

# REVIEW OF REMITTANCE POLICY, LEGAL AND REGULATORY FRAMEWORK

## NEPAL

September 2021

## ABOUT THIS REPORT

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The United Nations Capital Development Fund makes public and private finance work for the poor in the world's 46 least developed countries. With its capital mandate and instruments, UNCDF offers last-mile finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. UNCDF's digital agenda for migration and remittances falls within the organization's broader corporate strategy, set forth in 2019, of Leaving No One Behind in the Digital Era.

Remittances can act as a catalyst for sustainable development at both the individual, household, community and national levels as a source of greater disposable income for migrant families that can lead to increased consumption and investment. The size and scale of global remittances creates the possibility of harnessing these flows through digital channels towards productive investment, in health, education and local businesses, thus contributing to the long-term development of countries around the world. An effective policy and regulatory framework that balances innovation and risk will be critical to this transition from cash to digital.

This preliminary diagnostic report was prepared by UNCDF through a desk research review conducted from June to September 2021 of relevant policies, laws and regulations. The authors of this report have prepared an initial country-level mapping of possible enablers, inhibitors and policy options. UNCDF recognize that this report's findings require further engagement with ecosystem actors and the regulatory and policymaking bodies to further refine the initial findings and determine what options can be taken up.

## ACKNOWLEDGEMENTS

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On behalf especially of the migrant women and men customers originating and receiving remittances, and their wider communities in least developed countries, the UNCDF Migrant Money programme team would like to thank the many partners and collaborators who are contributing to our efforts. This appreciation is extended to many stakeholders, including programme staff, implementation partners, knowledge leaders, expert influencers, wider global advocates and advocacy organizations, United Nations colleagues, collaborators in the wider fields of international and development finance and in the financial and remittance industries, research participants, regulatory and policymaking leaders, and many other individual or organizational stakeholders. This programme has been made possible by the generous funding support by the Swiss Agency for Development and Cooperation (SDC) and by the Swedish International Development Cooperation Agency (Sida).

The drafting of this policy diagnostic report was led by Eliamringi Mandari, senior policy specialist. Contributions to the review were made by Amit Gurung, Paloma Monroy, Uloma Ogba, Sarah Lober and Albert Mkenda. Invaluable inputs have also been made by numerous team members across the programme, in the functions of systems and research, implementation, and capacity building.

## COUNTRY CONTEXT

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Remittances are non-reciprocal transfers of money from an individual or household in one place to another individual or household in another place.<sup>1</sup> The Committee on Payments and Market Infrastructures (CPMI) defines international remittance transfer as a cross-border person-to-person payment of relatively low value. In practice, transfers are typically recurrent payments by migrant workers (e.g. who send money to their families in their home country every month).<sup>2</sup>

There are approximately 2.6 million Nepalese migrants.<sup>3</sup> In 2017–2018, the top five countries for Nepalese migrants (Malaysia, Qatar, United Arab Emirates, Saudi Arabia and Kuwait) had over 92 percent of the migrants.<sup>4</sup>

Migrants from Nepal send back approximately US\$8.1 billion, accounting for 28 percent of the country's gross domestic product (GDP).<sup>5</sup> At the household level, remittances represent a vital source of income for many individual recipients.

The size and scale of remittances also creates the possibility of harnessing these flows for productive investment, thus contributing to the long-term development of Nepal. In 2018, Nepal was the fifth-highest recipient of remittances in terms of equivalence to GDP, after Tonga, Kyrgyzstan, Tajikistan and Haiti.<sup>6</sup> Remittances are the main form of foreign exchange earnings for Nepal; in 2018, remittances accounted for 68 percent of the total foreign exchange earnings.<sup>7</sup> A significant proportion of remittances from India are not recorded in the balance of payment, however, as they are carried by migrants themselves or transferred through relatives and friends.

The outflow of migrant workers has declined, but remittances have continued to grow; this could be due to several factors such as a large stock of migrants abroad, currency depreciation against the United States dollar, and more stringent efforts to control informal transfers. Despite the COVID-19 pandemic, remittances to Nepal increased by 8.1 percent between July and September 2020 compared with the previous year.<sup>8</sup>

The average cost of sending remittances is around 4.54 percent.<sup>9</sup> The informal market is still popular, however, and most remittances are received in cash. The regulatory environment is not fully supportive of digital innovations (electronic know your customer (e-KYC), digital

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<sup>1</sup> Christine Hougaard, 'The landscape of remittances in Zambia' (FinMark Trust Zambia, 2008). Available at [https://www.findevgateway.org/sites/default/files/publications/files/mfg-en-paper-the-landscape-of-remittances-in-zambia-oct-2008\\_0.pdf](https://www.findevgateway.org/sites/default/files/publications/files/mfg-en-paper-the-landscape-of-remittances-in-zambia-oct-2008_0.pdf) (accessed 9 August 2021).

<sup>2</sup> Committee on Payment and Settlement Systems, The World Bank, 'General principles for international remittance services' (Bank for International Settlements and The World Bank, Basel, 2007). Available at <https://www.bis.org/cpmi/publ/d76.pdf> (accessed 4 August 2021).

<sup>3</sup> Government of Nepal, Ministry of Labour, Employment and Social Security, Nepal Labour Migration Report 2020 (Kathmandu, 2020). Available at <https://moless.gov.np/wp-content/uploads/2020/03/Migration-Report-2020-English.pdf> (accessed 3 August 2021).

<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> Government of Nepal, Ministry of Labour, Employment and Social Security, Nepal Labour Migration Report 2020 (Kathmandu, 2020). Available at <https://moless.gov.np/wp-content/uploads/2020/03/Migration-Report-2020-English.pdf> (accessed 3 August 2021).

<sup>8</sup> Nepal Rastra Bank, 'Current Macroeconomic and Financial Situation of Nepal' (2021). Available at <https://www.nrb.org.np/contents/uploads/2020/10/Current-Macroeconomic-and-Financial-Situation-English-Based-on-Two-Months-data-of-2020.21.pdf> (accessed 3 August 2021).

<sup>9</sup> The World Bank, 'Average transaction cost of sending remittances to a specific country (%) – Ethiopia, Nepal'. Available at <https://data.worldbank.org/indicator/SI.RMT.COST.IB.ZS?locations=ET-NP> (accessed 3 August 2021).

identification (ID) systems, etc.), there is lack of migrants-centric products and services, and financial and digital literacy among migrants and their families remains low.

Driving the adoption of digital remittances will require a mix of interventions to remove barriers in policies and regulations, upgrade and open the payments infrastructure, innovate in products and services, and, most importantly, enhance the financial and digital skills of customers and empower people.

## POLITICAL ECONOMY

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Remittances represent a significant share of some countries' GDP. The economic impact of remittances on the receiving countries depends on how this money is spent by recipient households. If these flows increase consumption in sectors that have strong sectoral linkages with other economic sectors, the positive effect of remittances may propagate to these sectors and have an amplified aggregate effect on the entire economy.

Nepal is a country of emigration history, with migrants who support their families playing a pivotal role in society. About 55.8 percent of all households in Nepal receive remittances.<sup>10</sup>

Most Nepalese workers moving abroad are low-skilled migrants to Malaysia or temporary work contractors in sectors such as construction and domestic work in Gulf countries. Nepal prioritizes bilateral labour agreements with destination countries to advance safer migration. Currently, Nepal has bilateral agreements with Bahrain, Qatar, the United Arab Emirates, the Republic of Korea, Jordan, Japan, Malaysia and Mauritius to enhance the availability and flexibility of pathways for regular migration.<sup>11</sup>

The Foreign Employment Information Management System (FEIMS) has been established in Nepal to help address issues in recruitment, employment and repatriation of workers, and to manage all legal migrants in one platform. Recruitment agencies have joint liability with their employers; if there is malpractice in the destination country, recruitment agencies are held responsible.<sup>12</sup> The Government of Nepal has also established the Foreign Employment Welfare Fund (FEWF) to assist migrant workers and their family members in case of loss of life or injuries sustained while abroad.<sup>13</sup>

Nepal has expressed its commitment at the regional level by engaging in significant regional processes in labour migration, including the Colombo Process, Abu Dhabi Dialogue and South Asian Association for Regional Cooperation. As chair of the Colombo Process since March 2007, Nepal has been holding country-level and regional consultations and has provided inputs to drafts of the Global Compact for Migration (GCM). The objective of the Colombo Process includes sharing experiences and best practices on overseas employment, consulting on issues faced by overseas workers, and reviewing and monitoring the

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<sup>10</sup> Government of Nepal, Ministry of Labour, Employment and Social Security, Nepal Labour Migration Report 2020 (Kathmandu, 2020). Available at <https://moless.gov.np/wp-content/uploads/2020/03/Migration-Report-2020-English.pdf> (accessed 3 August 2021).

<sup>11</sup> <https://gfmd.org/pfp/ppd/36> (accessed 3 August 2021).

<sup>12</sup> Government of Nepal, Ministry of Labour, Employment and Social Security, Nepal Labour Migration Report 2020 (Kathmandu, 2020). Available at <https://moless.gov.np/wp-content/uploads/2020/03/Migration-Report-2020-English.pdf> (accessed 3 August 2021).

<sup>13</sup> Ibid.

implementation of recommendations.<sup>14</sup> Nepal is an active member of the Abu Dhabi Dialogue, which is a regional forum of labour-sending and labour-receiving economies for coordination of issues related to governing overseas labour migration.<sup>15</sup>

In June 2020, the International Labour Organization (ILO) reported that an estimated 127,000 migrant workers were likely to return in the short term, with an additional 400,000 expected in the medium term because of the impacts of COVID-19.<sup>16</sup> The Government of Nepal has introduced a scheme to encourage recently returned migrant entrepreneurs by subsidizing interest rates for loans of up to 1 million Nepalese rupees (NPR).<sup>17</sup>

## REMITTANCES LANDSCAPE

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**Banks and financial institutions (BFI):** Financial access has expanded to around 61 percent of the total population of Nepal. As of mid-July 2020, the total number of BFIs (155) was composed of 27 commercial banks (class A banks), 20 development banks (class B banks), 22 finance companies (class C banks), 85 microfinance financial institutions (MFIs) (class D banks) and an infrastructure development bank. The number of branches had reached 9,765 in mid-July 2020, which compared with 4,274 in mid-July 2016. The branch network of commercial banks had reached 4,436, followed by development banks (1,029) and finance companies (243).<sup>18</sup> The greatest percentage of these outlets is in Bagmati Province, at around 25 percent. The second-biggest BFI branch density is in Province No 5.<sup>19</sup>

The number of MFIs and their branches has increased tremendously in the last decade. In mid-July 2009, there were 15 MFIs in operation, which increased to 24 by mid-July 2012, and to 85 by July 2020. As of mid-July 2013, there were about 600 MFI branches, compared with 4,057 branches across the country by mid-July 2020.<sup>20</sup> MFIs are in all 77 districts of Nepal. Among MFIs, 4 are wholesale lending MFIs: RMDC, RSDC, Sana Kisan and First Microfinance. None of the MFIs are integrated into the national switch. MFIs are not permitted to engage alone in the international remittance business.

**Mobile network operators (MNOs):** There are three major MNOs in Nepal: Nepal Telecom (state owned), Ncell (owned by Axiata) and SmartCell (owned by Smart Telecom; limited coverage on 2G, 4G/LTE, with no 3G).

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<sup>14</sup> Government of Nepal, Ministry of Labour, Employment and Social Security, Nepal Labour Migration Report 2020 (Kathmandu, 2020). Available at <https://moless.gov.np/wp-content/uploads/2020/03/Migration-Report-2020-English.pdf> (accessed 3 August 2021).

<sup>15</sup> Abu Dhabi Dialogue, 'About Abu Dhabi Dialogue'. Available at <http://abudhabidialogue.org/ae/about-abu-dhabi-dialogue#:~:text=Temporary%20labour%20migration%20is%20the,of%20the%20Abu%20Dhabi%20Dialogue.&text=Migrants%20are%20incentivised%20to%20remit,origin%2C%20which%20helps%20boost%20development> (accessed 3 August 2021).

<sup>16</sup> International Labour Organization (ILO), 'A migrant centred approach to remittances'. Available at <https://www.ilo.org/global/topics/labour-migration/policy-areas/remittances/lang--en/index.htm> (accessed 3 August 2021).

<sup>17</sup> Government of Nepal, Ministry of Labour, Employment and Social Security, Nepal Labour Migration Report (Kathmandu, 2020). Available at <https://moless.gov.np/wp-content/uploads/2020/03/Migration-Report-2020-English.pdf> (accessed 3 August 2021).

<sup>18</sup> Nepal Rastra Bank, Financial Stability Report: Fiscal year 2018/19 (Kathmandu, November 2019). Available at <https://www.nrb.org.np/contents/uploads/2020/07/FSR-2018-19-1.pdf> (accessed 3 August 2021).

<sup>19</sup> Ibid.

<sup>20</sup> Nepal Rastra Bank, Annual Report: Fiscal year 2018/19 (Kathmandu, November 2019). Available at <https://www.nrb.org.np/contents/uploads/2020/09/Annual-Report-2018.19.pdf> (accessed 3 August 2021).

**Remittance service providers (RSPs):** There are 56 registered RSPs<sup>21</sup> sending remittances to Nepal. Banks are the unique institutions mandated to manage foreign exchange and provide international remittance services. All non-bank RSPs, such as international and local RSPs, need to enter into partnerships with banks to conduct cross-border remittance services.

**Payment services providers (PSPs):** There are 23 non-bank institutions licensed to operate as payment institutions; 14 are PSPs and 9 are payment system operators.<sup>22</sup> As of mid-July 2020, all commercial banks (27), 12 development banks and 7 finance companies were operating as PSPs.<sup>23</sup>

**Automated teller machines (ATMs):** As of July 2020, there were 4,106 ATMs.<sup>24</sup> In 2018, there were approximately 19.8 ATMs per 100,000 adults across the country.<sup>25</sup> Given the predominantly rural population, access to ATMs outside big cities is a challenge. ATMs are interoperable, but banks can charge a fee for taking cash out at other banks' ATMs.

**Bank cards:** As of July 2020, there were 7.32 million bank debit cards, 160,297 credit cards, and 63,755 prepaid cards in circulation.<sup>26</sup>

## INFRASTRUCTURE

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**Payment system:** The country's payment system is the Real Time Gross Settlement System, which facilitates real-time settlement of high value time-critical payments. Retail payment systems are typically low value payment systems catering for consumers', businesses' and the government's payment requirements. Retail payment systems in Nepal are mainly operated by Nepal Clearing House Limited (NCHL), which provides an image-based cheque-clearing solution and electronic fund transfers.<sup>27</sup>

**ID:** Implementation of a national identity card of Nepal is underway. Roughly 117,000 citizens of Nepal received ID cards during a pilot programme. The card features a unique number, photo, personal information and 10 fingerprints of the bearer. Upon full implementation, the card will replace the current Nepalese citizenship document and will be used for confirming national identity, personal identity, as a voter ID card and as a social security card through its unique number.<sup>28</sup>

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<sup>21</sup> Nepal Rastra Bank, 'Remittance companies'. Available at <https://www.nrb.org.np/departments/fxm/#licensed> (accessed 3 August 2021).

<sup>22</sup> Nepal Rastra Bank, Payment Systems Department, 'Payment Systems Oversight Report' (BS 2076/77) (Kathmandu, no date). Available at [https://www.nrb.org.np/contents/uploads/2020/10/Oversight-Report\\_2076-77.pdf](https://www.nrb.org.np/contents/uploads/2020/10/Oversight-Report_2076-77.pdf) (accessed 3 August 2021).

<sup>23</sup> Ibid.

<sup>24</sup> Ibid.

<sup>25</sup> International Monetary Fund (IMF), 'Financial Access Survey (FAS)'. Available at <https://data.imf.org/?sk=E5DCAB7E-A5CA-4892-A6EA-598B5463A34C&slid=1460043522778> (accessed 4 August 2021).

<sup>26</sup> Ibid.

<sup>27</sup> Ibid.

<sup>28</sup> Prithvi Man Shrestha, 'Government preparing to call tender for its national ID card programme', The Kathmandu Post, 31 October 2020. Available at <https://kathmandupost.com/national/2020/10/31/government-preparing-to-invite-bids-for-supply-of-national-id> (accessed 3 August 2021).

## PRODUCTS

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Most transfers are cash to cash. Aside from a handful of large commercial banks, banks are insignificant in the remittances market. Fewer than half of Nepalese people (45 percent) have a bank account.<sup>29</sup> The majority – as much as 90 percent, according to one survey<sup>30</sup> – seem to prefer money transfer operators when sending formally, as they are both quick and efficient. Sending informally is still very popular for a large proportion of Nepalese, partly due to high fees for formal transfers and a lack of competition between money transfer operators.

Mobile money services are used in Nepal but require further development. As an example of the progress being made, Western Union has partnered with Nabil Bank and Phone Pay to provide money transfer services to migrant workers via the eSewa mobile wallet. Senders can almost instantly transfer money using this technology, and receivers may make purchases or take cash out at around 1,200 locations attached to Nabil Bank.<sup>31</sup>

While evolving digital remittance models are gradually being rolled out, significant efforts are still required to expand the adoption of digital channels in order to reduce the costs of receiving remittances and increase the use cases and the digital and financial skills of beneficiaries. There is a need to incentivize a greater proportion of Nepalese to switch from the informal to the formal system, either by reducing fees or offering other incentives. Mobile money services should be supported and promoted, both to encourage more people to use formal digital channels and to reduce costs by increasing competition.

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<sup>29</sup> The World Bank, The Global Findex Database 2017. Available at <https://globalfindex.worldbank.org> (accessed 2 August 2021).

<sup>30</sup> Isaku Endo and Gabi G Afram, The Qatar-Nepal Remittance Corridor: Enhancing the impact and integrity of remittance flows by reducing inefficiencies in the migration process (Washington, DC, World Bank Group, 2011). Available at <https://openknowledge.worldbank.org/handle/10986/2330> (accessed 3 August 2021).

<sup>31</sup> International Organization for Migration (IOM), Study on Remittance Regulatory Frameworks and Accessibility of Regular Remittance Channels of the Colombo Process Member States (Colombo, 2019). Available at <https://publications.iom.int/books/study-remittance-regulatory-frameworks-and-accessibility-regular-remittance-channels-colombo> (accessed 3 August 2021).

# ROADMAP FOR REFORM

1. OVERALL FRAMEWORK – LEGAL AND REGULATORY		
Enablers	Inhibitors	Options/Recommendations
<ul style="list-style-type: none"> <li>● The law mandates the central bank (Rastra Bank), among others, to formulate and implement foreign exchange policies and to prescribe the system of determining the foreign exchange rates of the Nepalese currency.</li> </ul>	<ul style="list-style-type: none"> <li>✘ Nepal has followed the conventional fixed (pegged) exchange rate regime with the Indian currency and a flexible exchange rate regime with other currencies. There is limited available literature on the impact of the fixed exchange rate on the flow of remittances through formal channels.</li> </ul>	<ul style="list-style-type: none"> <li>● Depending on the volume of remittances from India and how the flow is being impacted by the fixed exchange rate, consider revisiting the pegged exchange rate.</li> </ul>
<ul style="list-style-type: none"> <li>● A banking law that consolidates the prevailing laws relating to banks and financial institutions in order to increase the confidence of the general public towards the country's banking and financial system.</li> </ul>	<ul style="list-style-type: none"> <li>✘ The law mandates only category A licensed banks and financial institutions to remit or transmit money within or outside Nepal. The lower classes of banks, which have a mandate to focus on a broader market basis, are currently unable to provide remittance services.</li> </ul>	<ul style="list-style-type: none"> <li>● Consider allowing lower categories of bank to provide remittance services, especially for terminating cross-border remittances.</li> </ul>
<ul style="list-style-type: none"> <li>● Payments law that mandates the Payment System Department of Rastra Bank with responsibility for maintaining financial stability by making the payment system secure and efficient, modernizing the payment system to enhance its credibility, as well as regulating, monitoring, supervising and inspecting the system, and operating the Real Time Gross Settlement System.</li> </ul>	<ul style="list-style-type: none"> <li>✘ Cross-border inward remittances to Nepal account for approximately 25 percent of GDP. Most remittances are received in cash by beneficiaries, who are financially excluded. The use of informal channels for sending remittances to Nepal is also reported to be widespread.</li> </ul>	<ul style="list-style-type: none"> <li>● Enhance financial inclusion efforts. Channelling remittances through the formal financial sector will reduce the use of informal channels, strengthen AML/CFT guidelines, improve the balance of payments position of the economy, and in turn enable the remittance proceeds to be gainfully available for use in other financial services.</li> </ul>

<ul style="list-style-type: none"> <li>● MFI law that permits a licensed MFI to act as an agent of a commercial bank or financial institution. The law includes provisions for institutions, which act as financial intermediaries, to collect micro-savings and provide microcredit to improve the economic position of people across the country with low income by enabling them to participate in micro-business.</li> </ul>	<ul style="list-style-type: none"> <li>✘ FSPs are not fully leveraging the existing MFI network, especially in rural areas, in the provision of remittance services.</li> </ul>	<ul style="list-style-type: none"> <li>● There is a need for financial service providers to partner with MFIs and leverage their existing distribution networks while taking advantage of the existing payment infrastructure to extend networks into and across rural areas for enhanced distribution channels for inward remittances.</li> </ul>
<ul style="list-style-type: none"> <li>● Telecommunication law that aims to make the telecommunications service reliable and easily available to the public, to involve the private sector as well in the telecommunications service, and to regularize and systematize such a service.</li> </ul>	<ul style="list-style-type: none"> <li>✘ MNOs are not allowed to directly offer DFS. They need to obtain a PSP licence from the central bank to offer services. Neither of the two MNOs (Ncell or Nepal Telecom) currently offers DFS.</li> </ul>	<ul style="list-style-type: none"> <li>● There is a need for the telecommunications authority to collaborate with Rastra Bank on a joint forward-looking regulation governing MFSPs and encouraging telecommunications companies to lead the provision of MFS.</li> </ul>
<ul style="list-style-type: none"> <li>● Consumer protection law that makes provisions for protecting consumers from irregularities concerning the quality, quantity and price of consumer goods or services and related matters.</li> </ul>	<ul style="list-style-type: none"> <li>✘ No specific provisions to cater for financial services. The law has general provisions for consumer protection matters.</li> </ul>	<ul style="list-style-type: none"> <li>● There is a need for Rastra Bank to consider a specific item of legislation, directive or guideline on consumer protection and a complaints-resolution mechanism for financial services, including for cross-border remittances.</li> </ul>
<ul style="list-style-type: none"> <li>● AML/CFT law that aims to prevent money-laundering of criminally earned assets. The law establishes the Financial Information Unit in Rastra Bank for collection and analysis of information relating to asset-laundering. It also establishes the Asset Laundering Prevention Department to investigate offences under the law.</li> </ul>	<ul style="list-style-type: none"> <li>✘ The law is not clear on risk-based approach matters. The central bank introduced KYC requirements for deposit taking, remittances, cross-border transactions and credit-extension activities. Only clients with transactions totalling less than NPR100,000 (US\$1,015) in annual deposits and withdrawals are considered low risk and thus eligible for simplified KYC requirements. Such low thresholds discourage individuals from entering the banking system, by requiring them to fulfil the detailed KYC requirements, which could be considered onerous.</li> </ul>	<ul style="list-style-type: none"> <li>● Need for proper guidance on simplified KYC/CDD, based on the current technological development related to cross-border remittances, and to consider the use of technology to facilitate KYC and effective supervision and oversight. There is a need to revisit the thresholds of eligibility for simplified KYC.</li> </ul>

<ul style="list-style-type: none"> <li>● Although there is no regulatory framework or guideline for the use of agents, the most popular products and services being obtained through agents are account opening, paying cash in/taking cash out, and remittances.</li> </ul>	<ul style="list-style-type: none"> <li>✘ The terrain in Nepal makes it both difficult and costly for agents to travel and rebalance their accounts, which at times leads to the denial of services such as remittances.</li> </ul>	<ul style="list-style-type: none"> <li>● There is a need for Rastra Bank to consider putting in place a guideline or regulation that will provide guidance on the use of agents and related matters.</li> </ul>
<ul style="list-style-type: none"> <li>● Nepal Rastra Bank's remittance by-law applies to individuals, firms, companies or organizations working as remittance senders with a licence from the bank. It defines remittance sender as the licensed firm, company or institution that brings the foreign currencies earned by Nepalese abroad through banking channels and pays the relevant stakeholders in the Nepalese currency.</li> </ul>	<ul style="list-style-type: none"> <li>✘ Remittance service providers are not allowed to engage in outward remittance from Nepal.</li> </ul>	<ul style="list-style-type: none"> <li>● To make the remittance service a more attractive business, Rastra Bank may consider allowing RSPs to provide both inward and outward remittance services as well as allow the use of electronically available channels/APIs.</li> </ul>

AML/CFT, anti-money laundering/combating the financing of terrorism; API, application programming interface; DFS, digital financial services; e-KYC, electronic know your customer; KYC, know your customer; MFI, microfinance institution; MFS, mobile financial services; MFSP, mobile financial services provider; MNO, mobile network operator; NPR, Nepalese rupee; PSP, payment service provider; RSP, remittance service provider.

## 2. FINANCIAL AND PAYMENTS INFRASTRUCTURE – LEGAL AND REGULATORY

Enablers	Inhibitors	Options/Recommendations
<ul style="list-style-type: none"> <li>● As an effort to modernize the payment system, Rastra Bank formulated and published a retail payment strategy in 2019.<sup>32</sup></li> </ul>	<ul style="list-style-type: none"> <li>✘ It seems there are no plans to connect the national retail payments systems with regional/</li> <li>✘ international payment hubs and gateways – perhaps due to the geopolitical environment in South Asia.</li> </ul>	<ul style="list-style-type: none"> <li>● Consider opening up national retail payment systems to connect with local, regional and international payment hubs and gateways. This will enable RSPs to partner with technology service providers to develop API platforms and spur a digital ecosystem for cross-border remittances that facilitates the development</li> <li>● of value-added products/ services, such as payments, savings, investment, credit and insurance, to utilize the full potential of cross-border flows.</li> </ul>
<ul style="list-style-type: none"> <li>● RSPs have access to the retail payment infrastructure to route remittance proceeds to the transaction accounts of beneficiaries held with banks or non-banks.</li> </ul>	<ul style="list-style-type: none"> <li>✘ Some MFIs are already agents of RSPs; however, limited technology and connectivity are major challenges.</li> </ul>	<ul style="list-style-type: none"> <li>● Technical support may be needed for the MFIs to provide more reliable remittance services.</li> </ul>
<ul style="list-style-type: none"> <li>● Existence of a national identity card of Nepal – a federal-level Identity card with a unique number for each person, which can be obtained by citizens of Nepal, and which includes their biometric and demographic data – a photo, personal information and 10 fingerprints of the bearer.</li> </ul>	<ul style="list-style-type: none"> <li>✘ Limited use of the ID system for e-KYC and other electronic means for effective identification and onboarding of customers/user segments, to facilitate authentication and verification of cross-border transactions, to facilitate effective AML/CFT supervision of cross-border transactions, and to support the digital footprint of the underbanked to enable access to a broader range of financial services.</li> </ul>	<ul style="list-style-type: none"> <li>● Consider maximum utilization of the ID system for e-KYC and other related ID matters.</li> </ul>

AML/CFT, anti-money laundering/combating the financing of terrorism; API, application programming interface; e-KYC, electronic know your customer; ID, identification; MFI, microfinance institution; RSP, remittance service provider.

<sup>32</sup> Nepal Rastra Bank, 'Retail Payments Strategy, 2019'. Available at <https://www.nrb.org.np/contents/uploads/2019/12/Retail-Payment-Strategy-2019.pdf> (accessed 11 August 2021).

### 3. MARKET ASPECTS – LEGAL AND REGULATORY

Enablers	Inhibitors	Options/Recommendations
<ul style="list-style-type: none"> <li>● Remittance providers can join Nepal Clearing House Ltd (as indirect members) to use the National Payments Interface for depositing foreign remittance transactions directly into beneficiary bank accounts in Nepal. The consolidated interface (API) works as a single channel to interconnect with multiple underlying core systems and is designed to facilitate participants to initiate and process their payments.</li> </ul>	<ul style="list-style-type: none"> <li>✘ Limited supportive means to facilitate the development of value-added products/services, such as payments, savings, investment, credit and insurance, to utilize the full potential of cross-border flows.</li> </ul>	<ul style="list-style-type: none"> <li>● Encourage RSPs and financial technology companies to develop a digital ecosystem for</li> <li>● cross-border remittances, and to facilitate the design of value-added products/ services, such as payments, savings, investment, credit and insurance, to utilize the full potential of cross- border flows. This may</li> <li>● include providing incentives to RSPs to adopt a customer-centric approach to product development using simplified business processes.</li> </ul>
<ul style="list-style-type: none"> <li>● Bank accounts can be opened by migrants after completion of KYC requirements (a passport is used). Accounts can be opened in United States dollar, euro, Canadian dollar, Australian dollar, pound sterling, Japanese yen and other currencies.</li> </ul>	<ul style="list-style-type: none"> <li>✘ The process of opening an account requires physical KYC process to be done.</li> </ul>	<ul style="list-style-type: none"> <li>● Rastra Bank may relax the requirement for a physical KYC process, where possible, and also consider a risk-based approach and e-KYC.</li> </ul>

API, application programming interface; e-KYC, electronic know your customer; KYC, know your customer; RSP, remittance service provider.

#### 4. CONSUMER PROTECTION – LEGAL AND REGULATORY

Enablers	Inhibitors	Options/Recommendations
<ul style="list-style-type: none"> <li>● The Financial Inclusion Roadmap serves as an overarching guideline for strengthening financial inclusion in Nepal. It has been designed to serve as a resource to the Government of Nepal and private stakeholders, by identifying and analysing existing challenges to financial inclusion and suggesting steps to take towards tackling them.</li> </ul>	<ul style="list-style-type: none"> <li>✘ Lack of cooperation on AML/CFT measures on cross-border remittance flows among member countries in the region, including sharing of information.</li> </ul>	<ul style="list-style-type: none"> <li>● Need to enhance domestic and cross-border regulatory cooperation to strengthen AML/CFT measures through data sharing and enforcement. This can be done by assessing the existing remittance arrangements and challenges, creating building blocks of a response to improve the current regional cross-border remittance arrangements, and putting forth a roadmap of practical steps (with timeframes) needed to achieve harmonization through a coordinated effort from each of the regional central banks. An intended outcome is increased efficiency, affordability and security of intra-regional and cross-border fund transfers.</li> </ul>
<ul style="list-style-type: none"> <li>● Reliable data on remittances is key for enhancing the accuracy and completeness of balance of payment data, effectively managing issues related to AML/CFT compliance, understanding the impact of remittances, and for forming more effective policy for managing remittances. Rastra Bank collects, analyses and shares data related to foreign exchange inflows.</li> </ul>	<ul style="list-style-type: none"> <li>✘ Although banks are mandated to follow Balance of Payment Data Collection Regulation (2061) and Nepal Rastra Bank Remittance Bylaw, 2010, it appears that Rastra Bank is using the International Monetary Fund's Balance of Payments Manual fifth edition (BPM5) for data collection and analysis.</li> </ul>	<ul style="list-style-type: none"> <li>● Rastra Bank may consider upgrading to BPM6 through an international transactions reporting system for data collection, analysis and sharing.</li> </ul>
<ul style="list-style-type: none"> <li>● Central bank efforts and initiatives to modernize regulations, policies and payment systems in support of greater financial inclusion in Nepal.</li> </ul>	<ul style="list-style-type: none"> <li>✘ Low level of financial literacy.</li> </ul>	<ul style="list-style-type: none"> <li>● The efforts for modernization should be complemented with greater financial literacy of underserved and diverse communities (women, rural) across Nepal, as well as of Nepalese abroad.</li> </ul>

AML/CFT, anti-money laundering/combating the financing of terrorism.

