths and senior citizens. Policies are in place to protect and uplift women and socially disadvantaged groups. However, women's access to formal credit remains an issue due to limited access to inherited property. The issue of lack of collateral is currently being addressed through MFI's Grameen Bank Model that provides credit especially to women on the basis of group collateral.

Development partners have also adopted numerous projects to support women and disadvantaged group's empowerment. The Digital Women Channel Partners for Gender Inclusive Micro Finance Services empower local women as branchless banking agents. Similarly, World Food Programme launched smart card for women which allowed them to make the choice about food purchase while also allowing them to receive international remittances.

Historically social exclusion has been a rampant practice in Nepal with efforts from government and development partners to categorize the excluded groups and introduce interventions to empower them. The 2030 Agenda for Sustainable Development Goals include gender equality as one of the 17 Global Goals with the aim to achieve gender equality and empower all women and girls. To support marginalized groups and to encourage holistic equitable development, the goal of the government and development partners needs to be aligned.

The activities highlighted in this action plan under each Roadmap priority, although overarching to the larger population, should take into account consideration for gender and community aspects promoting equality and inclusion. The array of participating stakeholders should consider the following:

- Emphasize on the expansion of women's overall level of access by offering and supporting the development of viable financial products and services.
- Identify innovative ways to support women's inclusion in the formal economy through identification of issues that restrict women from accessing formal financial services.
- Support in the development of business models that serve vulnerable groups such as socially excluded, low income, senior citizens, and people with disability among others.
- Promote policy initiatives that support and enable marginalized and vulnerable groups.
- Build capacity of decision makers and financial service providers to promote strong advocacy for equality within the system.

3.4 Risk Analysis

The successful implementation of the Roadmap will entail risk areas that needs to be mitigated to ensure timely implementation of the outlined activities. The implementation of long term activities would require the successful implementation of short term activities. Due to the interconnected nature of the activities, it becomes crucial that these are regularly monitored and fine-tuned as per the need of the market.

The following key risks has been identified by the MAP process:

Risk	Possible mitigation
• Limited capacity of regulators and private players to act as the lead agency for implementation	• Collaboration with institutional experts for South-South learning and capacity building
• Government agencies and stakeholders not coordinating work	• Formation of working group comprising of lead agencies and partner agencies working as a platform for coordination • Establish mechanism for swift handling of issues arising during implementation
• Lack of willingness and commitment from key stakeholders	• Consultative workshop to communicate the concept of Roadmap and the need for collaboration • Regular updates on the progress and expected assistance from stakeholders
• Lack of investment from private players	• Incentivize private sector for investment where relevant • Establish regulatory provision to direct private sector investment toward financial inclusion activities
• Lack of funding from development partners and government stakeholders	• Ensure development partner and government support for financial inclusion

Table 4 Anticipated risks and mitigation strategies

4 Results Framework

The Donor Committee for Enterprise Development Standards (DCED) for results measurement is used to monitor and measure results which aids in improving intervention design and increasing sustainable impact. MAP Nepal Action plan has been modelled around the DCED standard which is globally considered as a quality control standard. The results chain framework depicted in Figure 2 graphically displays the roadmap outcome expected from the accomplishment of activities under each priority.

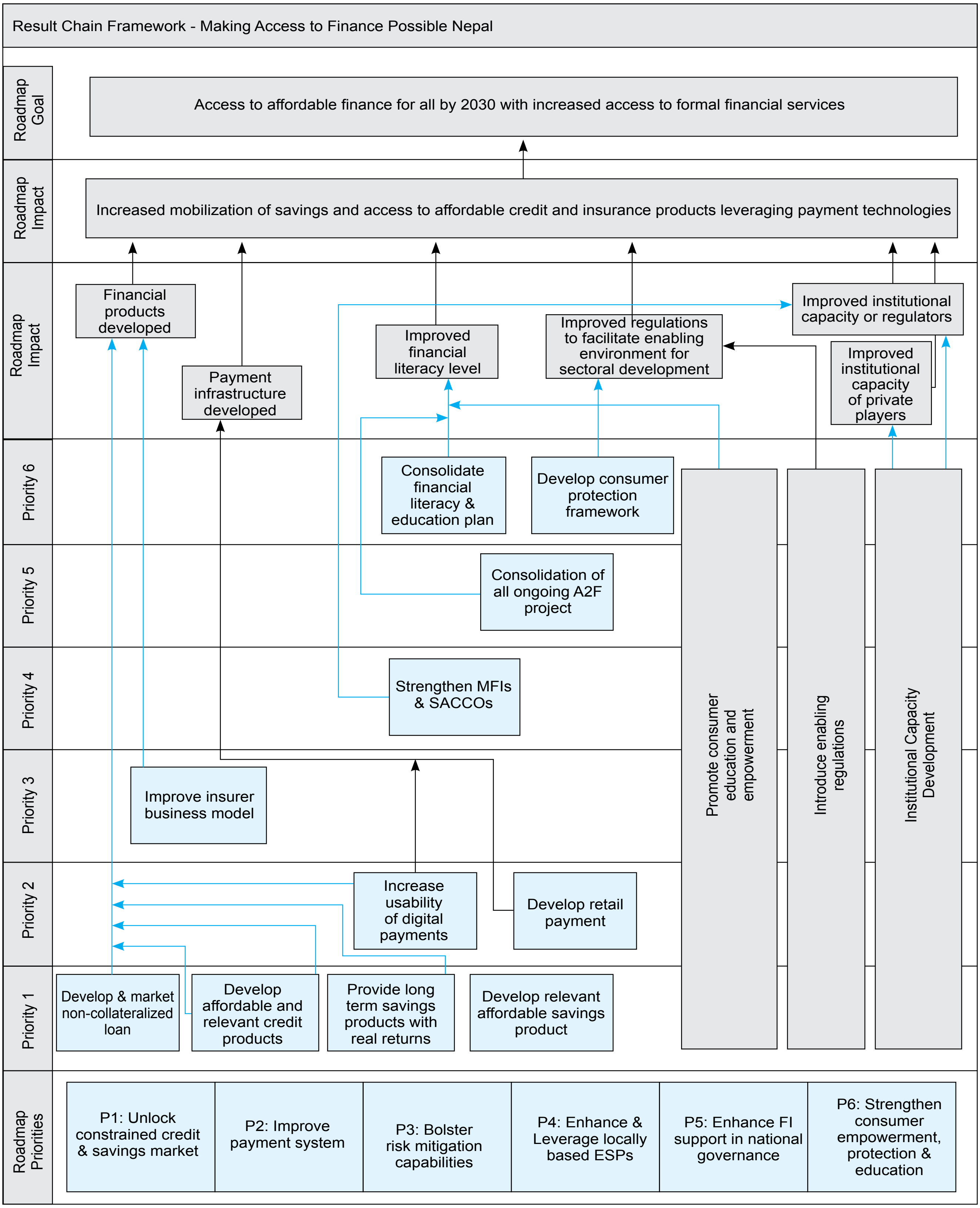

Figure 2 Nepal Action Plan - Results chain framework

5 Conclusion

MAP Nepal financial inclusion action plan is the strategy paper guiding the activities to be undertaken for the implementation of priorities outlined in the MAP Nepal Roadmap. The activities will be coordinated by Nepal Rastra Bank as the chair of the Steering Committee. The Action Plan proposes short-term and long-term activities that when accomplished will contribute to the achievement of the long-term vision of the Action Plan. The activities are targeted towards the achievement of the six priority areas which will cover the critical aspects of financial inclusion in Nepal. However, the actual implementation of these activities will have a broader impact in the financial sector and the overall economy of the country.

Nepal as a principal member of Alliance for Financial Inclusion (AFI), is also a part of the Maya Declaration Commitments, which is an initiative to unlock the economic and social potential of the unbanked population through greater financial inclusion. The thematic area of commitment for Nepal are:

- National Financial Inclusion Strategy
- Consumer Empowerment and Market Conduct, Financial Literacy and Financial Education
- Financial Inclusion Data
- Digital Financial Services

The Government's adoption of MAP Nepal Roadmap and the subsequent adoption of this action plan is a step closer to the achievement of the commitments made at AFI. The plan will form as the base to enhance financial inclusion in Nepal and support policy objectives laid down by the five year- Financial Sector Development Plan which is intended to be rolled out for the period of 2019-2020.

The Government is making significant strides towards ensuring access to formal financial services to the rural and urban individuals alike. The adoption of MAP Nepal Action Plan will provide a direction to the efforts currently being carried out by the government, development partners and private sector players by consolidating efforts and focusing on areas that need immediate intervention.

6 Annex

6.1 List of stakeholders consulted

S. N	Organization	Contact Person	Position
1	Nepal Rastra Bank	Mukunda Chettri Ashok Poudel Nephill Matangi Maskey Nara Bahadur Thapa Narayan Prasad Paudel	Director (Bank supervision department) Director (Bank supervision department) Director (Payment systems department) Executive Director (Research department) Executive Director (Regulation department)
2	Beema Samiti	Fatteh Bahadur	Chairman
3	Securities Exchange Board of Nepal	Niraj Giri	Executive Director
4	Ministry of Cooperative and Poverty Alleviation - Department of Cooperatives	Narayan Prasad Gyawali	Deputy Registrar
5	Nepal Telecom Authority	Ananda Raj Khanal	Director
6	Employee Provident Fund	Krishna Prasad Acharya	CEO
7	Credit Information Bureau Credit Information Centre Limited (Secured Transaction Registry Office)	Anil Adhikari	CEO
8	NMB Bank Limited	Upendra Poudyal Sunil Kc	CEO Deputy CEO
9	Prabhu Bank Limited	Ashok Sherchan	CEO
10	Nepal SBI Bank Limited	Anukool Bhatnagar Subhakanta Kanungo Priya Ranjan	Managing Director & CEO Chief Operating Officer & Dy. CEO Chief Financial Officer
11	Sanima Bank Limited	Bhuwan Dahal	CEO
12	Nabil Bank Limited	Sashin Joshi Anil K Khanal Gyaneshwar Acharya Neena Thapa	CEO Chief Risk officer Head SME, MF & Mid Corporate Division Head- Credit Risk Management
13	Vibor Society Development Bank	Jhalak Prasad Khanal	CEO
14	Kailash Bikas Bank	Krishna Raj Lamichane	CEO
15	Shagrila Dev Bank	Rajendra Prasad Poudel	CEO
16	RMDC	Ram Dayal Rajbansi	Assistant General Manager
17	Nirdhaan Uthaan	Janardan Dev Pant	CEO
18	Laxmi Laghubitiya	Prakash Raj Sharma	CEO
19	Chimeek Laghubitiya	Ramchandra Joshee	CEO

S. N	Organization	Contact Person	Position
20	Lalima Saving & Credit Co-operative Ltd	Niroj Kansakar	Managing Director
21	Shuva Ganapati Saving & Credit Co-operative Ltd	Arun Siddhi Tuladhar	Manager
22	National Co-operative Bank Ltd	Mohan B. Karki	Asst Manager
23	NLG Insurance	Vijay B. Shah	CEO
24	Himalayan General Insurance	Sushil Bajracharya	CEO
25	MetLife	Arun Basnet	Manager
26	NLIC Insurance	Vivek Jha	CEO
27	Prime Life Insurance	Prayash Shrestha	Head - Corporate Sales
28	Hello Paisa	Sanjay Bahadur Shah	Co-Founder
29	E-sewa	Biswas Dhakal	Chairman & President
30	SCT Technologies	Rabindra Malla	CEO
31	Ncell Axiata	Vladislav Nimerenco	Manager
32	Nepal Telecom Communication	Brijesh Sharma	
33	Global IME Remittance	Janak Sharma Poudyal	Sr. Deputy CEO
34	Prabhu Remit	Kusum Lama	Managing Director
35	Muncha.com	Amrit Tuladhar	CEO
36	Thamel.com	Rajesh Lal Joshi	CEO
37	World Bank Group	Sabin Raj Shrestha Francesca Lo Re Ashim Nepal	Senior financial sector specialist Senior Operations office Financial sector specialist
38	Sammunati - FSSP	Mira Eric Jovic Piyush Jha	Project Manager Manager
39	Samriddha Pahad	Arun Rana	CEO
40	KFW Development Bank	Shankar Pandey	Local Representative and Head of Office
41	Sakchyam - Access to Finance	Baljit Vohra Nirmal Dahal	Team Leader Deputy Team Leader
42	Mercy Corps	Mahendra Shahi	Senior programme manager
43	Asian Development Bank (ADB)	Kenichi Yokoyama	Country Director
44	KOICA	Shristi Tiwari	
45	Danida	Saroj Nepal Ayush Rai	Results Management Co-ordinator Program Manager

6.2 Annex: Log frame approach

In order to track the developmental impact metrics from the intervention identified in the Roadmap, a Log Frame Approach (LFA) to planning and outlining activities to be implemented has been adopted as shown below:

Priority	Duration	Interventions	Activities	Proposed Output	Output Indicators	Outcome	Outcome Indicators	Proposed Lead Agencies	Proposed Partner Agencies	Potential Development Partners
Priority 1: Unlock constrained credit and savings market		**Intervention 1 Expand and promote non-collateralized loans**								
	Short Term	Accelerate the implementation of Secured Transaction Registry	Roll out STR as a pilot program among commercial banks	STR pilot program launched among selected commercial banks	STR pilot program launched among # commercial banks	Increased access to credit through pledging of movable assets	# number of commercial banks offering credit against STR data	MoF	NRB, CIB, NBA	UNCDF, DfID
			Develop mechanism to resolve issues regarding claim settlement	Claim settlement mechanism developed			#% of commercial bank loan portfolio against movable assets			
			Create a working group with the mandate to take corrective measures for issues identified during the pilot stage	Working group formed						
	Short Term	Developing and promoting Value Chain Financing	Enforcement of Agriculture and Priority Sector lending by BFIs in rural areas for small borrowers	Agriculture and Priority Sector lending by BFIs in rural areas for small borrowers enforced	# number of circular directives issued	increased access to credit to small borrowers	# amount of vcf related loans disbursed	NRB	MOF, All BFI Associations	
			Development of VCF products as part of the Priority sector or deprived sector lending	VCF products developed	# number of VCF products developed					UNCDF, DfID
	Short Term	Streamlining processes for effective operation of Credit Guarantee schemes	Developing the process map (as-is) for claiming the bad credit under the priority sector lending under this scheme	process map and recommendations developed for streamlined processes	One process map developed	Recommendations implemented and process streamlined reduced time and cost	# number of recommendations implemented for process streamlining	DCGF	MoF, NRB	

Priority	Duration	Interventions	Activities	Proposed Output	Output Indicators	Outcome	Outcome Indicators	Proposed Lead Agencies	Proposed Partner Agencies	Potential Development Partners
	Long Term	Expanding the coverage of Credit Information Bureau	Speed up the implementation of borrower record from MFIs	MFIs credit record included in the credit bureau database	# number of MFIs credit record entered	increased information on borrowers		NRB	NMBA	UNCDF, DfID
			Explore the possibilities of carrying out credit rating for individuals and develop mechanisms to collect information on individuals	information collection mechanism developed to enable credit rating of individuals	# number of mechanisms/ process developed	increased access to credit through non- collateralized loans	#% of non-collateralized loan of the total loan	MoF	NRB, NBA, CIB	WB, DfID
		Intervention 2: Affordable and relevant credit products								
	Short Term	Leverage the network of MFIs to ensure effective implementation of deprived sector lending provision	Enhance collaboration and co-ordination among the MFIs	collaboration and co-ordination enhanced through inter agency agreements and process	# number of inter-agency agreement/ process signed	effective implementation of the deprived sector lending policy	#% of increase in the deprived sector lending			
			Implementation of the deprived sector lending by A, B, C class banks under agency model partnering with MFIs	working modality endorsed	One recommendation on working modality endorsed					
		Intervention 3: Long term savings products with real returns								
	Short Term	Introduce long term savings product by BFI's	Workshop / conference on sharing of regional/ international best practices for developing long term saving products.	Workshop/ conference conducted	# number of workshop and conference held	Recommendation on best practices adopted and enacted.	# number of recommendation adopted	NRB	All BFI associations	UNCDF

Priority	Duration	Interventions	Activities	Proposed Output	Output Indicators	Outcome	Outcome Indicators	Proposed Lead Agencies	Proposed Partner Agencies	Potential Development Partners
			Review and draft a regulatory framework for Long term saving products by BFI's	Regulatory framework reviewed and drafted	Regulatory framework published	Long term saving product developed.	One long term saving product developed			
	Long Term	Explore possibilities of introducing government led savings schemes	Conduct in-depth feasibility study of Government savings schemes and products	Study report completed	One report completed	Recommendation adopted for implementation	# recommendations adopted	MoF	EPF, PPF, NRB, NBA	KfW
			Develop Recommendation framework for implementation based on the feasibility study	Framework developed	One framework developed	Introduction of long term saving schemes Establishes interest rate benchmark for long term savings product	One savings certificate offered by government for general public			
		Intervention 4: Relevant affordable savings product								
	Short Term	Innovative approach to formal banking by leveraging digital payment channels	Consult and explore incentives for banks to deliver products through digital platforms	Consultations held	# number of consultations	Working modality and incentive structure developed for partnership	# number of recommendations adopted. # banks providing products through digital platform	NRB, NBA, NTA	MoF, PSP, PSO; All BFIs association	UNCDF
	Long Term	Introduce market driven low cost commitment saving products	Conduct research on feasibility of commitment saving products	Feasibility study conducted	# number of Reports	- Recommendation adopted - Increased Mobilization of savings	# number of circular issued. # number of commitment saving products launched. # number of banks introduce commitment saving products - # amount of savings mobilized	NRB	MOF, All BFIs association	DfID

Priority	Duration	Interventions	Activities	Proposed Output	Output Indicators	Outcome	Outcome Indicators	Proposed Lead Agencies	Proposed Partner Agencies	Potential Development Partners
	Long Term	Implement One Household One Account policy with a free zero balance account to unlock savings	Conduct study to explore the feasible approach for implementation of the program	Study conducted and recommendation proposed	# number of study conducted # number of recommendation made	Study completed Recommendations adopted	# recommendation adopted	MoF, NRB	CBS	WB, UNCDF
			Develop policy for implementing one household one account.	Policy developed	# number of policy drafted	Policy drafted	# pilot programs launched	MoF		
		Intervention 5: Enabling Regulation								
	Short Term	Legal review of Insolvency law and Commercial Bench	Conduct a legal review to assess the gaps and provide recommendations to strengthen the implementation	Legal review conducted and recommendations proposed	# number of reports developed # number of recommendations proposed	Recommendations adopted Amendments to the Insolvency Act and expansion of jurisdiction of commercial bench	# number of recommendations adopted in the legal amendments # number of liquidation applications successfully completed # number of case handled	MOF	Nepal Bar Association, NRB, NBA, FNCCI, CNI	
	Long Term	Establish supervision mechanism for Co-operatives	Hold a stakeholder consultation meeting on the establishment of a supervision mechanism for co-operatives	Consultation workshop held	# number of workshop	Recommendations proposed from Workshop incorporated in the framework development of supervision of cooperatives	# Number of recommendations adopted # number of cooperatives regulated/monitored	MoCPA	MOF, NRB, NBA	
			Design/develop a framework for the supervision of co-operatives	Framework developed	# number of documents prepared					

Priority	Duration	Interventions	Activities	Proposed Output	Output Indicators	Outcome	Outcome Indicators	Proposed Lead Agencies	Proposed Partner Agencies	Potential Development Partners
Priority 2: Improve Payment System		**Intervention 1: Develop retail payment infrastructure**								
	Short Term	Encourage Payments Service Providers to invest in digital infrastructure	Review and explore incentives for establishing digital infrastructure (e.g. banking software, ATMs, POS)	Review report completed	One report completed	Recommendations adopted	# number of recommendation adopted	NRB	NRB, Department of Cooperatives	UNCDF, DfID
			Recommend NRB to review Circular on service charges that BFIs can charge	Recommendation made to NRB	# recommendation made	Incentive plan developed	# incentive schemes launched	NRB		UNCDF
			Collaborate with development partners to expand digital infrastructure	Development partner reached out	# number of development partner reached out	Agreement signed with development partners	Agreements signed with # development partners	NRB		UNCDF
	Short Term	• Collaborate with MFIs to utilize their network as cash in cash out touch points	Draft regulation for PSPs to collaborate with MFIs	Regulation drafted	# number of regulation drafted	Provisions for PSP's to partner with MFIs incorporated and enacted	# PSP collaborating with # MFIs	NRB	MoF, NBA, NTA	UNCDF, DfID
	Short Term	Further the coverage of Branchless Banking Outlets and devise strategy for its sustainability	Develop a sustainability plan for Branchless Banking Outlets	Sustainability plan developed	One sustainability plan developed	Increased coverage/average customer base of BO ensuring sustainability	# new BO operational	NRB	MoF, NBA	DfID, UNCDF,
	Long Term	Expedite the development and implementation of retail payment systems	Lobby for the implementation of RTGS	Meetings held	# number of meeting held	Settlement risk reduced and transactional efficiency increased through RTGS	# BFIs enrolled into RTGS # Value of transaction routed through RTGS	NRB	MoF NBA, NCHL	DfID, WB, IMF, UNCDF

Priority	Duration	Interventions	Activities	Proposed Output	Output Indicators	Outcome	Outcome Indicators	Proposed Lead Agencies	Proposed Partner Agencies	Potential Development Partners
		Intervention 2: Increase usability of digital payments								
	Short Term	Establish and implement provisions for interoperability of service providers	Review and issue the circular on interoperability to ensure enforcement and make it time bound	Revised circular issued	# number of circulars issued	Reduced time and cost to access banking services	# number of banks interoperable Per transaction cost reduced by #%	NRB, Providers	MOF, NBA	DfID
	Long Term	Implement government's aim of channelling pay out through banking channel	Hold dialogue between government and BFIs on incentive structure	Dialogues held	# dialogue held	Incentive structure finalized and implemented through banks Reduced time and cost for government pay-outs	# banks signed MoU with government #% of government payout channelled through banks	MoF	NRB, NBA	UNCDF
	Long Term	Remittance and bundled products through MTOs and digital channels	Conduct research on feasibility of selling bundled products through digital channel	Feasibility study conducted	# number of Reports	- Recommendation adopted	# number of banks introduced bundled products # number of MTO's started offering bundled products	NBA, NRA (Nepal Remitters Association)		UNCDF
	Long Term	Provision availing payment for e-commerce, goods and services payment	Conduct research on feasibility of availing payment for e-commerce to facilitate drafting of regulatory provisions	Feasibility study conducted	# number of Reports	- Recommendation adopted	# circular issued # websites accepting online payments	NRB, PSPs		UNCDF

Priority	Duration	Interventions	Activities	Proposed Output	Output Indicators	Outcome	Outcome Indicators	Proposed Lead Agencies	Proposed Partner Agencies	Potential Development Partners
		Intervention 3: Enabling regulations								
	Short Term	Enable third party managed payment infrastructure	Draft regulation allowing third party to manage payment infrastructures	Regulation drafted	# regulation drafted	Cost effective expansion of payment infrastructure	# Third party companies operational #% reduction in Bank's operation cost of managing ATMs and POS	NRB		WB, Pwc
	Long Term	Explore the possibility of PSPs collaborating with BFIs to provide banking services	Conduct research on the potential for PSPs to collaborate with BFIs	Research conducted	# research report completed # recommendation made	Increased access to and provision of financial services	# Banks collaborating with PSP to sell products # customers registered	NRB		
Priority 3: Bolster risk-mitigation capabilities		**Intervention 1: Facilitate awareness generation on insurance as risk-mitigation tool**								
	Short Term	•Expansion and Promotion of Micro-insurance	Facilitate partnerships through co-operation agreements	Co-operation agreement signed	# of co-operation agreements signed	Increased rural access to the micro-insurance products	# of micro-insurance policies bought	Insurance companies, NIA, NBA, NMBA	Insurance Board	
	Short Term	Assess effectiveness of prior held awareness campaigns	Conduct survey to assess the effectiveness of previously held awareness campaigns	Survey completed	# survey report completed	Increased effectiveness of awareness campaigns	# % increase in uptake of insurance	Insurance Board	Insurance Companies and Associations, Financial Institutions	DfID
	Short Term	Moving towards an institutional agent model	Consultation workshop between BFIs and Insurance companies	Consultation workshop held	# workshop held	Increased insurance education and uptake	# BFIs selling insurance products	Insurance Companies and Associations	Insurance Board, Financial Institutions	DfID, UNCDF

Priority	Duration	Interventions	Activities	Proposed Output	Output Indicators	Outcome	Outcome Indicators	Proposed Lead Agencies	Proposed Partner Agencies	Potential Development Partners
		Intervention 2: Improve insurer business models								
	Short Term	Support Research and Development within the insurance sector	Conduct studies through an independent third party (Recognized authority) on the kind of insurance product suitable for the market	Studies conducted	# number of studies conducted	R&D strengthened	# number of new products suitable for market operational	Insurance Board	Insurance Companies	
	Long Term	Financing options for insurance	Conduct demand assessment to facilitate the development of flexible premium payment options for the target segment through BFI financing	Demand assessment conducted	# number of reports	Increased uptake of insurance in target segment	#% increase in insurance uptake among target segment	Insurance Company Association	IB	DfID, UNCDF
		Intervention 3: Institutional capacity building of the Insurance Board	Conduct trainings to strengthen the Insurance Board	Trainings conducted	# number of trainings conducted	Improved efficiency of Insurance Board	#% of improved perception of the Insurance Board	IB	Training and Capacity building institutions; IRDAI	DfID, UNCDF
	Short Term		Institutional capacity assessment	Assessment conducted	# number of assessment reports					
			Review and develop guidelines/manuals for Insurance Board	Guidelines/ manuals developed	# number of guidelines/ manuals developed					

Priority	Duration	Interventions	Activities	Proposed Output	Output Indicators	Outcome	Outcome Indicators	Proposed Lead Agencies	Proposed Partner Agencies	Potential Development Partners
Priority 4: Enhance locally based financial service providers		**Intervention 1: Strengthen MFIs**								
	Long Term	Encourage MFIs to adopt best practices in compliance and transparency	Develop requirement criteria for MFIs to access wholesale funding	Requirement criteria developed	# requirement criteria developed	Improved compliance and transparency	# number of MFIs eligible	NRB, Department of Cooperatives	NEFSCUN, MFI Association	DfID, UNCDF
			Draft regulation to enforce compliance for MFIs	Regulation drafted	# regulations drafted	Increased access to funds	# value of fund mobilized through MFIs	NRB, Department of Cooperatives	NEFSCUN, MFI Association	DfID, UNCDF
Priority 5: Enhance financial inclusion support in national governance		**Intervention 1: Consolidation of all ongoing access to finance project in Nepal**								
	Short Term		Formation of a A2F coordination committee	Committee formed	One committee formed	Increased coordination and reduced duplication of activities	# % of improved perception on reduced duplication	UNCDF	MoF, NRB, All BFI Association, Insurance	
			Develop an umbrella financial inclusion strategy	Strategy drafted	One strategy drafted					
Priority 6: Strengthen consumer empowerment, protection and education		**Intervention 1: Develop consumer protection framework**								
	Long Term	Strengthen existing grievance handling cells	Institutional capacity building of regulators through development of operational manual	Capacity built through trainings; operational manual developed	# Number of training held; 1 operational manual published	Effective handling of grievances across regulators	# number of grievances handled	MoF, NRB	All BFI Association	
		Create awareness on grievance handling cells	Enhancing stakeholder coordination and collaboration	Stakeholder coordination and collaboration enhanced through inter -agency agreements	Inter - agency agreement signed	Increased access to information and awareness on grievance handling				

Priority	Duration	Interventions	Activities	Proposed Output	Output Indicators	Outcome	Outcome Indicators	Proposed Lead Agencies	Proposed Partner Agencies	Potential Development Partners
			Conduct awareness campaigns through print and digital media	Awareness campaigns launched	# number of media campaigns carried out	Improved coordination among regulators				
	Long Term	Expand deposit insurance coverage	Assessment of the premium rates to expand deposit insurance coverage	Assessment completed	One assessment report published	Revised premium rates for deposit insurance	Deposit insurance coverage expanded to cover #% of depositors	MoF, NRB,	DCGF, All BFI Association,	
		Intervention 2: Consolidate financial literacy and education programs								
			Inventory mapping of existing financial literacy and education programs	Inventory mapping conducted	# number of report issued	Effective financial literacy campaign developed	# number of financial literacy campaign conducted	MoF,	NBI	UNCDF
	Short Term	Use multiple delivery channels for financial literacy campaigns	Collaborate with media and telecom for the delivery of financial literacy campaigns	MoU signed between various service providers	# number of MoU signed	Financial literacy curriculum inducted in the education program	Course material integrated into # school curriculum	MoES, MoF		
	Long Term	Integrate financial literacy course materials into school curriculum	Identify partners to develop financial literacy course materials that can be included in the school curriculum	Partner list developed	1 partner list developed; # course material developed					

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