



PILOT STUDY SUMMARY

Government to Beneficiary Payments in Nepal: A Pilot Experiment

This pilot study was funded in Fall 2016 through CEGA's Financial Inclusion Lab (FIL), in an effort to seed promising new research on digital financial inclusion.

Policy Issue

A critical feature of many social safety net programs is the transfer of financial resources from government agencies to beneficiaries. Frequent delays and difficulty accessing payments can undermine government effectiveness and result in poor service provision. These problems are severe in Nepal, one of the world's poorest and most mountainous countries.

In 2015, a massive earthquake destroyed or damaged more than 750,000 mostly rural, Nepali homes. In response, the National Reconstruction Authority (NRA) launched a home reconstruction program funded by the Nepalese government and international donors. Constrained by legal architecture, the NRA set up a complex multi-agency process for transferring funds from the government to beneficiary commercial bank accounts. Besides delays in payment and high transactions costs (bank branches are located far from the village and can take anywhere between 1-2 days trek to reach), the program has been criticized for its opacity and vulnerability to leakage. Could a mobile phone-based payment system help turn digital financial services from a possibility into a practical solution in Nepal?



LEAD RESEARCHER

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COUNTRY

Nepal

PARTNERS

Nepal Reconstruction Authority (NRA)

PROGRAM AREA

Digital Financial Inclusion

TOPICS

Mobile money payments

TIMELINE

January – May 2017

FUNDING AMOUNT

\$10,000



Project Summary

This pilot study investigated the possibility of implementing mobile grant payments (MGP) system through the NRA. Over the six-month project period, researchers conducted an in-depth field study of the local-level obstacles (infrastructural, operational, and regulatory) to successful MGP implementation, and rigorously vetted multiple potential private sector partners.

Laprak, a village located near the epicenter of the earthquake, was severely damaged and is still deemed a vulnerable area for habitation. The survey team conducted electronic surveys of nearly 500 households in Laprak and acquired secondary data from the NRA. These data, which included information such as monthly household income, education

level, and household size, was collected by the Central Bureau of Statistics after the earthquake in order to

assess the conditions of affected households. The NRA-sourced data provided a broad understanding of the beneficiary population at Laprak: 58% of the population is illiterate and 79% have a household monthly income below \$100. By way of comparison, Laprak’s average per capita income is less than \$240, whereas Nepal’s gross national income per capita is \$730. Beneficiaries in Laprak remain quite poor even when compared to the average government beneficiary in Nepal, whose per capita income is around \$667. In addition to the collection of data, a number of qualitative discussions and meetings were held with various stakeholders in the banking sector to understand the scope and hurdles of the mobile banking sector in Nepal.

Early Results

One of the most surprising findings is that 91% of the households in Laprak own a mobile phone, with an average of two mobile phones per household. Mobile access is intermittent, but regular in Laprak; the nearest cell tower is solar powered and residents have a reasonable expectation that they will have mobile service during the day when there are no heavy rainstorms. Anecdotal evidence suggests that households choose to own more than one mobile phone so that family members can communicate with each other while apart. In general, these results are a testament to how important locals view access to mobile technology.



Another interesting result is that 57% of respondents believed they would find it easier to receive grant money via mobile phones than going to a bank. While this constitutes a majority of beneficiaries, it leaves a significant number who prefer the existing method of payment. Reasons for this may include the fact that trips to the bank are often combined with other regular errands; beneficiaries often send someone to pick up the money on their behalf; beneficiaries may be technologically risk averse and prefer to use familiar methods of payment; and respondents may not understand the concept of mobile payments. More research is needed to fully understand these preferences.

Policy Relevance and Next Steps

Nepal established its first set of rules governing mobile payments in September 2016. While there are many more regulatory steps that need to be taken, interviews with local financial institutions suggest that this is a meaningful positive development. Within the banking sector, many players intend to leverage the e-payments infrastructure and agent networks already established to handle international remittances (remittances account for nearly 29% of Nepal’s GDP).

Notably, the NRA has prioritized an immediate effort to resolve significant errors and limitations uncovered by the research team while linking primary survey data to administrative government data for this pilot. This includes correcting the beneficiary list and developing a system to track individual beneficiaries moving forward. These efforts are being applied in Laprak and up to 500 other villages that may be affected by the same issues. If the NRA can address critical issues (including those identified through this pilot), the MGP system will be the first scalable example of a direct-to-beneficiary mobile payment program in Nepal, with important lessons for other countries.¹

¹ The Nepalese government is set to release a total of approximately 1.49 billion USD to 531,964 beneficiaries, many of whom have gone without reconstruction funding for almost two years. To date, only about 200 million USD has been released.