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Nepal Country Assessment for Youth Development Accounts

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CSD is part of a global consortium supported by the MasterCard Foundation that is exploring the potential for piloting a Youth Savings initiative in multiple developing countries. In addition to CSD, the consortium includes Save the Children, the Consultative Group to Assist the Poor (CGAP), and the New America Foundation. The consortium's goals for the 2009-2010 year include identifying six developing countries in which to implement these pilots, along with local financial and research institutions that could assist in implementing and evaluating the pilots. This brief is one of a series that CSD has prepared on candidate countries in Asia, Africa, and Latin America. This brief, like the others, assesses the candidate country on four criteria: institutional capacity, national political interest, research capacity, and broader macroeconomic environment.

Summary

Nepal stands out as a candidate site to include in the worldwide demonstration of Youth Development Accounts (YDAs) in four ways: (1) a broad reaching financial infrastructure that already delivers youth savings products; (2) active interest in financial services expansion to the poor; (3) excellent research capability; and (4) huge potential impact in the country and region.

Basic Population and Economic Indicators

- Population: 27.8 million (Population Reference Bureau, 2008)
- Percent of population under age 15: 37 (Population Reference Bureau, 2008)
- Youth ages 10-24 (percent of total population): 33 (Population Reference Bureau, 2009)
- Percent of population below national poverty line in 2004: 31 (total), 10 (urban), 35 (rural) (UN Statistics Division, n.d.)
- Median age: 20.8 (CIA, 2009)
- Income level: low-income (World Bank, n.d.)
- GDP per capita (PPP US$) in 2005: 1,550 (UNDP, 2007)
- Percent of population living on $2 a day or less, 1990-2005: 69 (UNDP, 2007)

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Institutional capacity

Nepal's financial sector, which is composed of banking and non-banking sectors,[1] has grown rapidly over the past two decades.[2] The total number of financial institutions increased from only two in 1980 to 235 in 2008 (Nepal Rastra Bank, 2009).[3] Currently, there are 25 commercial banks, 59 development banks, 78 finance companies, 12 microfinance development banks (MFDBs), 16 financial cooperatives with limited banking licenses, and 45 financial intermediary non-governmental organizations (FI-NGOs) in the country.[4]

Many of the commercial banks, which have the capacity to roll out thousand of accounts, offer youth savings products similar to YDAs. These include Himalayan Bank, Kumari Bank, Laxmi Bank, Machhapuchchhre Bank, Nabil Bank, Nepal Credit and Commerce Bank, Siddhartha Bank, Standard Chartered Nepal, and Sunrise Bank. Many of the youth savings products offered by commercial banks have targeted middle- and upper-income families and have not reached the bulk of the youth population.[5] Accordingly, a youth savings initiative for lower-income youth and their families has promising potential to reach a greater number of Nepalese youth, while providing them with safe and secure access to financial services. Eventually, the number of young Nepalese who have access to financial services can increase.

Since commercial banks do not directly serve the low-end market, microfinance institutions (MFIs), which play a significant role in delivering some form of financial services to the poor, are the more promising financial partners to deliver YDAs to low-income youth than mainstream banks.[6] The leading direct providers of microfinance are MFDBs, FI-NGOs, savings and credit cooperatives (SCCs), and small farmers' cooperatives limited (SFCLs). Most of them offer savings services (compulsory group and voluntary individual savings) to their members.[7] MFDBs, which are the largest MFIs in the country, stand out among all MFIs due to their operational self-sufficiency.[8,9] As of December 2007, MFDBs served a total of 457,830 customers (Rajbanshi, 2009).

Among the twelve pro-poor MFDBs, Nirdhan Uttham Bank Limited (NUBL) is the largest in terms of number of members, and second in terms of volume of savings.[10] NUBL was one of the first NGOs in Nepal to transfer its microfinance operations to a microfinance development bank, enabling it to mobilize savings. Recently, NUBL has gained attention for its banking responses in time of conflict, particularly its risk-management and mitigation strategies.[11] Another notable MFDB, particularly in mobilization of savings, is the DEPROSC Development Bank (DD Bank). DD Bank developed its capacity to mobilize savings as a way to ensure the long-term viability of the institution. Previously, not many MFIs (aside from savings and credit cooperatives) devoted substantial efforts to develop savings products as alternative sources of funding. The disincentive to collect savings is partly due to the abundance of low-cost lending made available to MFIs by the government's Deprived Sector Lending Program (Dhakal, 2007). DD Bank is one of few MFDBs that has diversified and expanded its savings product while maintaining a clear focus on cost management in order to create a low-cost source of lending capital (CGAP, 2006). Other MFDBs that have the capacity to mobilize youth savings include Swalamban Microfinance Development Bank, Chhimek Bikas Bank, and Nerude Microfinance Development Bank.

Technological innovations that could strengthen the institutional capacity of financial institutions have also gained a foothold in Nepal. Kumari Bank introduced the country's first internet banking in 2001, and mobile banking in 2004. Channels in electronic banking in Nepal include automated teller machines (ATMs), point of sale (POS) machines, internet, and mobile banking. Although branchless banking technology (such as ATMs, POS machines, and mobile banking) is not yet widespread in the country (mostly limited to urban areas), the potential for this technology to deliver financial services in Nepal is promising. The difficult geographic terrain of the country, inadequate rural infrastructure, and the high cost of opening bank branches are key reasons to use technological innovations, particularly mobile banking, to spread the use of financial products and services in Nepal.

National government interest

The national political interest in expanding financial services to most Nepalese, particularly low-income households, is very promising. The Government of Nepal and Nepal Rastra Bank, the country's central bank, have developed numerous initiatives to promote and expand financial access in the country. The Deprived Sector Program, for instance, requires commercial and development banks and finance companies to allocate a certain percentage of their portfolios to the poor.[12]

Aside from financial inclusion, Nepal's government has prioritized programs that expand development initiatives, including asset-development opportunities. The programs include micro-credit initiatives for farmers (Small Farmers Development Project), women (Production Credit for Rural Women), and the rural poor (Rural Self-Reliance Fund). Programs in youth inclusiveness in microfinance and livelihood are also being explored in Nepal. For instance, Save the Children US and Shreejana Community Development Service Center initiated a youth livelihood program with microfinance linkage in 2006. The program aims to create and expand savings and credit groups among women and adolescents in targeted districts. On the policy side, the Tenth Plan (or Poverty Reduction Strategy) has focused on broad-based sustained growth and livelihood strategies, which include social and economic services in rural areas, targeted programs for socioeconomic inclusion of poor and marginalized communities, and improvement of financial access. As part of the country's drive to increase financial access, Nepal issued its National Microcredit Policy, which promotes and develops microfinance as a tool for poverty reduction in the country. The policy aims to increase the outreach of MFIs to low-income groups by providing them with easy and widespread access.

Research capability and partnerships

Potential research partners include Center for Economic Development and Administration (CEDA), and Center for Nepal and Asian Studies (CNAS) at Tribhuvan University; Human and Natural Resources Studies Center (HNRSC) at Kathmandu University; Department of Social Work at Kadambari College; New Era; and International Center for Integrated Mountain Development (ICIMOD).

CEDA is a policy and research center focusing on national development policies and strategies. Its goal is to contribute to national development through analytical and problem-solving research in the areas of socioeconomic and administrative development. CNAS is a multidisciplinary research center that focuses on issues and studies in social sciences. Its research priorities include evaluation of social development programs, Nepali society and culture, politics and development of small states, and geopolitical development in Central and South Asia. HNRSC is another multidisciplinary research center that focuses on social development issues and social dimensions of resource management affecting poor, disadvantaged, and marginalized groups in Nepal. The Department of Social Work at Kadambari College is one of the more reputable schools of social work in the country.

New Era is one of the first non-governmental, non-profit research organizations in Nepal. Its main goal is to provide an independent Nepalese perspective in the design, implementation, and assessment of development policies and programs by employing a wide range of quantitative, qualitative, and participatory rural appraisal methodologies. New Era's research activities primarily focus on socioeconomic development issues such as education, health, rural development, women and population studies, and migration.

ICIMOD, based in Kathmandu, is a regional research institution focusing on issues affecting the eight regional member countries of the Hindu Kush-Himalayas.[13] The center aims to assist mountain people to understand, adapt to, and make the most of globalization and climate change. ICIMOD's areas of interest include sustainable livelihood and poverty reduction.

Larger potential impact in the country and region

The potential impact of YDAs in a country that has a young population (median age is 20.8) is huge and very promising. A great number of the country's low-income and economically active youth and their families can be reached through our efforts. Eventually, the savings initiative can increase the number of youth with access to formal financial services. Active political support for financial inclusion and development initiatives, including asset-building strategies, and a stable and broad reaching financial infrastructure can facilitate a successful demonstration of YDAs in Nepal. This initiative can inform a larger and more inclusive savings and asset-based policy in the country and in the region.

Endnotes

1. The banking sector includes Nepal Rastra Bank (NRB) (or the central bank) and commercial banks. The non-banking sector includes development banks, finance companies, micro-credit development banks, co-operative financial institutions, non-governmental organizations (NGOs) performing limited banking activities and other financial institutions such as insurance companies, employee's provident fund, citizen investment trust, postal saving offices and Nepal Stock Exchange (Nepal Rastra Bank, 2009).

2. Experts attribute the increase in the number and type of financial institutions to reforms and liberalization in the financial sector. The microfinance sector, for example, has become more diversified because of the commercialization of microfinance NGOs and their transformation into microfinance development banks (Rajbanshi, 2009).
3. For instance, the number of commercial banks increased from 2 in 1980 to 25 in 2009. The number of development banks also increased from 2 in 1980 to 59 by January 2009 (Nepal Rastra Bank, 2009).
4. In addition, there are also 2,692 savings and credit cooperatives (SCCs) and 219 small farmers' cooperatives limited (SFCLs) (Rajbanshi, 2009).
5. Only 28% of Nepalese households have an account with a bank or have taken a loan from a bank (Ferrari, Jaffrin & Shrestha, 2006).
6. The commercial banks, development banks, and finance companies do not lend directly to the poor, but rather provide wholesale funds to MFIs under the mandatory Deprived Sector Lending (Nepal Rastra Bank, 2009).
7. MFDBs are regulated with the Bank and Financial Institutions Act of 2006, FINGOs with Financial Intermediaries Act of 1998 (amended in 2002), and SCCs and SFCLs with Cooperative Act of 1991.
8. All private MFDBs have attained over 129% operational self-sufficiency. They are also performing better than government-owned MFDBs in terms of outreach, portfolio quality, efficiency, and profitability (Rajbanshi, 2009).
9. One MFDB serves 25,000 to 80,000 clients, a FINGO 2,000 to 30,000 clients, an SCC 50-200 members, and a SFCL 200-700 members (Rajbanshi, 2009).
10. As of December 2007, NUBL has 88,789 members and savings volume of Rs 202,301,000 (or approximately US$ 2.6 million).
11. NUBL's adaptation strategies during conflict are discussed in Hansen (2008).
12. Commercial banks are mandated to provide 3% of their portfolio to the poor, while development banks and finance companies must allocate at least 1.5% and 1% of their loan portfolios, respectively, to the poor (Nepal Rastra Bank, 2009).
13. The Hindu Kush-Himalayas countries are Afghanistan, Bangladesh, Bhutan, China, India, Myanmar, Nepal, and Pakistan.

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Appendix A: Matrix of strengths and weaknesses[a]

	Strengths	Weaknesses
Political environment	Signing of peace accord with Maoist rebels provides relative peace and security and opportunity to expand financial services.	Insecurity still prevails, particularly in the Eastern Tarai region.
Geography	Difficult geographic terrain of the country is suitable to the use of mobile banking to expand financial services.	Rural and remote areas have limited physical infrastructure.
Demand for deposit services	The huge number of households (poor and non-poor) without financial service access is a large untapped market for financial institutions. Some MFIs have focused on delivery of quality savings services in spite of the disincentives.	Rural and remote areas, where most poor people reside, have limited economic opportunities. Ultra-poor and marginalized castes (e.g. dalits) are still excluded in existing microfinance programs.
Financial sector	Reforms are underway to privatize the sector. Numerous laws are in place to regulate financial institutions. Expansion of microfinance operations and presence of stable MFIs are promising. Commercial banks are reopening in many rural areas affected by the Maoist insurgency.	Highly subsidized financial programs, particularly microcredit, are still implemented in most parts of the country. Financial institutions have few incentives to mobilize savings due to easy availability of lending funds from the government. MFIs, particularly cooperatives operating in rural areas, lack institutional stability.
Information & communication technology (ICT)	Mobile banking technology has attracted mainstream commercial banks. Several channels exist for electronic banking in the country (such as ATMs, POS machines, and internet banking).	Many MFIs lack adequate ICT capacity. The cost of obtaining technology limits MFIs from computerizing their operations. Limited infrastructure in terms of electricity, telecommunications, hardware and software services, constrains MFIs from upgrading their ICT.
Government's support	Government takes active interest in financial exclusion and livelihood programs.	Many political leaders see microfinance programs as charity.
Others	Opportunity exists to connect remittances and savings.	

[a]The information presented in the matrix is drawn largely from Rajbanshi (2009).

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