Access to Financial Services

Project: Enhancing Access to Financial Services (EAFS)

Background
Many Nepalese women and poor rural people lack access to financial services such as saving and credit services to build their businesses, plan for their futures and protect against risk. Sixty-six percent of all Nepalis still depend on costly and less reliable mechanisms such as borrowing from relatives or local moneylenders (see chart below), or by selling hard gained assets. Lack of access to appropriate and affordable financial products and services is a serious hindrance to Nepal’s economic development and a major contributor to persistent poverty. Financial institutions have struggled to extend their services beyond the main centres of population in the hills and mountains. Many people in these areas have to walk for hours to access formal financial services and some simply have no financial institutions to go to. This constrains the development of livelihoods as, for example, poor farmers are unable to access credit to buy inputs to make their farms more productive. The poor also need access to financial services to help them weather untoward events such as illness and crop failures.

The project
The Enhancing Access to Financial Services (EAFS) project is extending access to formal financial services for micro- and small enterprises and low income households in line with the Government of Nepal’s Microfinance Policy (2005). This project is being implemented by the body responsible for promoting and overseeing Nepal’s banking and microfinance sectors — the Nepal Rastra Bank (Nepal’s central bank), with support from UNDP and UNCDF.

It is working to:
• extend the reach of financial service providers to an additional 330,000 people (mostly poor women) in Nepal’s remoter areas;
• strengthen Nepal’s micro-finance institutions to enable them to lead the growth of inclusive finance across the whole of Nepal; and
• bring about an enabling policy environment for micro-finance in Nepal.

The overall aim is to give poor rural people the means to develop their livelihoods and improve their incomes. The project is providing incentives and capacity building support to make the provision of financial services to the rural poor into an sustainable proposition for financial service providers. It is also helping link formal banking and community banking to deepen financial inclusion.

Achievements
The project is having a large impact on advancing the Nepali government’s mission of creating access to financial services for all its citizens. It has already supported the opening of new branches of financial service providers in 27 of its 38 priority districts with the project’s priority districts being the poorest districts that have the least access to microfinance services.

Agreements — In April 2010, the project entered into agreements with 18 financial service providers. Ten ‘strategic partners’ are being supported to extend their reach and eight ‘innovative partners’ to pilot innovative ways of delivering financial services in rural areas. The agreements are that the project provides these 18 partners with financial incentives and capacity building support whilst the providers reach a fixed number of new clients with financial services or pilot innovative ways of reaching new clients.

Project details

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<tr>
<th>Nepali name: बिनियमन औद्योगिक धनात्मकता संगठन</th>
<th>Duration: November 2008 to December 2012</th>
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<tr>
<td>Donors: UNDP ($1.5m), UNCDF (1.5m)</td>
<td>Budget: $3 million</td>
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<td>Implemented by: Nepal Rastra Bank (Central Bank of Nepal) throughout Nepal targeting remote areas</td>
<td>Implementing partners: 18 financial service providers (a commercial bank, development banks, financial intermediary NGOs and microfinance institutions)</td>
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<tr>
<td>UNDP and UNCDF’s roles: UNDP oversees project management and UNCDF oversees technical execution</td>
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Sources of household loans in Nepal

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<thead>
<tr>
<th>1995/96</th>
<th>2010/2011</th>
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<tr>
<td>Formal financial institutions</td>
<td>16%</td>
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<tr>
<td>Money lenders</td>
<td>40%</td>
</tr>
<tr>
<td>Relatives</td>
<td>41%</td>
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<tr>
<td>Cooperatives, NGOs, etc</td>
<td>3%</td>
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Capacity building — The project has supported its partners to operate more efficiently and to bring about the more inclusive provision of financial services by:

- training partners on innovations in microfinance including micro-insurance, financial literacy, development of management information systems, agent banking and others;
- linking partners to the global microfinance information platform ‘MIX Market’ to increase their profile and visibility with 17 of the 18 partners registered and information uploaded;
- facilitating the international financial rating of the 10 strategic partners — with them achieving an average rating of Beta + positive, denoting good performance on a positive trend;
- facilitating partners to get official permission to extend their operations to 41 additional districts; and
- supporting 14 partner institutions to carry out market research to improve their services.

Progress of strategic partners — The project’s 10 strategic partners started in April 2010 to increase financial service outreach by extending their branch networks. The partners are providing collateral free loans mainly using the Grameen methodology where groups of 5 or 6 women collectively guarantee loans taken. This model enables the participation of poor women without them needing to pledge physical collateral.

The project is providing these partners with an incentive payment of about $5 per new client to partially cover the costs of reaching new rural and remote clients. Up to mid-July 2011 project support had led to strategic partners opening 94 new branches of which 58 are in the priority districts. The partners have opened branches in 10 priority project districts previously without branches. Following on from this and through their networks of new and existing branches strategic partners have reached 158,424 new clients of branches, almost all women, 74% rural dwellers and 68% from disadvantaged groups. All these new clients have opened savings accounts.

Progress of innovative partners — The other eight partners (innovative partners) are provided with a higher level of incentive per new client ($10–15) to cover the higher costs of trying out modalities that have proved successful in other countries. These partners had reached 13,548 new clients by mid-July 2011. The most promising innovation has been the piloting by Siddhartha Bank of branchless banking using point of sale machines to allow remote transactions and reduce transaction risks. Other promising innovations include local agents working on a commission basis and the development of new loan products to finance labour migration abroad.

Progress on linking to saving and credit groups — Nepal’s thousands of local saving and credit groups have lacked access to formal financial services. A key part of the project’s approach is therefore to build linkages between financial institutions and these established groups, many of which play an important role for women and people in remote areas to save money and access credit. The project is running workshops to inform partner institutions about how they can act as financial intermediaries to link these groups to formal financial services. So far links have been forged with 2,455 of these groups by 9 of the 18 partners.

Focus to December 2012

1. Carry out a study on the barriers to accessing financial services in far western and mid western Nepal as an input into government policies for extending access in these areas.
2. Test more innovative means of extending access to financial services.
3. Develop a national strategy for increasing the financial literacy of the general public with a planned campaign through financial service providers and the government.
4. Support the development of the micro-insurance sector to enable low income people to insure against livelihood risks.
5. Develop client protection and ethical business standards including for transparent loan pricing to avoid client over-indebtedness.
6. Develop a national financial education strategy and interventions.

For more information:

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Importance for achieving the MDGs

Expanding access to financial services is crucial for enabling poor people to break out of the vicious cycle of poverty and bring the number of Nepalis living below the poverty line down to Nepal’s MDG 1 target of 21% by 2015. Access to credit facilitates asset building and helps prevent income shocks. Savings enable the poor to build up reserves that can be used to meet their needs in times of low income while micro-insurance provides protection against all sorts of shocks.