

UNCDF PROGRAMME FRAMEWORK

FOR
FINANCIAL INCLUSION



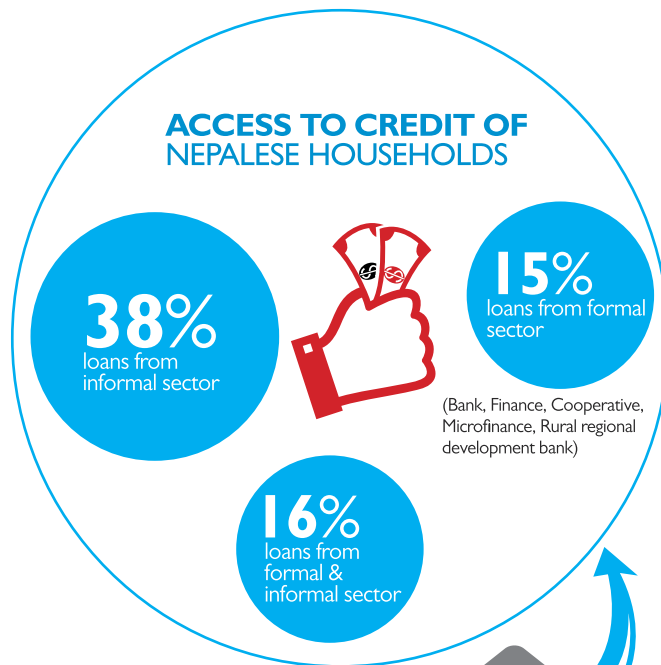
THE CHALLENGE

The Government of Nepal recognizes the importance of a well-functioning financial sector as one of the key drivers in support of the Government's priority to reduce inequalities and poverty. However, challenges for financial inclusion in Nepal remain ubiquitous. Financial inclusion refers to universal access to a wide range of financial services for people who need them, provided by a diversity of sound and sustainable institutions at a reasonable cost, operating in a competitive market environment.

Only 25.3% of the Nepalese population have accounts in formal financial institutions, while only 16% of poor people have such access. This narrow inclusion is partly a function of the small-scale financial system in Nepal, valued at just over \$13 billion—equivalent to a medium-sized bank in an industrialized country.

As a consequence of limited financial inclusion, an overwhelming majority of poor people access financial services through informal mechanisms or hold assets in non-financial forms such as livestock and material goods.

Informal mechanisms rarely reach scale or financial sustainability and offer clients limited protection, less choice and lower returns.



ACCESS TO ACCOUNTS IN FORMAL FINANCIAL INSTITUTIONS



BENEFITS OF FINANCIAL INCLUSION

Improved access to finance is not only pro-growth but is also pro-poor, reducing income inequality and poverty. For poor people, access to financial services (i.e. savings, credit, payment, insurance and more) provides opportunities to increase their income through:



Why Financial Inclusion ?

“The poor are typically excluded from formal sector opportunities. They live and work in the informal economy - not by choice, but by necessity. They are both producers and consumers, and they need financial access to build assets, create and sustain livelihoods, manage risks, and smooth consumption.

Without access to formal financial services, poor families must rely on informal mechanisms:

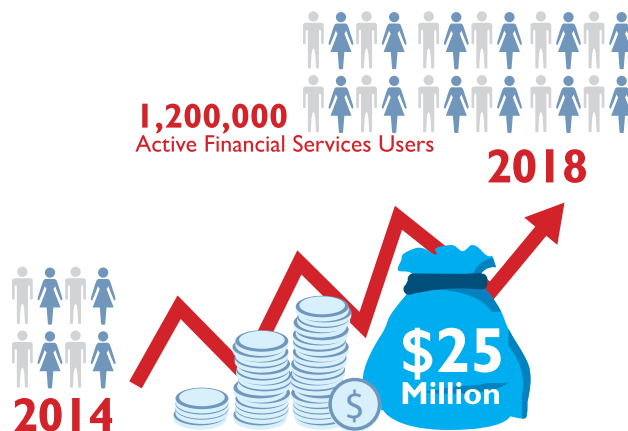
family and friends, rotating savings schemes, pawn-brokers, moneylenders, money under the mattress. These informal mechanisms are insufficient, can be unreliable, and are often very expensive. Thus, financial exclusion imposes large opportunity costs on those who most need opportunity.”

(CGAP, *Strategic Directions 2014 - 2018*).

UNCDF PROGRAMME FRAMEWORK FOR FINANCIAL INCLUSION 2014 - 2018: EXPANDING FRONTIERS OF ACCESS TO FINANCIAL MARKETS

Increasing use of financial services by expanding access to the formal financial service providers; extending the outreach of affordable financial services to people and enhancing their capacity on financial literacy is essential for pro-poor and inclusive growth. It is also important in the reduction of systemic risks and to support financial sector deepening through increased number of transactions with diversified financial instruments and financial institutions.

UNCDF has been cooperating with the Government of Nepal since 1984. UNCDF's inclusive finance programme framework for 2014-2018 for Nepal has been developed taking into account UNCDF's lessons-learned and evaluation recommendations from previous projects. In addition, the programme framework and objectives consider the response to (a) the country's core financial system constraints in



creating an inclusive financial sector and (b) key development issues that most affect the prospects for growth and redistribution. Such development issues include transforming the potential of agriculture and micro, small and medium enterprises (MSME) – extending access to cleaner energy and creating opportunities for poor and marginalised people.

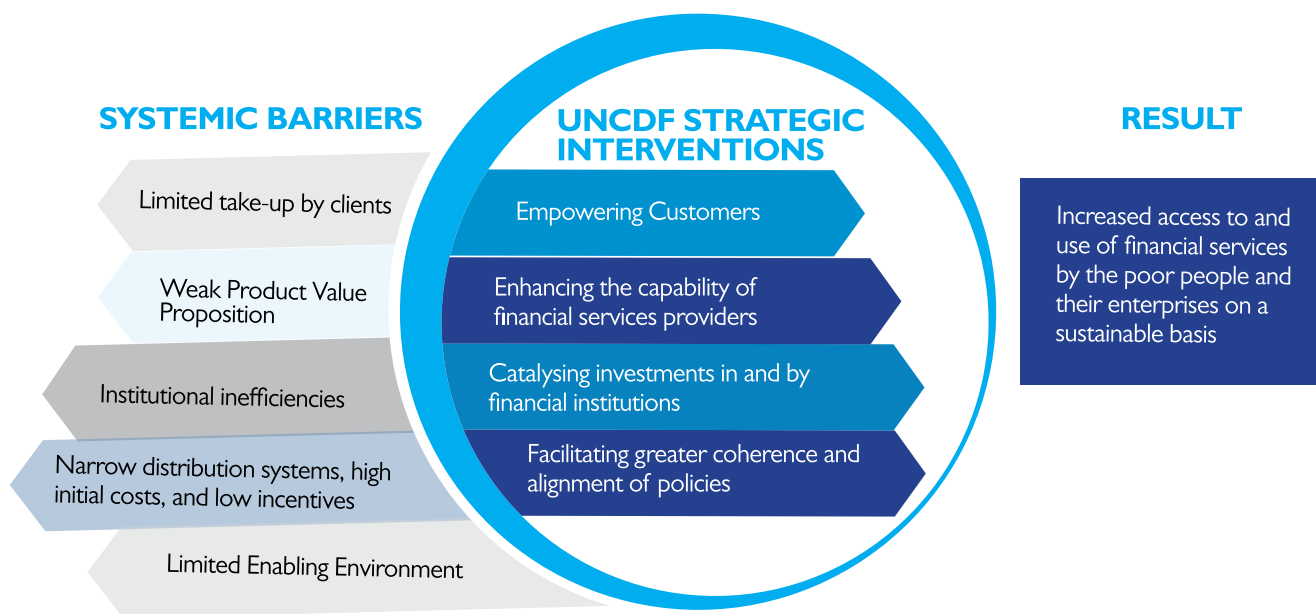
PROGRAMME STRATEGIC GOALS

- UNCDF's inclusive finance framework plans to programme \$25 million over the period of 5 years (2014 - 2018) with the aim of reducing poverty and improving living standards in Nepal.
- The expected outcome of UNCDF's inclusive finance programmes in Nepal is to significantly increase access to and use of financial services by the poor people and their enterprises on a sustainable basis. This will result in an additional 1,200,000 poor people in Nepal actively using financial services from formal financial markets by the end of 2018.

PROGRAMME INTERVENTIONS

The programmes will organise results around the following strategic objectives and interventions:

- Empowering consumers with skills and knowledge to use financial services to better manage money, take advantage of opportunities, and plan for the future in a responsible manner, with informed choices.
- Enhancing the capability of financial service providers to offer a stronger product value-proposition to the poor clients and to deliver services efficiently and sustainably.
- Catalysing investments in and by financial institutions to permanently expand their distribution network to unserved markets and assist in attracting investments in the financial sector.
- Facilitating greater coherence and alignment of policies to enable expansion and broadening of the financial markets.



UNCDF THEMATIC PROJECTS

UNCDF will deliver the programme strategic objectives and interventions through discrete thematic projects. The projects are a part of the global UNCDF programmes that are designed to complement UNCDF country programmes by promoting product and institutional innovations that expand the frontiers of financial inclusion.

UNNATI-ACCESS TO FINANCE (A2F)

UNNATI-A2F interventions aims to benefit 250,000 smallholder farmers and MSMEs directly, both nationally and with a specific focus on seven districts in the eastern development region. Under the umbrella of the UNNATI programme supported by the Government of Denmark, the UNNATI-A2F is a sub-component of UNNATI and is being implemented by Nepal Rastra Bank and UNCDF. The UNNATI-A2F project seeks to support financial service providers to more effectively serve the agricultural value chain actors with appropriate financial products thereby enabling smallholder farmers and MSMEs to invest into their value chain activities, leading to the sustained improvement in competitiveness of selected value chains.

THE MOBILE MONEY FOR THE POOR (MM4P)

The target for MM4P is for at least 1,000,000 additional customers to gain access to a financial service via branchless and mobile technologies, of which at least 100,000 will have been previously unbanked. The Programme is supported by the Australian Department of Foreign Affairs and Trade (DFAT), the Swedish International Development Cooperation Agency (Sida), the Bill & Melinda Gates Foundation, the MasterCard Foundation and in Nepal, by the MetLife Foundation and Government of Denmark under the framework of UNNATI-A2F. MM4P aims at developing digital financial services as a means for financial inclusion in the challenging environments faced by many Least Developed Countries (LDCs). It brings banks, mobile network operators and payment service providers together to help provide financial services to under-served and hard-to-reach markets, particularly via mobile phones.

THE CLEANSTART PROGRAMME

This programme aims to lift people out of energy poverty dramatically – expanding consumer financing for low-income consumers who want to transition to cleaner and more efficient energy. To make this happen it partners with micro-finance institutions and energy enterprises – offering seed capital and advice – to test scalable financing solutions for a range of clean energy solutions such as solar lighting, biogas and efficient biomass stoves. In Nepal, CleanStart will support more than 150,000 low-income households and micro-entrepreneurs transition to clean energy. CleanStart contributes to Nepal's National Rural and Renewable Energy Programme (NRREP). It is implemented by the Alternative Energy Promotion Centre (AEPIC), which is also CleanStart's national partner. Globally, CleanStart is supported by the Austrian Development Cooperation, Government of Liechtenstein, Norwegian Agency for Development Cooperation, Swedish International Development Cooperation and UNCDF.

MAKING ACCESS POSSIBLE (MAP)

MAP is a multi-country initiative to support financial inclusion through a process of evidence-based country diagnostic and stakeholder dialogue, leading to the development of national financial inclusion roadmaps that identify key drivers of financial inclusion and recommended action. The MAP Programme seeks to strengthen and focus the domestic development dialogue on financial inclusion. The MAP Programme in Nepal will produce a comprehensive dataset on financial inclusion as well as a detailed roadmap for the Government of Nepal. Based on the outcomes of the MAP diagnostic, UNCDF will tailor its activities and programming in Nepal in order to cater to the needs identified in the financial sector in the country. UNCDF works closely with the Nepal Rastra Bank and the Central Bureau of Statistics for the implementation of MAP and it is being supported by the Department for International Development (DFID) Nepal.

BETTER THAN CASH ALLIANCE (BTCA)

BTCA is a UNCDF-hosted partnership of governments, companies, and development organizations that accelerates the global transition from cash to digital payments in order to drive economic growth and empower people. With over 40 members, the Alliance works closely with other global organizations and serves as an implementing partner for the G20 Global Partnership for Financial Inclusion. The Bill & Melinda Gates Foundation, Citi, Ford Foundation, MasterCard, Omidyar Network, United States Agency for International Development, and Visa Inc. fund the Alliance and UNCDF serves as the Secretariat. BTCA works with its members to accelerate the transition from physical cash to digital payments through advocacy, provision of policy and technical assistance; development of cutting-edge research products including case studies and toolkits that guide members in how to design and implement a strategy and by bringing together the government agencies, companies, international organizations and others that are critical to build digital payments ecosystem that works for everyone in the economy.

UNCDF - INCLUSIVE FINANCE APPROACH

UNCDF adopts a market development approach, fully capitalizing on its mandate to provide risk capital to the public and private sector. It provides seed capital and technical support to a wide range of financial service providers to ensure that more households and small businesses gain access to credit, savings, insurance and other financial services that expand opportunities and reduces vulnerabilities. It prioritizes country-based talents and resources for delivering its programme activities by transferring skills and expertise to local institutions and individuals. For this, UNCDF works in partnership with various national stakeholders comprising of the Ministry of Finance, Central Bank, financial and non-financial institutions and its associations, cooperatives and local research and technical organizations for achieving financial inclusion in the country.

UNCDF also partners with other UN agencies including UNDP.

ABOUT UNCDF

UNCDF is the UN's capital investment agency for the world's 48 least developed countries. It creates new opportunities for poor people and their small businesses by increasing access to finance and investment capital. UNCDF programmes help to empower women, and are designed to catalyze larger capital flows from the private sector, national governments and development partners, for maximum impact toward achieving the Millennium Development Goals.

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