

# Analysis of Merchant Services in Nepal: A Comparative Study of eSewa, Khalti, and Fonepay

## Executive Summary: A Strategic Triptych of Merchant Services

This report provides a detailed analysis of the merchant services offered by three of Nepal's leading digital payment platforms: eSewa, Khalti, and Fonepay. The findings reveal that each platform operates on a distinct strategic model, presenting prospective merchants with different value propositions. Khalti is a comprehensive, self-service payment gateway that emphasizes public transparency and granular documentation. Fonepay, in contrast, functions as a bank-centric, interoperable network, with its primary interaction with merchants routed through partner banks. eSewa, as a dominant market leader, operates with a more opaque, contract-driven model, leveraging its extensive user base and brand recognition.

A comparative review of the available documentation highlights key differences in requirements, pricing, and operational features. Khalti offers a clear, document-centric onboarding process, while Fonepay's is relational and tied to the banking system. eSewa's requirements are not publicly detailed and are managed through a private "Merchants Agreement".<sup>1</sup> Regarding commissions, Fonepay's model is particularly notable, offering a free basic QR payment service while monetizing a premium, value-added service in the form of instant settlement. Khalti's pricing framework is more complex, with a one-time API fee and a percentage-based service charge that is often negotiated.<sup>3</sup> eSewa's commission structure is not publicly disclosed, with fees determined on a case-by-case basis through a private contract.<sup>5</sup>

The operational features also vary significantly. Fonepay provides both a free multi-session settlement and a paid instant settlement option.<sup>6</sup> Khalti, on the other hand, routes all payments to a central merchant dashboard, offering the merchant the flexibility to withdraw the accumulated funds to their bank account at any time without any withdrawal fees.<sup>4</sup> The strategic choice for a merchant hinges on their specific business needs, including their relationship with a bank, cash flow requirements, and desired level of pricing transparency. The following matrix provides a quick-reference comparison of the key features discussed in this report.

Feature	Khalti	Fonepay	eSewa
<b>Onboarding Model</b>	Self-service & Contractual	Bank-centric & App-based	Contractual & Opaque
<b>Required Documentation</b>	Detailed, explicitly listed documents for companies & firms <sup>3</sup>	Linked to bank requirements; requires a registered business and bank account <sup>9</sup>	Not publicly listed; requires a formal business registration <sup>1</sup>
<b>Integration Fee</b>	One-time API fee <sup>3</sup>	No fees for accepting QR payments <sup>10</sup>	Not publicly disclosed; anecdotal evidence suggests a high one-time charge <sup>13</sup>
<b>Transaction/Commission Fee</b>	Percentage-based, personalized schemes <sup>3</sup> ; 20% for event ticketing <sup>14</sup>	Free for QR payments; fees levied on member banks <sup>12</sup>	Not publicly disclosed; percentage-based as per contract <sup>5</sup>
<b>Annual Maintenance Fee</b>	Conflicting information; one source claims an annual charge <sup>3</sup> , another denies it for the payment gateway <sup>4</sup>	Not mentioned	Not mentioned
<b>Settlement Options</b>	Funds accumulate in a merchant account and can be withdrawn to a bank at any time for free <sup>4</sup>	Offers free multi-session settlement or paid instant settlement (Rs. 5 per settlement) <sup>6</sup>	Not publicly detailed; likely subject to contractual terms
<b>Key Features</b>	Comprehensive dashboard, real-time reports, instant refunds, multi-user access <sup>4</sup>	Interoperable QR, dynamic QR codes, real-time notifications, transaction history, voice alerts <sup>10</sup>	Extensive user base, established brand, broad ecosystem of services <sup>5</sup>
<b>Source Transparency</b>	High (for requirements), Low (for general commissions)	High (for QR payments), Low (for bank-level charges)	Very Low

## Chapter 1: The Onboarding Gateway - A Comparative Analysis of Merchant Requirements

## 1.1. Khalti: The Granular and Document-Centric Approach

Khalti's approach to merchant onboarding is characterized by its high level of public transparency regarding required documentation. This model provides clear guidance for businesses looking to integrate the service. The company's terms explicitly differentiate between the requirements for different legal structures. For Private and Public Limited Companies, the process is formal and comprehensive, necessitating documents such as a Company Registration Certificate from the Company Registrar Office, a PAN/VAT Certificate, the Memorandum of Association (MOA) and Article of Association (AOA), a recent Tax Clearance Certificate, and government-recognized identity cards for all shareholders.<sup>3</sup> Furthermore, a consent letter or official minute from the board of directors authorizing the business engagement is also a mandatory requirement.<sup>3</sup>

For smaller legal entities, such as Firms (Sole or Partnership), the list of required documents is tailored but remains specific. A Banjiya/Udhyog Registration Certificate, a PAN/VAT Certificate, a recent Tax Clearance Certificate, and a copy of the proprietor or partners' identity certificates are all required.<sup>3</sup> In addition to these legal documents, merchants must complete their Merchant KYC (Know Your Customer) on the Khalti platform.<sup>3</sup> The company has also made a technical prerequisite a part of its onboarding: a merchant must integrate the Khalti Payment Gateway API into their website or mobile application and adhere to all related terms and guidelines.<sup>3</sup> The initial setup is designed to be a self-service process, where a business can sign up, fill out the KYC, and use test keys to run transactions in a sandbox environment.<sup>4</sup> This process is limited, however; to enable full functionality and access to withdrawals, a formal contract with Khalti is required.<sup>4</sup>

## 1.2. eSewa: The Opaque, Contract-Driven Framework

The public-facing documentation for eSewa does not provide a specific, itemized list of requirements for merchants. The company's official terms and conditions define a "Registered Merchant" as a "business entity /organization having separate legal existence and identity which is registered as per companies act or similar legislation of Nepal".<sup>1</sup> While this confirms that a business must be legally established, it stops short of detailing the specific documents required for the application process.

The absence of a publicly available, detailed list of requirements and commissions suggests that eSewa's merchant onboarding is not a standardized, self-service process. The company's documents refer to a "Merchants Agreement," which contains specific terms negotiated separately with each partner.<sup>1</sup> This lack of public transparency in the onboarding process necessitates direct engagement with the company's business development team. The reason for this approach appears to be a strategy that allows for bespoke negotiations and the individual vetting of potential partners. Such a model may create friction for new or small

businesses seeking a quick integration, as it requires a formal, potentially lengthy, negotiation. However, for larger corporations or established brands, this framework can be beneficial, as it allows for customized terms and specialized solutions that a public, fixed fee structure would not accommodate. The fragmented and unverified information available on external forums, such as an old Reddit thread, reinforces this model, with a discussion of high one-time setup charges that might be waived or reduced for "big brands".<sup>13</sup> This further indicates that the pricing and requirements are not uniform but are a function of the merchant's size and market presence.

### **1.3. Fonepay: The Bank-First, Relationship-Driven Model**

Fonepay's merchant onboarding is uniquely tied to the traditional banking system. The company does not function as a standalone wallet that onboards merchants directly but rather as an underlying network that connects a vast array of member banks and financial institutions.<sup>9</sup> As a result, the primary method for a business to become a Fonepay merchant is to "contact your preferred bank that partners with Fonepay".<sup>10</sup> The bank itself acts as the "acquirer," handling the onboarding process and fulfilling the necessary Know Your Merchant (KYM) and other regulatory checks.<sup>15</sup>

The requirements for a business to join the Fonepay network are consistently linked to the banking system. A business must be registered with the appropriate government authority and have a business account with one of Fonepay's partner banks or financial institutions.<sup>9</sup> This model decentralizes the onboarding process, placing the responsibility on the merchant's existing bank. The Fonepay Business App provides an alternative channel for registration, where a merchant can fill out a "Know Your Merchant" form, and their chosen acquiring bank will complete the remainder of the process.<sup>15</sup> This confirms Fonepay's strategic position as an interoperable network provider, where the bank is the central point of contact and service provider for the merchant, a relationship that fundamentally distinguishes it from the models of Khalti and eSewa.

## **Chapter 2: Unpacking the Financial Model - Commissions and Fees**

### **2.1. Fonepay: The "Zero-Fee" Hook and the Premium Settlement Layer**

Fonepay's commercial model is defined by a striking claim: "There are no fees involved in using Fonepay QR, both for customers and merchants".<sup>11</sup> This is further supported by another document which explicitly states, "No, there are no fees for accepting QR payments in

Nepal".<sup>10</sup> A deeper analysis, however, reveals that Fonepay's monetization strategy is not based on a transaction fee model but on a tiered service structure. The provided documentation clarifies that the fees for services are levied on the member banks and financial institutions, not on the merchants directly.<sup>12</sup> This means that while a merchant may not see a direct fee for each transaction, their bank may be incurring charges from Fonepay, which could be passed on to the merchant as per their private agreement with the bank. The core of Fonepay's business model lies in offering a premium service for a fee. While the basic QR payment service and its subsequent settlement are free, a business with critical cash flow needs can opt for the "Instant Settlement" feature.<sup>6</sup> This service allows merchants to receive funds for all transactions "promptly" and directly into their accounts for a flat fee of **Rs. 5 per settlement**.<sup>6</sup> This stands in contrast to the free "Multi-Session Settlement" model, which processes payments in three distinct sessions throughout the day.<sup>7</sup> This sophisticated pricing strategy acts as a powerful acquisition tool, lowering the barrier to entry for micro-merchants and small businesses with the free tier. At the same time, it generates revenue from businesses that prioritize speed and liquidity and are willing to pay a nominal fee for immediate access to their funds.

## 2.2. Khalti: The Flexible Commercials and Hidden Costs

Khalti's commercial terms present a complex and at times contradictory picture, which requires careful interpretation. One of the primary inconsistencies found in the research is a direct conflict between two official sources. A document outlining merchant terms and conditions states that "an annual account maintenance charge is applicable starting from the second year of the contract".<sup>3</sup> However, a separate FAQ for the Khalti Payment Gateway explicitly states, "We don't charge any annual maintenance fees".<sup>4</sup> This apparent contradiction can be reconciled by understanding the different product offerings. The annual fee may apply to a general merchant account or a different service, while the Payment Gateway product specifically for web and app integration, which is self-service to a degree, does not have this recurring charge. This nuance is critical for a prospective merchant, who must clarify which product they are signing up for to avoid unexpected costs.

The company's documentation confirms that a "one-time API fee" and a "service charge" on a percentage basis are levied for every successful transaction.<sup>3</sup> The transaction fees are not publicly fixed across the board; instead, Khalti states, "We set up personalized schemes for every unique case or business model".<sup>4</sup> The only explicit percentage fee found in the provided research is a

**20%** service charge for event ticketing services.<sup>14</sup> This high figure for a specific vertical suggests that the transaction fee structure can be highly variable depending on the industry and the nature of the transaction. The commercial terms are also subject to revision over time with the mutual consent of both parties.<sup>3</sup> It is also important to note that all fees are subject to a withholding tax as per the tax rules of the Government of Nepal.<sup>3</sup>

## 2.3. eSewa: The Opaque, Contract-Driven Pricing

Consistent with its requirements policy, eSewa does not make its merchant commission rates publicly available. The available research from a third-party source confirms that eSewa earns a "commission" from its merchants and that this fee is "based on a percentage or minimum amount as per the contract they hold".<sup>5</sup> This indicates that the pricing is not transparent and is determined through a private, case-by-case negotiation between eSewa and the merchant. The absence of public data on eSewa's pricing creates an information void that must be filled with a cautious analysis of external, unverified sources. A five-year-old Reddit thread offers anecdotal data suggesting a **Rs. 25,000 charge to integrate the API** and an additional **1-2% transaction charge**.<sup>13</sup> While this data is old and unofficial, it provides a rare glimpse into the likely structure of eSewa's pricing model. The fact that users have to resort to such forums to find this information underscores the company's deliberate lack of transparency. This pricing model is typical of a dominant market player that leverages its brand, extensive user base, and established network rather than competing on price transparency. The pricing is likely a function of a merchant's brand size, industry, and transaction volume, making it an ideal model for large enterprises that can negotiate favorable terms.

## Chapter 3: Beyond Pricing - Features, Functionality, and Ecosystems

### 3.1. Khalti's Comprehensive Merchant Dashboard

Khalti distinguishes itself with a robust, self-service merchant dashboard that provides extensive control over payment operations. This digital platform offers a real-time, multi-user system for checking transaction logs and extracting detailed payment reports to Excel files at any time.<sup>4</sup> The dashboard also includes a crucial feature for a business: the ability to initiate instant refunds to customers.<sup>4</sup>

A key functional difference for Khalti is its approach to settlement and liquidity. Unlike platforms that settle funds at fixed intervals, Khalti routes all collected payments into a central merchant account within the platform.<sup>4</sup> The merchant can then "transfer to bank anytime" for free, with no withdrawal limits.<sup>4</sup> This provides the merchant with complete autonomy over their cash flow, allowing them to time their bank transfers according to their own financial management needs. This model contrasts sharply with Fonepay's tiered settlement system, providing a clear differentiator for merchants who value on-demand access to their funds.

### **3.2. Fonepay's Interoperability and Operational Benefits**

The central value proposition of Fonepay is its interoperability and the operational benefits it provides to merchants. The platform's "interoperable QR code" is a key feature, as a single QR code can accept payments from "multiple apps," including various banks and digital wallets.<sup>9</sup> This eliminates the need for merchants to display multiple QR codes for different payment services, simplifying the point of sale for both the merchant and the customer.

The Fonepay Business App is the primary tool for merchants to manage their operations. The app provides a range of features, including the generation of dynamic and static QR codes, the ability to initiate refunds, and the facility to view real-time payment notifications through SMS and mobile banking app notifications.<sup>15</sup> Merchants can also access their transaction history and detailed statements to streamline their account management.<sup>15</sup> The platform's ISO 27001:2013 certification underscores its focus on providing a secure and reliable payment network, which is a significant factor for businesses handling sensitive customer data.<sup>9</sup> Fonepay positions itself as the secure and efficient backbone of Nepal's digital payment ecosystem, connecting banks and wallets rather than competing with them as a standalone wallet.

### **3.3. eSewa: The Established Super-App and Service Breadth**

While the specifics of eSewa's merchant-facing features and fees are not publicly detailed, its strategic value to merchants is undeniable and lies in its market dominance and extensive ecosystem. eSewa is described as a "trusted and recognized" payment service provider that has been operating since 2009.<sup>17</sup> It boasts a large user base and a wider agent network than its competitors.<sup>16</sup> A merchant integrating with eSewa gains immediate access to this massive, established customer base that is already accustomed to using the platform for a wide array of services.

The eSewa ecosystem is broad and encompasses services from everyday bill payments and mobile top-ups to more specialized functions like "eScrow," ATM withdrawals, and various ticket bookings.<sup>18</sup> This breadth of services means that the platform is deeply embedded in the financial habits of its users. The benefit for a merchant is not just the technical API integration but the ability to tap into a captive audience. This provides a clear advantage that a lower-cost or technically superior solution with a smaller user base may not be able to match, making eSewa a powerful strategic partner for businesses that prioritize market access and brand recognition.

## **Chapter 4: The Strategic Implications - Insights and Recommendations**

## 4.1. The Commercial Transparency Spectrum

The analysis of the three platforms reveals a clear spectrum of commercial transparency. Fonepay is transparent about its core offer of free QR payments but is opaque on the fees that are levied on its member banks. Khalti is highly transparent regarding the required documents for onboarding but is deliberately non-public about its transaction fees, relying on a model of "personalized schemes".<sup>4</sup> eSewa is the most opaque, with both its requirements and its commercial framework being non-public and subject to a private contract.<sup>1</sup> This spectrum reflects the strategic positioning of each company. Fonepay, as a network provider, benefits from a low barrier to entry to attract a high volume of merchants. Khalti, as a features-rich payment gateway, is more concerned with tailoring its commercial model to the specifics of each business, likely to maximize revenue from diverse industries. eSewa, as a dominant market leader, does not need to compete on public pricing, as its value proposition is built on its brand recognition and user base, allowing it to negotiate terms on an individual basis.

## 4.2. Business Fit: Matching Services to Needs

The selection of a digital payment partner should be a strategic decision based on a merchant's specific business needs and priorities. The analysis suggests tailored recommendations for different business archetypes.

- **For the New Startup / Small to Medium-sized Enterprise (SME):** Fonepay's free basic QR service offers an extremely cost-effective way to begin accepting digital payments without an initial financial commitment.<sup>10</sup> Khalti's transparent and self-service signup process also makes it a strong contender for a business that values clear documentation and a straightforward onboarding path.<sup>4</sup>
- **For the High-Volume E-Commerce Platform:** For a business where cash flow is critical, Fonepay's instant settlement option, despite the per-settlement fee, provides a significant operational benefit by ensuring immediate access to funds.<sup>6</sup> Khalti's comprehensive merchant dashboard, which allows for free withdrawals at any time, is also highly attractive for a business that needs to maintain tight control over its finances and reconciliation.<sup>4</sup>
- **For the Enterprise with an Existing Bank Relationship:** Fonepay's bank-centric model is a natural fit for a large corporation that already has a strong relationship with a partner bank.<sup>10</sup> eSewa's non-public, negotiation-based terms may also be ideal for a large brand, as it provides the opportunity to negotiate a bespoke contract that accommodates specific volume-based discounts or integration requirements.<sup>5</sup>



### 4.3. Market Dynamics and Future Outlook

The market for digital payments in Nepal is dynamic, and the current models are likely to evolve. The trend towards specialized, multi-tiered pricing models, as demonstrated by Fonepay's free vs. paid settlement, is a clear indication that competition is moving beyond simple transaction fees and towards value-added services. The ongoing shift from a cash-based economy to a digital one will intensify competition among all three platforms. A prospective merchant must consider not only the present offerings but also the potential for future innovations and pricing changes. The strategic choice for a business hinges on a foundational question: What is the critical path for your business—is it the lowest possible cost of entry, the speed of settlement for cash flow, or access to the largest and most established user base? The answer to this question will determine which of these three distinct models is the most suitable partner for growth.

## Conclusion: A Final Synthesis

Based on the detailed analysis of their publicly available documentation, eSewa, Khalti, and Fonepay each offer a fundamentally different approach to merchant services in Nepal.

**Khalti** presents as the nimble, feature-rich platform. Its value proposition is built on a transparent onboarding process with clear documentation, a comprehensive merchant dashboard, and the flexibility of instant, fee-free fund withdrawals. Its commercial model, while non-public in its general transaction fees, is tailored to unique business cases, making it a strong option for new and diverse businesses.

**Fonepay** is the cost-effective, interoperable network. Its strategic positioning as a bank-centric clearing house, rather than a competing wallet, allows it to offer a compelling "zero-fee" proposition for basic QR payments. Its monetization is tied to a premium service (instant settlement), which provides a clear value-add for businesses that require superior liquidity management.

**eSewa** is the established, ecosystem-dominant market leader. The company leverages its extensive user base and brand recognition, operating on a non-public, contract-driven model. While its lack of public transparency in pricing may present a barrier for some, its sheer market presence offers a significant, albeit intangible, benefit by providing a merchant with immediate access to a vast, active user base.

Ultimately, the optimal choice for a merchant is not universal but depends on the specific strategic needs of the business. The decision should be a product of a thorough internal analysis, weighing the importance of transparency, cost, and functionality against the critical value of market access and brand trust.

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