



Digital Finance
Product Concepts
for Central and
Eastern Nepal



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MicroSave

Market-led solutions for financial services

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Executive summary

This report presents product concepts that will help financial service providers (FSPs) that wish to launch digital financial services (DFS) in Nepal adopt a product suite strategy and develop DFS products for Central and Eastern Nepal.

Nepal has five development regions: Far-Western, Mid-Western, Western, Central and Eastern. This report focuses on the Central and Eastern development regions. There is an advantage in looking at the Central and Eastern regions separately from the Western regions as the Central and Eastern regions are marked by higher levels of economic activity in terms of both business and agriculture. The Central and Eastern regions are further differentiated by three ecological zones: Mountains, Hills and *Terai*. This report focuses on the Hills and *Terai* as they have a higher density of population, greater presence of FSPs, and comparatively better infrastructure as compared to the Mountains. The authors of this report believe FSPs will be able to address the financial needs in the Mountains once they have successfully proliferated in Hills and *Terai*.

The first section of this report discusses the focus geography of the Central and Eastern regions in detail. It further identifies the focus customer segments in these regions as farmers, business owners and migrants. The basis of classification is primary occupation and financial service requirements of the customer segment. Results of demand research (*MicroSave*, November 2014a; November 2014b; December 2014) highlight that these customer segments currently use savings, credit and payment products; however, none of these products match the customer segments' cash flows (surplus or deficit) adequately. These customer segments place a lot of trust in banks; yet, due to the absence of bank branches in their vicinity and time-consuming bank procedures, they depend on local service providers. With agents functioning as an extended banking channel, banks can now focus on these customer segments. At the same time, instead of focusing on one product, banks can benefit by launching a product suite that caters to the cash requirements of these customer segments.

The second section explains product concepts in the areas of savings, payment and credit. A basic savings product is proposed, which will also be a link for credit, other savings, and payment products that customers can access. It is a regular savings product that customers can use like a wallet, to deposit and withdraw cash on a regular basis. Other savings products proposed include an income-based savings product—a commitment savings product that gives customers the flexibility to save according to their cash flows—and a long-term savings deposit to help customers meet their long-term financial goals such as purchase of farm equipment, marriage or education of a child, construction of a house, etc. For payment products, a person-to-person transfer is proposed to fulfil the need for a quick and easy means to send credit, and a utility bill payment product is proposed to serve as a convenient means to pay bills. The authors of this report believe that payment products will spearhead the adoption of DFS products in Nepal, as it has been the case in other countries such as Kenya. Credit products for farmers, business owners and migrants are also proposed: an easy agri-credit and cattle/livestock loans for farmers, a working capital loan on a group/individual basis for business owners, and a remittance-linked credit for foreign migrants.

The experience of the authors indicates that, as these various product concepts are proposed, FSPs will have to put in place a product delivery structure that will instil customer trust in the new channel of agents and the use of technology. These factors, or 'Basics of agent banking,' are discussed in the third section. These factors were identified primarily through the authors' findings from demand research in Nepal and their experience working with DFS providers in other countries. They include factors like certainty of agent float levels, customer communication, and agent choice. Additional steps that FSPs should take in order to develop customer-centric variants of the suggested product concepts are recommended as well. These steps include strategising to identify focus geography(ies) and customer segment(s), selecting product concepts to be developed, developing product prototypes, and field testing and refining the prototypes accordingly. After that exercise, FSPs shall develop a system, both back end and front end; create a suitable team and train it; recruit, if required, and train agents on the new products; and pilot test the product suite.

It must be noted that the products discussed in this report are suggestive only. Interested FSPs will need to conduct comprehensive market research to develop these concepts.



1

Focus geography
and customer
segments

1.1 Focus geography in brief

Central and Eastern Nepal (**see map 1**) is relatively more prosperous than Western Nepal. Multiple factors influence this singularity: i) agricultural activities in the Central and Eastern *Terai*¹ are significantly greater than in the Western *Terai* (Nepal Central Bureau of Statistics, 2011, chap. 2.2); ii) there is a high magnitude of cross-border business and migration between the Central and Eastern regions and India, as compared to the Western borders; iii) population density and financial service provider (FSP) presence in the Central and Eastern regions are much greater than in the Western regions (**see annex A** for a comparison of population and density); and iv) overall development activities and the number of people engaged in economic activities, including tourism and international migration, are much higher in the Central and Eastern regions than in the Western regions (conclusions drawn from authors’ meta-analysis of primary data collected/demand research findings).

Map 1
Central and Eastern Nepal



Distinct geographies in the regions

- Central Hills
- Central and Eastern *Terai*
- Eastern Hills

Map No. 4304 UNITED NATIONS
Department of Peacekeeping Operations
Cartographic Section

1 *Terai* is translated in Nepali, Urdu and Hindi as swamland/lowland at the foothills of mountains.

Mountains in the Central and Eastern regions are not considered part of the focus geography at present. Difficult geographical terrain (i.e., mountains at 4,000 meters above mean sea level) and a low population density make such intervention demanding—for example, a population density of 82 people per square kilometre in the Central Mountains eco-development zone is the highest among the five Mountains eco-development zones (Nepal Central Bureau of Statistics, November 2012). Moreover, the Mountains are inhabited by only 6.73 percent of the country's population and account for just 5.70 percent of total migration (Nepal Ministry of Labour and Employment, n.d.). It is the authors' belief that it will first require i) confidence-building among FSPs in order to innovate product strategies in the Mountains and ii) in-depth research to identify financial service solutions for prospective customers residing in that zone. Thus, the focus in the Central and Eastern regions is the other two distinct ecological zones: Hills and *Terai*.² A major difference between these two zones is the type of agriculture and allied activities in which inhabitants are engaged. In the Hills, farmers have small landholdings and conduct complimentary activities such as animal husbandry, which also includes poultry. Farmers in the *Terai* have larger landholdings (Nepal Central Bureau of Statistics, 2011, chap. 2.17). Agriculture involving rice and wheat (the two major crops) in the *Terai* constitutes 69.70 percent and 58.26 percent of the total area involved with that crop, respectively (Nepal Ministry of Agricultural Development, December 2012; Nepal Ministry of Labour and Employment, n.d.). The Hills mostly have vegetable farming, unlike in the *Terai* where farmers grow both cereals and vegetables. Furthermore, population density in the *Terai* is much higher than in the Hills. In addition, 42 percent of the branches of banks and financial institutions are based in the *Terai*.

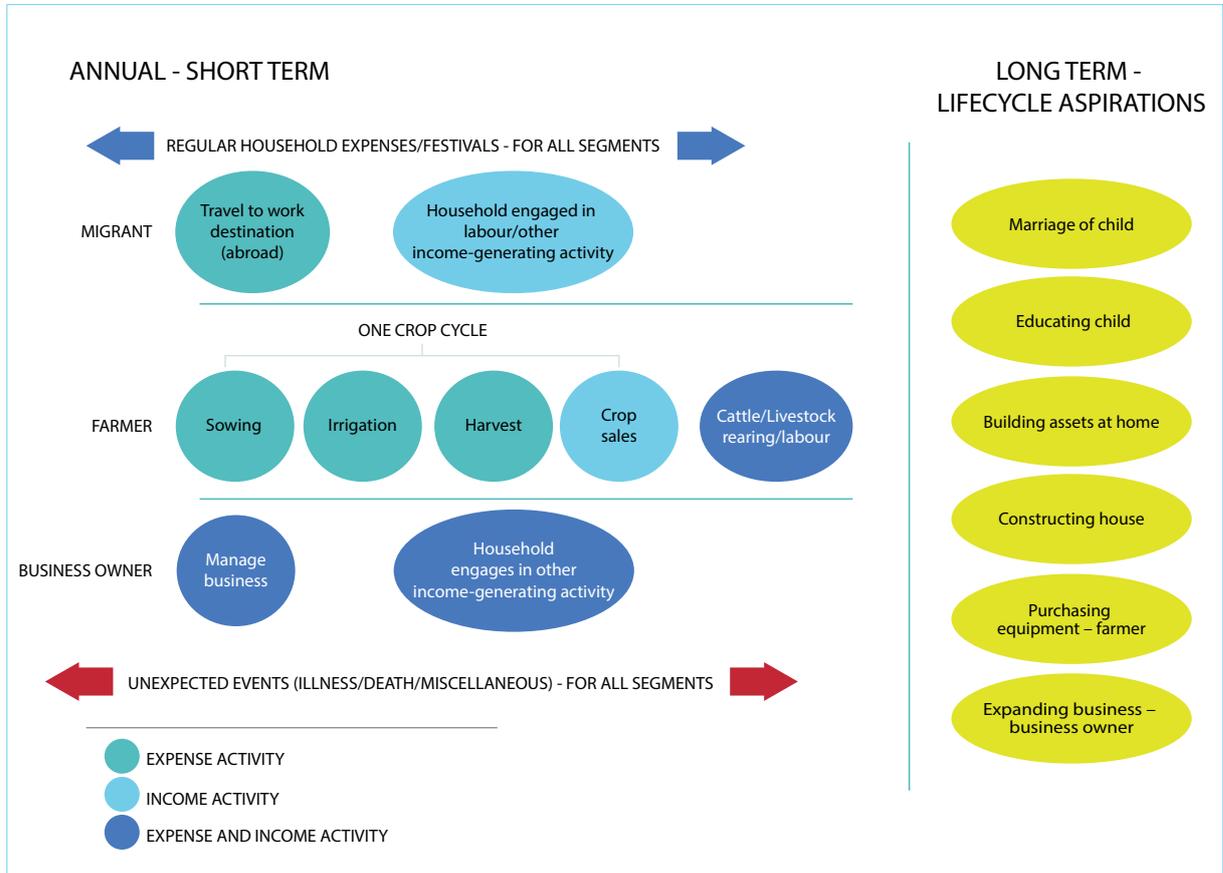
Hills in the Central region are a dominant focus as the population density is more than twice that of Hills zones in other regions. The Central region accounts for 44 percent of the network of banks and financial institutions in the country, which also translates into a greater presence of banks and financial institutions in the Central Hills (Nepal Rastra Bank, 2014). Kathmandu Valley, which includes Bhaktapur and Lalitpur, alone is served by 26.80 percent of the bank and financial institution branches in Nepal (Nepal Rastra Bank, 2013). The Eastern Hills, along with the Central Hills, is also included since there is greater business activity in the Eastern Hills than in Central Hills because of large tea farms in the Eastern Hills.

1.2 Prospective customer segmentation

Based on the occupation of people in the Central and Eastern regions, three prospective customer segments were identified for offering digital financial services (DFS) in the two regions. These segments are **farmers** (both small and large landholdings), **business owners** (both low- and high-value businesses) and **migrants** (see figure I).

2 Population (population density), presence of banks and financial institutions, economic activity and migration are applied as major criteria for identification of focus geographies in this report.

Figure I
Activity and cash flow by prospective customer segment



1.2.1 Farmers

Farming is an important income-generating activity in the two regions. However, there are noticeable differences between farmers in the two ecological zones: Hills and *Terai*. Farmers in the *Terai* have comparatively large landholdings and better access to markets, including to neighbouring India, while those in the Hills have relatively smaller landholdings and limited access to markets. Market research revealed that farmers in the *Terai* have earnings around Nr20,211 per month from agricultural activity. Farmers in the Hills grow mostly vegetables, unlike in the *Terai* where farmers grow both cereals and vegetables and are engaged in animal husbandry alongside farming.

Farmers have variable credit and savings requirements during crop cycles. Generally, farmers have two crops per year. For the sowing season of each crop cycle, financial needs in the form of working capital arise for purchasing seeds, fertilisers and agricultural implements and for paying wages to hired labourers. At the time of harvest, farmers again need credit for hiring labourers. Between sowing and harvest, farmers mainly need irrigation support, which again requires working capital. Post-harvest, farmers generate income by selling the produce. Apart from working capital, they require long-term capital for purchasing assets such as a tractor or livestock or for paying to dig a well, etc., to increase farm productivity. In the absence of easily accessible formal financial services, farmers have to depend on their savings and expensive informal sources of credit to meet their financial requirements.

1.2.2 Business owners

This segment comprises all those who are engaged in business of both low and high value, such as small grocery stores, hotels and restaurants, tailoring shops, electricity shops and mobile repair shops. There are no identifiable differences between the business owners in Hills and *Terai* ecological zones. The average income as reported by various types of business owners is Nr29,144 per month. Business owners need working capital to manage day-to-day expenses of their business. The actual requirements, though, depend on their turnover. Apart from working capital, business owners need long-term credit to expand the scope of their business. They also need to save a portion of their income for future needs.

1.2.3 Migrants

This segment comprises migrant workers who work in nearby countries, especially India and Malaysia, and in the Middle East. These foreign migrants send a portion of their earnings back home using international money transfer companies such as Western Union or Nepalese banks that have set up branches in these countries. They primarily have three kinds of financial requirements: loans to travel abroad, a better channel for sending remittances home, and savings. Due to poor economic opportunities available in the Western regions, people from Western Nepal also migrate to the Central and Eastern regions in search of work—these domestic migrants are potential customers for FSPs as well.

Apart from their work-related financial requirements, each of the above customer segments has lifecycle requirements for unavoidable and important events such as marriage, education of children and building of assets such as a house. Since festivals play an important role in the lives of each of these segments, there are also financial needs that arise on a regular basis to meet expenses incurred for these events.

While most of the work-, lifecycle- and festival-related expenses can be anticipated, there are certain sudden and unexpected events common to all of these customer segments that negatively affect finances/savings when they arise. Events such as illness or death of a family member add undue financial stress, pushing down savings (if any) considerably.

ADDRESSING GENDER-SPECIFIC FINANCIAL NEEDS

In Nepal, women play a vital role in a household's financial management and decision-making. Women are involved in income-generating activities of the household—managing cattle, managing shop, working in fields and providing labour—depending on the activities in which the household is engaged. This report, however, does not segment the potential customers for DFS on the basis of gender. Prospective customers are segmented on the basis of their occupation with the assumption that the financial needs of a customer segment would not differ as much based on the gender of the segment as on the occupation and geographical location. Yet, it is critical that FSPs do not exclude women of the household when targeting farmers, business owners and migrants. Thus, it is proposed here that, as FSPs reach out to customer segments, they open accounts for both men and women in the household who are engaged in income-generating activities since they have access to cash. In situations where women are not involved in income-generating activities, FSPs could use basic savings accounts to offer a safe and convenient (doorstep and quick withdrawal) deposit facility. The products are detailed in section 2 of the report.

In the next section, product concepts that FSPs can develop to serve these customer segments in the Central and Eastern regions are discussed. Terrain and population density influence financial product choices and/or features in the ecological zones. The product design consequences due to different ecological zones—Hills and *Terai*—are primarily in terms of choice of focus product and volume of business that FSPs can achieve. While describing a product concept, the focus ecological zone and customer segment are highlighted, wherever applicable.



2

Product concepts

Based on research findings and customer preferences, three broad product categories—**savings, payment and credit**—were selected.

FSPs must offer savings products as they bring unbanked users into the ambit of banking. However, these products need thoughtful design in order to meet customers' regular cash requirements (short to medium term), fulfil long-term financial needs and address sudden and unexpected requirements. **It is proposed here that FSPs in the Central and Eastern regions offer three variants of savings products: basic savings, long-term goal-based savings and flexi/income-based savings.**

Payment products are key to developing DFS. They have been at the forefront of the development of DFS the world over, including in Kenya and Uganda and now in Bangladesh.³ **It is proposed here that FSPs in the Central and Eastern regions focus on two different types of payment products: person-to-person (for domestic and foreign remittances) and person-to-business (for bill payments for electricity, airtime recharge, cable/dish television, etc.).** Additionally, payment products often encourage customers to try the DFS interface (essentially, the agent) and subsequently motivate customers to use DFS for savings and credit as well.

It is the argument here that credit products through agents shall be a crucial part of the product suite for FSPs in Nepal. Currently, customers find bank processes cumbersome and time consuming, and prefer to use local financial institutions for their credit needs. Offering credit through agents will serve the dual purpose of increasing outreach for the FSP as well as making the banking process easier for customers. This approach will have a multiplier effect: customers will opt for such credit products, their trust in agents as a banking channel will increase and, thus, their usage of the channel will increase (see section 3 for more on customers' trust in agents as a primary barrier to DFS uptake in Nepal). **A suite of credit products is proposed here that will meet customer requirements, including agri-credit schemes and cattle and non-dairy livestock loans for farmers, working capital loans for business owners, credit for foreign migrants and a savings-linked overdraft facility.**

³ Read more at [The Global State of Financial Inclusion](#)

2.1 Savings products

Savings products bring customers into the mainstream financial sector and cater to their various short-, medium- and long-term financial requirements. As savings products are discussed (see table 1 for a summary), it is imperative to note that demand-side primary research did not indicate any requirements for savings products from prospective customers, who mostly highlighted a need for easy and reasonably priced credit products.

Table 1
Summary of savings products proposed

Product type	Target customer segment(s)	Target zone(s)
Basic savings	All customer segments	Hills and <i>Terai</i> in Central and Eastern regions
Long-term goal-based savings	Farmers and business owners	Hills and <i>Terai</i> in Central and Eastern regions
Flexi/Income-based savings	Farmers	Hills and <i>Terai</i> in Central and Eastern regions

2.1.1 Basic savings

A basic savings account shall be the primary offering of FSPs aiming to launch DFS products in Central and Eastern Nepal. This account shall be the starting point of a customer's relationship with an FSP. The customer shall use this account for creating lump-sum savings, making payments, sending and receiving money transfers, and for applying for credit products. Whether or not customers use the entire product suite of the FSP will depend on the success of this account.

UNMET DEMAND

With a large number of people in the two regions still dependent on the informal sector for accumulating savings, there is huge scope for bringing these customers into the formal financial sector by opening savings accounts with them.

Target segment(s) and zone(s)

- All customer segments
- Hills and *Terai*

Product's unique selling proposition

- Offers convenience and better quality of service than various informal saving services that customers currently use
- Provides opportunity to receive other benefits such as government-to-person transfers

Checklist for making product successful

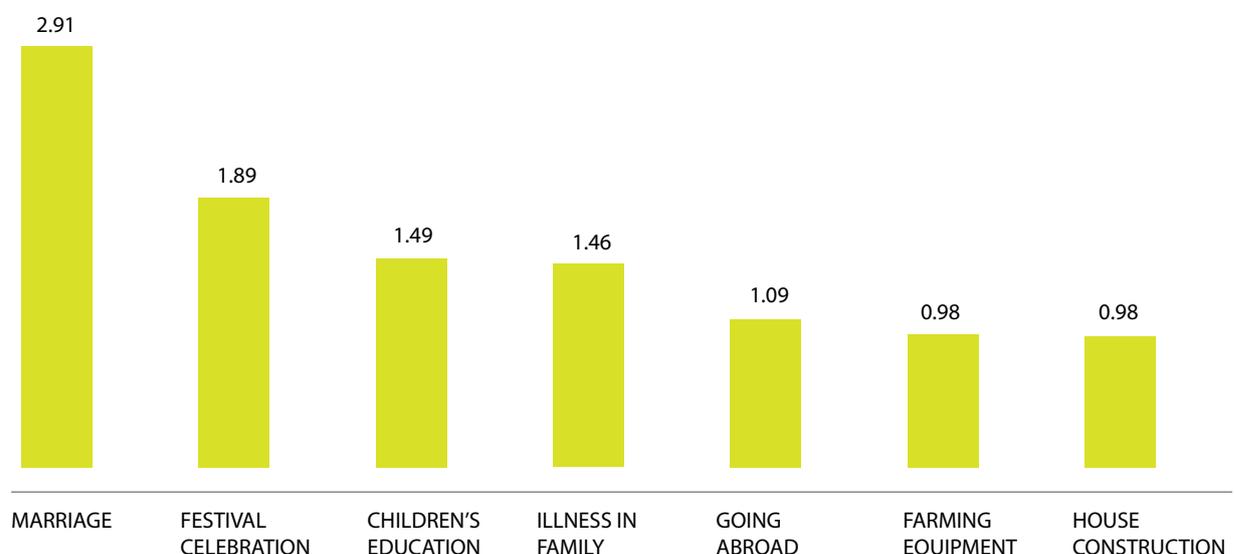
- ✓ The savings account shall be positioned on the lines of a household money box/wallet, which customers can use for making/receiving payments.
- ✓ The process of account-opening shall not involve multiple steps; FSPs could use a technology-enabled system to enrol customers at the point of enquiry, without requiring customers to visit agent points multiple times.
- ✓ The transaction process for cash-in and cash-out shall not be cumbersome.
- ✓ FSPs shall offer it as a basic savings product.
- ✓ The savings account shall allow frequent deposits and withdrawals to suit cash requirements of users.
- ✓ An ATM card shall be issued for the savings account, which adds to the perceived value of the account and makes the customer feel valued and respected.

2.1.2 Long-term goal-based savings

There are two major reasons for proposing long-term goal-based savings:

- i) Almost all respondents to demand research in Central and Eastern Nepal mentioned long-term financial goals such as construction of a house, saving for a business, going abroad, children's education and religious ceremonies (**see figure II**); and
- ii) Farmers and business owners have relatively higher incomes, which FSPs can tap. Additionally, while there are differences in terms of magnitude of investment between farmers in the Hills and the *Terai*, and between small and big business owners, all of them have regular cash flows that they can invest.

Figure II
Major long-term expenses of a household



Column values represent the average weight respondents assigned to various lifecycle expenses (the top seven are shared here).

The purpose and size of long-term savings will vary from customer to customer. While farmers in the *Terai* will have a tendency to save bigger amounts as long-term deposits, those in the Hills will have lower value deposit targets. Similarly, small business owners, such as tailors and small grocery storekeepers, will commit to a lower value deposit as compared to a big grocery store owner or distributor.

UNMET DEMAND

Even as customers continue to use formal as well as informal sectors for their savings, there is a huge demand for specific long-term savings products to meet their anticipated needs in the future.

Target segment(s) and zone(s)

- Farmers (big and small) and business owners
- Hills and *Terai*

Product's unique selling proposition

- Provides a lump sum that the customer can use for any long-term needs that arise at maturity
- Includes insurance features that enhance product's unique selling proposition

Checklist for making product successful

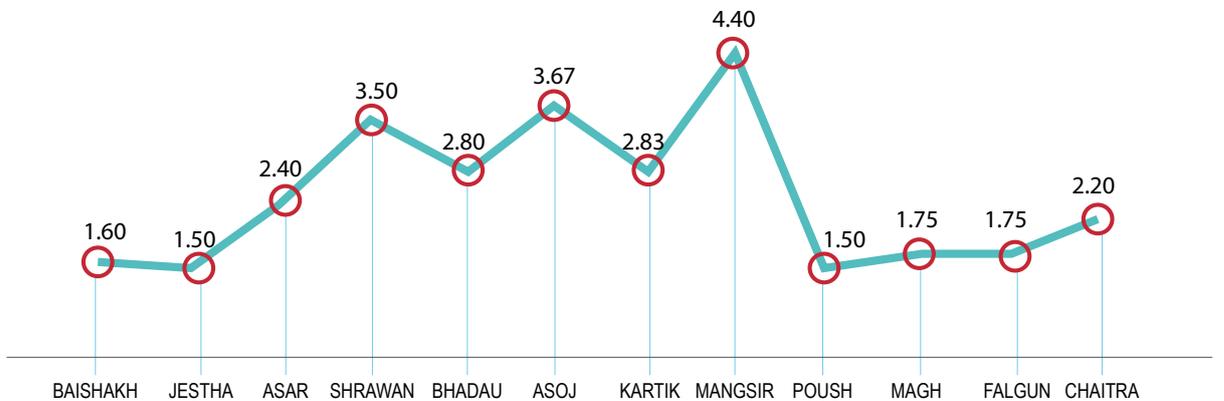
- ✓ FSPs needs to provide greater incentives to agents and possibly even ask them to follow up with prospective customers.⁴
- ✓ The agents shall sell the product as a vehicle/instrument to generate high-value lump sums.
- ✓ FSPs shall ensure this product is designed with basic 'hygiene factors' in mind (see section 3).

2.1.3 Flexi/Income-based savings

Farmers' incomes vary with the agricultural season (see figure III). They would benefit from a savings product that lets them make deposits when their incomes are higher. With this thought in mind, a flexi/income-based savings product for farmers in both the *Terai* and the Hills is proposed. It will be a commitment product, for which farmers will commit to a minimum savings amount, without any limit on maximum deposits.

⁴ In India, the Life Insurance Corporation has successfully used agents to offer insurance products. These products are, more importantly, often treated as long-term instruments for creating lump sums.

Figure III
Income variation in Central and Eastern Nepal (Output of seasonality analysis)



Line values represent the average weight respondents assigned to income in the respective month.

UNMET DEMAND

Since farmers have different levels of savings at different times during the crop seasons, a flexible savings product serves their needs according to fluctuating income levels, which are not served with a regular savings product.

Target segment(s) and zone(s)

- Farmers (big and small)
- Hills and *Terai*

Product's unique selling proposition

- Prevents unnecessary expenses at the time of income
- Allows farmers to save money for short-term needs, such as investment in the next crop cycle or purchase of a household good

Checklist for making product successful

- ✓ FSPs shall increase promotion efforts during the months of Baisakh, Asoj, Kartik and Mangsir. During these months, farmers hold more money and therefore will be more inclined to invest in safer channels.
- ✓ FSPs shall seek a minimum value commitment from farmers and communicate it clearly to them. They shall not treat this product as a regular savings account.
- ✓ Minimum lock-in period shall be six months, which will allow accumulation of the deposit amount. It also covers at least one crop cycle.

- ✓ FSPs shall pay higher interest rates to farmers as FSPs are assured float for a fixed period.
- ✓ In order to motivate agents to sell this product, FSPs can choose to pay a higher commission on the number and volume of such accounts mobilised.
- ✓ Farmers shall be allowed to directly deposit into this account. The amount at maturity could be transferred to the basic savings account of the farmer.
- ✓ Communication to farmers shall be that 'this product allows you to save according to your monthly income, which you can continue for a fixed period' and that 'you could use the lump sum you create to repay loans, purchase household assets, and invest in the next crop cycle.'

2.2 Payment products

This section is organised into different payment product types (see table 2 for a summary). For each product type, the rationale for the recommended product type as well as the demand-side insights to develop the product are provided.

According to the GSMA report 2014 *State of the Industry: Mobile Financial Services for the Unbanked*, 'a majority of mobile money transactions come from six areas: domestic p2p [person-to-person] transfer, international transfer, airtime top-up, bill payment, bulk disbursement and merchant payment.'

Table 2
Summary of payment products proposed

Product type	Target customer segment(s)	Target zone(s)
Person-to-person money transfers (domestic)	Domestic migrants who come to Central and Eastern regions from different parts of Nepal	Central and Eastern <i>Terai</i> and Central Hills
Bill payments	All households	Hills and <i>Terai</i> in Central and Eastern regions

2.2.1 Person-to-person money transfers (domestic)

The Central Hills and *Terai* accommodate almost 50 percent of the total domestic migrants in Nepal. These migrants need to send remittances to their families at their source locations. At present, domestic migrants use multiple channels to send money home, both formal and informal channels.

UNMET DEMAND

There is a lack of a single remittance service provider that has both collection and delivery agents all over Nepal. Further, the recipient has to take all the money. As a result, the amount of remittance is limited and the huge potential of savings linked with remittances is missed.

Target segment(s) and zone(s)

- Domestic migrants
- Central and Eastern *Terai* and Central Hills

Product's unique selling proposition

- Provides immediate withdrawals at source location
- Offers ease of conducting transactions

Checklist for making product successful

- ✓ FSPS shall ensure that agents at source locations (whom family members would use to withdraw money) and agents at migrant destinations (whom migrants would use to deposit money) are able to service withdrawal and deposit requests without fail. If they are unable to do so in real time, either due to low float or network issues, there will be a loss of trust in this service.
- ✓ There are two possible models for FSPs to deliver this product: over-the-counter and customer-initiated. In the over-the-counter model, a migrant comes to an agent with cash and asks the agent to send money to the family. The agent at the migrant destination generally uses his/her own wallet/account to transfer the money to another agent at the source location's wallet/account. It is relatively easy for migrants, but it prevents further interaction between the migrant and the system. Most migrants limit themselves to agents for remittances only. In the customer-initiated model, the migrant transfers money from his/her account/wallet to the family's account/wallet. A family member then goes to the agent to withdraw money. This model gives the recipient of the remittance the flexibility to withdraw the money sent at a later date and creates more savings opportunities. After comparing the features and utility for customers, the authors recommend that FSPs adopt the latter model.

With respect to foreign migrants, a remittance-linked credit product is proposed (see section 2.3).

2.2.2 Bill payments

In the Central Hills, which includes prosperous districts such as Bhaktapur, Kathmandu and Lalitpur, customers have various utilities for which they need to pay bills. These services include electricity, water, cable/dish television and phone recharge, among others. Bill payment is generally a time-consuming task because it involves the hassle of physically going to a payment point and making the payment, which calls for a product that eases the burden and makes the bill payment process convenient for the customer.

UNMET DEMAND

As the number of utilities increase, so do the different kind of bills that customers must pay every month. Simplifying the process of bill payment and making it more convenient using DFS is a great opportunity to tap this unserved demand.

Target segment(s) and zone(s)

- All households
- Hills and *Terai*

Product's unique selling proposition

- Offers convenience of payment (no need to stand in long queues)
- Has time and cost savings
- Provides flexibility in bill payments

Checklist for making product successful

- ✓ The key considerations for bill payments include seamless connectivity with the billing company, in the absence of which there will be multiple instances of transaction failures or delays in database updates at the billing company's end. These challenges will discourage customers from using agents and/or other interfaces to pay utility bills.
- ✓ Similar to person-to-person money transfers, FSPs could offer bill payments, which are both agent supported and customer initiated.

OTHER PAYMENT PRODUCTS—GOVERNMENT PAYMENTS AND SUPPLY-CHAIN PAYMENTS—AS POTENTIAL OFFERINGS

With a high population density, the Central and Eastern regions offer immense scope for payment of government-initiated benefits using the agent model. With FSPs taking the responsibility to deliver government-scheme payments to beneficiaries, they can also use it as a platform to cross-sell savings, payment and credit products. Similarly, FSPs could tap payment through supply chains present in the Central and Eastern regions (e.g., payments to tea farmers from tea factories in Eastern Nepal, payments to farmers from middlemen, payments to workers from food processing companies in the *Terai*).

FSPs must take care in promoting these services so as not to meet the fate of FSPs in India, where most beneficiaries withdraw payment as soon as it is deposited in their account. If the general notion among customers is that their savings account is meant to receive government payments, they tend to use the account only to withdraw the benefit amount and not to use it for further savings. Therefore, communicating that a customer's savings account could be used to receive government payments is crucial, but equally important is forming the perception through effective communication that any account that a customer opens to receive benefit payments is like a basic savings account and should be used for regular savings.

2.3 Credit products

Table 3
Summary of credit products proposed

Product type	Target customer segment(s)	Target zone(s)
Business cash flow based credit	Business owners	Central Hills and <i>Terai</i>
Easy agri-credit	Farmers	Central and Eastern <i>Terai</i>
Remittance-linked credit for foreign migrants	Foreign migrants	Central Hills and <i>Terai</i>
Savings-linked overdraft	All customers with a savings account	Hills and <i>Terai</i> in Central and Eastern regions
Livestock loans	Farmers	Hills and <i>Terai</i> in Central and Eastern regions

2.3.1 Business cash flow based credit

This product will be similar to income-generating loans that microfinance institutions offer. It is proposed here that FSPs offer similar low-value credit products through agents to business owners in the Central Hills and *Terai*. Such products will pull these customers into the formal financial sector. Although they will be low-value loans, banks will benefit from the overall volume of business generated and low operational costs.

UNMET DEMAND

Business owners are in constant need of capital to grow their business. However, as banks are not present in their vicinity, or those present have time-consuming and unfriendly processes, customers depend on microfinance institutions, village-level cooperatives and/or friends and relatives to meet their credit needs.

Target segment(s) and zone(s)

- Business owners (small and big)
- Central Hills and *Terai*

Product's unique selling proposition

- Offers access to easy credit
- Has low turnaround time
- Makes credit available closer to customer's home through an agent

Checklist for making product successful

- ✓ FSPs shall test if customers are willing to link their credit accounts to basic savings accounts so that the loan amount can be disbursed into the credit account, and later, customers can deposit repayments into the basic savings account.
- ✓ FSPs should give customers the freedom to pick their repayment schedule. FSPs can fix a monthly repayment amount, while the customer can fulfil the commitment either by depositing daily, weekly or monthly.

- ✓ The interest rate shall not be more than what is charged in branches, otherwise it will discourage customers from reaching out to agents.
- ✓ FSPs could experiment with both group liability and individual loan models. Since most respondents preferred collateral-free loans, FSPs must pilot group liability models. The agent in the area could mobilise the group and complete the necessary paperwork for a group liability loan. The agent can also conduct a basic training on the products offered at the linked branch. Staff from the credit team at the linked branch can then visit the location, conduct a credit worthiness assessment and make a decision on loan amounts approved.
- ✓ For customers requiring bigger loan amounts or not wanting to join a group, FSPs can provide collateralised loans. The authors envisage that these interested customers will be willing to provide collateral with the assets they possess. The agent can help by providing information about eligibility and documentation. If loans are approved, the agent can be incentivised according to the value of loans disbursed for such clients.
- ✓ FSPs can experiment with the incentive amount for the agent in the case of group loans. If the processes are easy and quick, the authors envisage that the customers will be willing to pay a fee to the agents (perhaps a flat fee per person). The bank shall also pay a fee to the agent upon successful completion of the loan term, thereby ensuring that the agent conducts necessary follow-up for loan repayments, as need be.
- ✓ FSPs shall design processes to mitigate additional agent-related risks in the delivery channel such as agent listing/creating ghost beneficiaries, agent colluding with beneficiaries to enter incorrect information, and agent charging customers.
- ✓ FSPs shall train agents on identification of customers and agent monitoring to ensure the agent does not indulge in fraudulent activities and has sufficient float to honour loan withdrawal and repayment deposits.

2.3.2 Easy agri-credit

A credit product for farmers is proposed, for which FSPs will approve a credit limit for farmers based on the size of their landholding and the quantity of crop produced. Farmers can withdraw money from their loan account according to their requirements during a crop cycle.

UNMET DEMAND

There is a dearth of credit products that support farmers in different stages of a crop cycle—from sowing to harvest—by enabling them to make flexible deposits based on variable cash flows at different stages of the crop cycle.

Target segment(s) and zone(s)

- Farmers (small and big)
- Central and Eastern *Terai*

Product's unique selling proposition

- Offers easy access to funds during a crop cycle
- Gives freedom and flexibility to utilise the allotted credit limit
- Has less paperwork, low turnaround time and closer proximity to services through agent

Checklist for making product successful

- ✓ FSPs will have to create a credit scoring model based on farmers' landholdings and types of crops.⁵ The purpose of credit shall primarily be to cover the cost of labour and material inputs such as seeds, fertiliser, pesticides and irrigation.
- ✓ The credit shall also cover small-value investment needs in the form of farm equipment such as sprayers and ploughs.
- ✓ FSPs shall review the credit limit on an annual basis. In India, different banks offering such products increase the credit limit by 10 percent each year.
- ✓ A farmer must repay outstanding loans before the closure of annual books so that the FSP can estimate the new credit limit for the next year.
- ✓ FSPs can provide flexibility of credit withdrawal through agents or an easy agri-credit ATM card as most farmers come to town for farm-related purchases.

2.3.3 Remittance-linked credit for foreign migrants

Remittances alone contributed 25.70 percent of Nepal's GDP in 2013 of US\$19.29 billion (World Bank, 2014; Nepal Ministry of Labour and Employment, n.d.). Different banks have opened outlets in India, Malaysia and the Middle East to serve the money transfer needs of foreign migrants. However, in most cases, family members of migrants are required to travel to urban centres to withdraw remittances.

A hybrid of credit and remittance products is proposed here. The credit portion of the product will be a loan to cover costs of foreign trips, including visa fees. The remittance portion of the product will be the facility to send money to family members in Nepal using existing service points of the FSP at the destination. Family members will be able to withdraw the remittance money using agent services or an ATM card issued on their basic savings account. The FSP will deduct credit repayments from this money based on a mutually signed contract. Two demands are served with this product: i) providing credit for migrants to plan foreign trips in the absence of banks providing the same, and ii) eliminating the need for family members of migrants who use existing money transfer channels to travel to service points to withdraw money.

UNMET DEMAND

Due to lack of a formal product, migrants take credit from informal sources at interest rates as high as 60 percent per annum.

Target segment(s) and zone(s)

- Foreign migrants
- Central Hills and Terai

Product's unique selling proposition

- Offers an easy source of credit for migrants
- Is a convenient mode to remit money to family members

5 See various illustrations in the annex to [this circular from the Reserve Bank of India](#).

Checklist for making product successful

- ✓ FSPs shall be flexible in designing credit repayment schedules in terms of tenure and amount.
- ✓ FSPs shall indicate the total interest that a migrant needs to pay, and then indicate a minimum amount that the migrant must pay per month.
- ✓ FSPs must research potential collateral that foreign migrants will be able to provide.
- ✓ The agent in the vicinity of aspiring foreign migrants shall act as the primary source of information about product features to the migrants and mobilise their applications.
- ✓ Loan appraisals shall be conducted by the FSP credit team.
- ✓ Such a product will work only where a productive member of the family migrates for work while the remaining members stay at the same place and receive remittances. In the case where the entire household migrates from one region of Nepal to another, or to another country, such a product will not be suitable.

2.3.4 Savings-linked overdraft

Due to poor and unpredictable cash inflows, people in Nepal often borrow from informal sources in times of health-related emergencies and natural disasters.

UNMET DEMAND

There is no existing product that helps customers get out of cash-tight situations, which is both cheap and convenient to access.

Target segment(s) and zone(s)

- All customers who have a savings account
- Hills and *Terai*

Product's unique selling proposition

- Allows customers to leverage savings and the relationship with the FSP they have built over time to support them in times of need

Checklist for making product successful

- ✓ FSPs must develop criteria to define a credit limit for customers. FSPs usually decide the credit limit based on the total assets of a customer with the FSP. Thus, it will include average quarterly balances of savings accounts and flexi accounts. FSPs may also consider outstanding credit, if any.
- ✓ FSPs will have to conduct market research to understand what loan-term options they shall provide to customers. They can concept test these options with a three-month credit period.
- ✓ FSPs shall not fix any repayment amount, and instead shall indicate the amount the customer needs to pay within the loan tenure.
- ✓ Since FSPs will not ask customers to commit to a repayment amount, they shall send monthly reminders via SMS informing customers of the outstanding amount and the last day of the loan tenure.

- ✓ Customers will approach agents to apply for this product. The agent, in turn, will use the respective module in the application to service the request. If the amount requested is within the approved limit, the customer's basic savings account will be automatically credited with the amount requested, and the customer shall receive an SMS indicating the total amount due to the FSP and the corresponding loan tenure.
- ✓ Agents shall remind customers of their loan tenure and their total liability at the time of transaction.
- ✓ FSPs can design an incentive structure for agents on the lines of incentives for business credit.
- ✓ The savings-linked overdraft will be an automatic product, as it will be pre-approved; customers will have to sign a letter of intent for this loan at the time they open a basic savings account.

2.3.5 Livestock loans

Livestock, such as cattle, buffalo, sheep, goats and pigs, play an important role for farmers as they provide animal labour/traction and an additional source of income from the sale of their produce—milk, meat and wool. Livestock farming is an important sub-sector of the economy in Nepal. The sector contributes approximately 32 percent of agricultural GDP and 11.5 percent of total GDP of the country (The Village, n.d.). Looking at the huge contribution and potential of this sub-sector to the economy, two kinds of livestock loans are proposed: cattle and buffalo loans, and non-dairy livestock loans.

2.3.5.1 Cattle and buffalo loans

Cattle are the main source of animal traction, while buffalo are the main source of milk and meat. Despite their role in GDP, the cattle and buffalo populations have a poor growth rate. Since access to loans for purchase of cattle and buffalo is limited, such a loan for Central and Eastern *Terai* farmers is proposed.

UNMET DEMAND

There is limited access to formal financial institutions for purchase of cattle and buffalo.

Target segment(s) and zone(s)

- Farmers
- Central and Eastern *Terai*

Product's unique selling proposition

- Offers quick access to a loan
- Has fewer hassles with documentation

Checklist for making product successful

- ✓ Initial documentation and screening shall be performed by agents, while loan disbursement and physical verification post-disbursement shall be undertaken by FSP staff.
- ✓ Loans shall be complemented with insurance to protect farmers from getting into the debt trap in case of death of the animal. The insurance premium can be deducted from the loan amount at the time of disbursement.
- ✓ Apart from providing credit, FSPs shall provide support in terms of purchase of cattle/buffalo, feed and fodder, and veterinary services.
- ✓ Exposure limit per farmer needs to be set after conducting pilots.
- ✓ Loan tenure may be fixed for anywhere between 24 and 60 months.

2.3.5.2 Non-dairy livestock loans

Non-dairy livestock, which includes pigs, goats, sheep and poultry birds, generally provide a secondary source of income for poor farmers who cannot afford to purchase or raise large animals such as cattle and buffalo. In the Central and Eastern Hills, farmers are dependent on secondary sources of income, including non-dairy livestock farming. However, inability to access cheap and timely finance leaves many a farmer unable to explore this option.

UNMET DEMAND

Farmers lack access to timely and adequate loans for purchase of non-dairy livestock.

Target segment(s) and zone(s)

- Farmers
- Central and Eastern Hills

Product's unique selling proposition

- Offers easy access to a loan
- Has fewer hassles with documentation

Checklist for making product successful

- ✓ These loans shall be small-value, short-term loans to be disbursed using an agent network.
- ✓ Since loan values are very small, initial screening, documentation and even disbursement can be undertaken by agents.
- ✓ Post-disbursement verification shall be mandatorily performed by FSP staff.
- ✓ Repayment schedules shall vary from 6 to 24 months, with a moratorium depending on the animal purchased.
- ✓ Insurance features can be added to the product for certain animals such as pigs, goats and sheep.

2.4 Fit of product suites with cash-flow requirements

This section looks at the fit of the products proposed in the previous sections and the income-generating, activity-based, cash-flow requirements of the three broad customer segments introduced in section 1.2 (see figures IV, V and VI for the product suite for each). For life events (marriage, house construction, etc.), festivals and unexpected events, the requirements of each of the segments remain more or less the same. These needs can be addressed by offering goal-based savings, long-term loans and savings-dependent overdraft facilities.

Figure IV
Product suite offered to meet varied needs of farmers

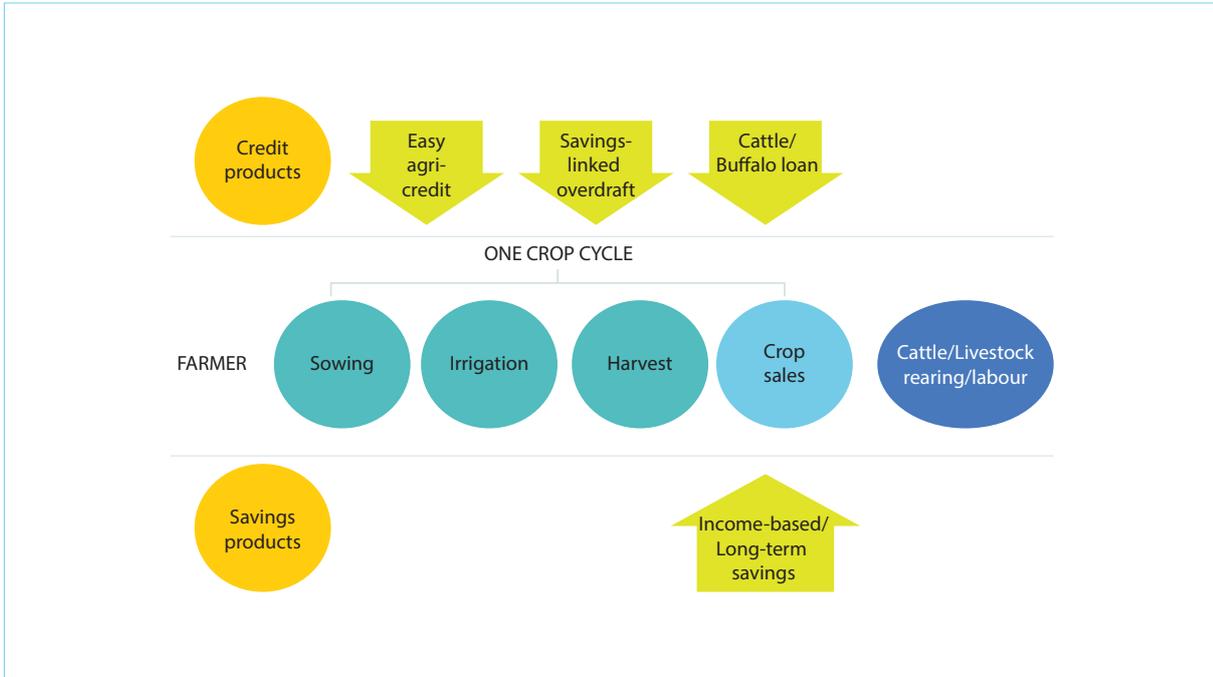


Figure V
Product suite offered to meet varied needs of business owners

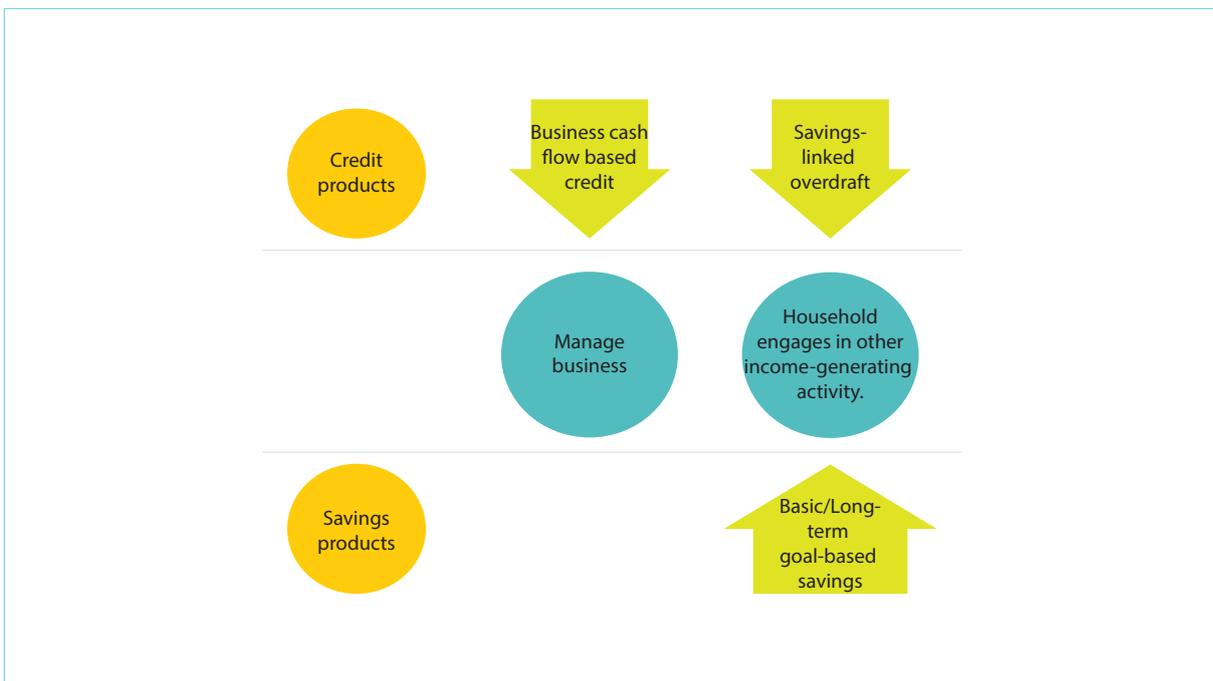
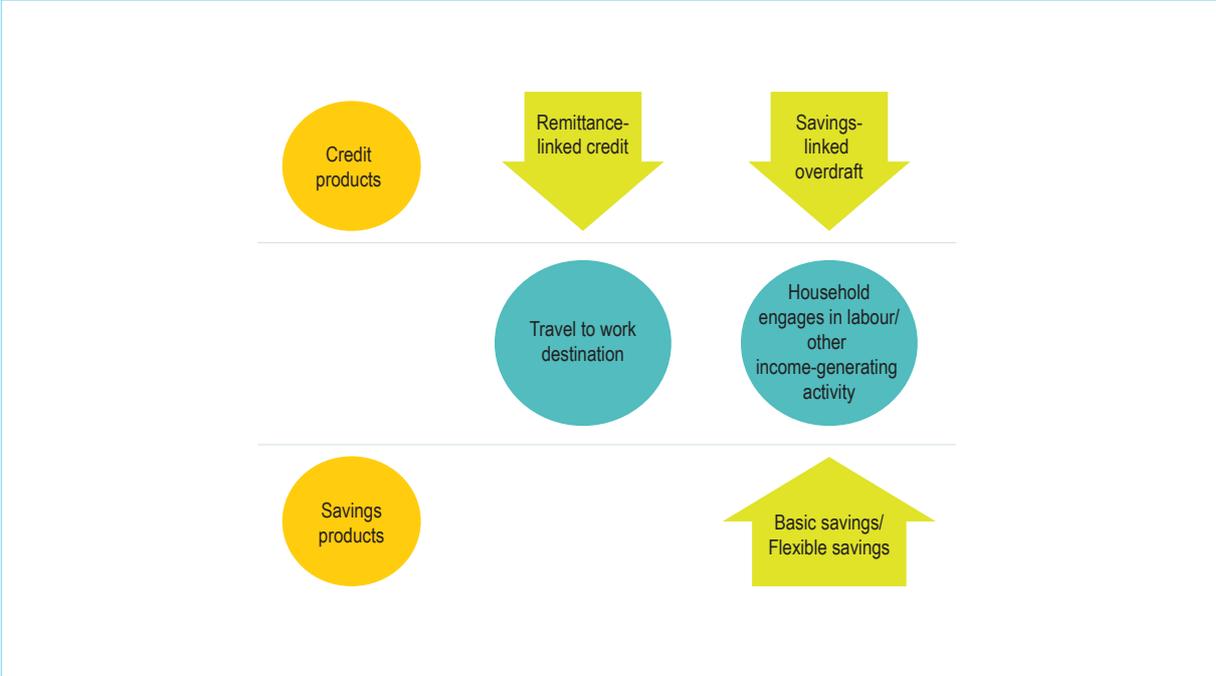


Figure VI
Product suite offered to meet varied needs of migrants



The product suites proposed for the three broad potential customer segments thus take into account the cash flow of the customers during the course of their work/business and provide a number of different products to cater to different needs at different times.



3

Development of product concepts

In this section, aspects of product development that FSPs need to adopt and follow in order to develop customer-centric products are discussed.

3.1 Basics of agent banking

At present, the services offered by different DFS providers do not entirely match customer expectations and perceptions of agent services. In most of the demand research sessions, respondents mentioned they lacked trust in agent banking services. Further, they feared insecurity of conducting financial transactions at agent points. Respondents who had experience using agent points also brought out issues related to transaction failures and ceilings on transaction amounts that discourage them from using agent points and recommending them to others (see figure VII).

Figure VII
Major issues faced by customers at agent points

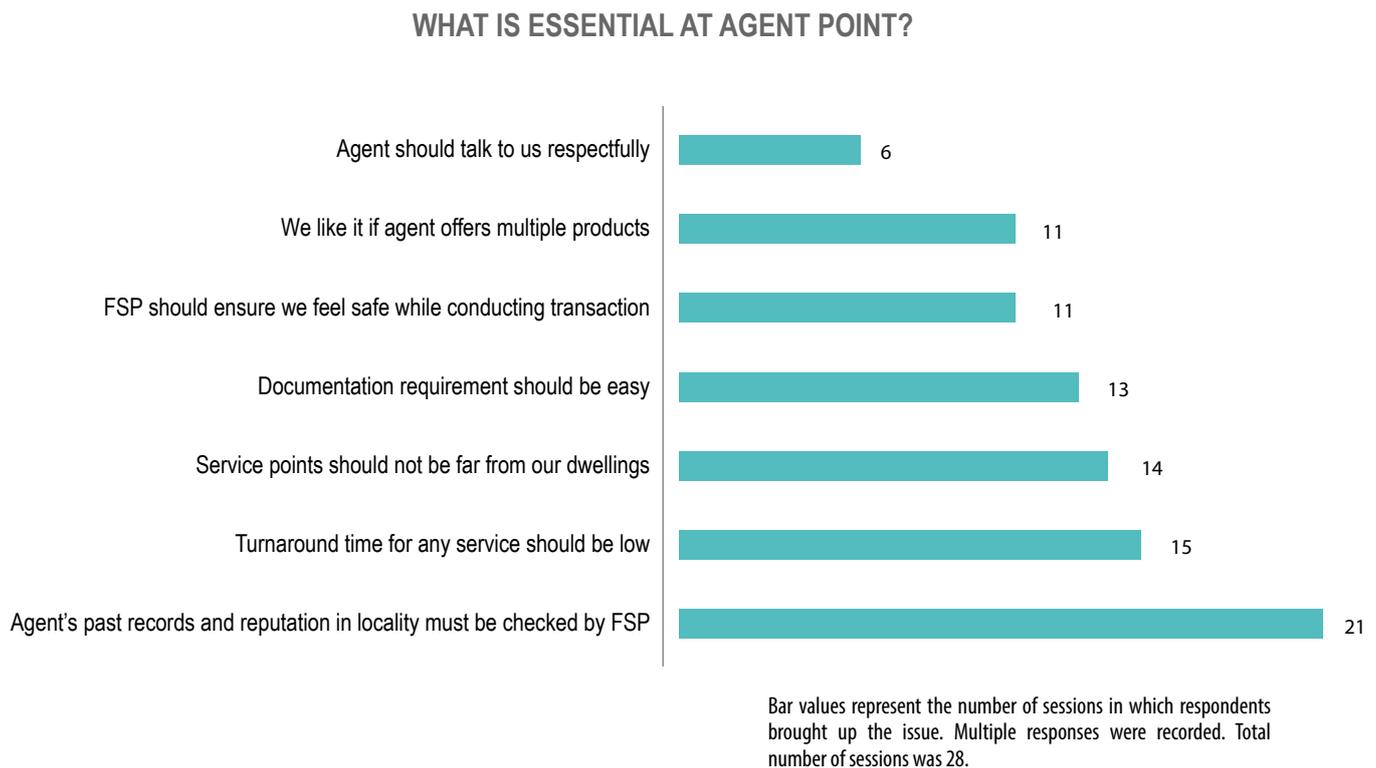


Column values represent the number of sessions in which respondents brought up the issue. Multiple responses were recorded. Total number of sessions was 14.

FSPs looking to expand their agent networks need to address some key issues regarding safety, trust, robustness of technology and product features (see figure VIII for some 'hygiene factors' mentioned by respondents that FSPs must address). Later, design opportunities that these features present to FSPs are discussed.

Figure VIII

Features considered important by customers at agent points



Put in care and effort to select good agents and communicate to customers about the presence of those good agents: The most important factor is ensuring trustworthiness of agents, as the authors have observed that it has more to do with trust in services offered through agents than any other factor. At present, customers (both prospective and existing) do not appreciate DFS products and agents as service points. Once they start witnessing transactions through agent points, the idea that agent points are indeed financial service transaction points will sink in. That being said, FSPs must conduct thorough checks when selecting agents and share with customers the measures they are taking, through communication and other tools of product design (e.g., providing proof of service/existence, ending every SMS transaction with 'Thank you for transacting at our trusted channel partner'). The authors have seen that customers tend to choose their agents very carefully.

Leverage technology to create quick and easy transaction processes: When discussing turnaround time, respondents reported that they think about long queues and the time it takes to complete a transaction or service request. They believe that less time will be needed to complete transaction or service requests at agent points than at branches. Furthermore, respondents'

feedback on documentation requirements centred on two factors: i) low literacy levels and ii) their knowledge that bank branches generally require a lot of paperwork.

FSPs need to leverage technology to design and innovate applications and systems such that they enrol customers in a short period and with fewer steps, and activate accounts as soon as customers are enrolled. Technology using biometric identification must be piloted as it removes the burden of remembering a PIN. However, all such technical innovations must ensure that processes do not become lengthy (e.g., transaction time tends to be higher, especially with biometric authentication, owing to the transfer of a large amount of data).

Create an easy interface design: Modules for all the products shall be built into the application that agents use. This structure will ensure that, when customers come to apply for a savings-linked overdraft or easy agri-credit, they are not required to complete paperwork to provide basic information. Additional paperwork, if any, shall be credit-related contracts that an FSP would want the customer to sign and would be signed in the presence of FSP staff.

Offer multiple products led by a basic savings account: Multiple products will require multiple documentation requirements. However, if FSPs link all possible savings, payment and credit products with the basic savings account, there will be very little documentation requirements for additional products. While customers will see services as being convenient, FSPs will also benefit from less paperwork and record-keeping on their end.



Focus on agent training: Respondents' perception that agent points are not safe for transactions and their demand that agents talk to them respectfully could be addressed by FSPs focusing on agent training. Since agents are interaction points with customers, the style and the content of their communication influence customers' perception regarding security and respect. Furthermore, agents should be able to accurately explain product features, especially to provide information about credit products' penalties. FSPs must treat their network of agents as their asset and invest in building agents' capacities to understand the business as well as provide good customer service.

Consider agents' float management as a trust-building measure: Float management is the agent's prerogative; however, FSPs must ensure that agents have sufficient float to honour cash-in and cash-out transactions. Absence of sufficient float causes dissatisfaction among customers, leading to lack of trust and indifference towards DFS.

3.2 Recommended activities to convert ideas into products

In order to convert the ideas proposed in section 2 to actual products, it is recommended that FSPs in the Central and Eastern regions of Nepal undertake a series of activities:

Activity 1: Strategise

An interested FSP needs to brainstorm thoroughly which geographies on which to focus. Since different geographies within the Central and Eastern regions have different customer segments, each with varied requirements, different products are required to address the needs of different geographies.



Activity 2: Select product concepts

Upon deciding which geographies and customer segments on which to focus, the FSP can pick a few product concepts to develop into real, sellable products. When picking a concept, it is important to check for possible 'cannibalisation.' If the product concept borrows some features of an existing product, there is a possibility that the FSP would see existing customers move from one product to another instead of seeing new customers join. Additionally, the delivery channel of the product, which in this case would be an agent, needs to be kept in mind when selecting product concepts.

Activity 3: Develop product prototypes

This activity is crucial since it culminates in the creation of conceptual prototypes that will closely resemble the actual products. For this activity to be fruitful, the FSP must conduct workshops on product concept development with various stakeholders, from their own FSP staff and agents to customers. Conceptual prototypes are presented using the '9 Ps of product' principles (see annex B).

Activity 4: Test and iterate prototypes

Prototypes need to be tested in the field quickly in order to gather feedback for improvement. Based on the feedback, the products need to be modified swiftly, by adding new features or removing unwanted features, and then enter the next round of field testing. There should be several iterations in order to refine the prototypes.

Activity 5: Develop the products

Once the product prototypes are developed, the FSP must invest in creating systems (both back-end and front-end) for delivery of the products. For the delivery, the FSP shall recruit and train new staff and re-train existing staff and agents on various aspects/features of the products. Afterwards, the FSP is ready to 'go live' with the products and pilot them in certain focus geographies with the intended customer segments.



4

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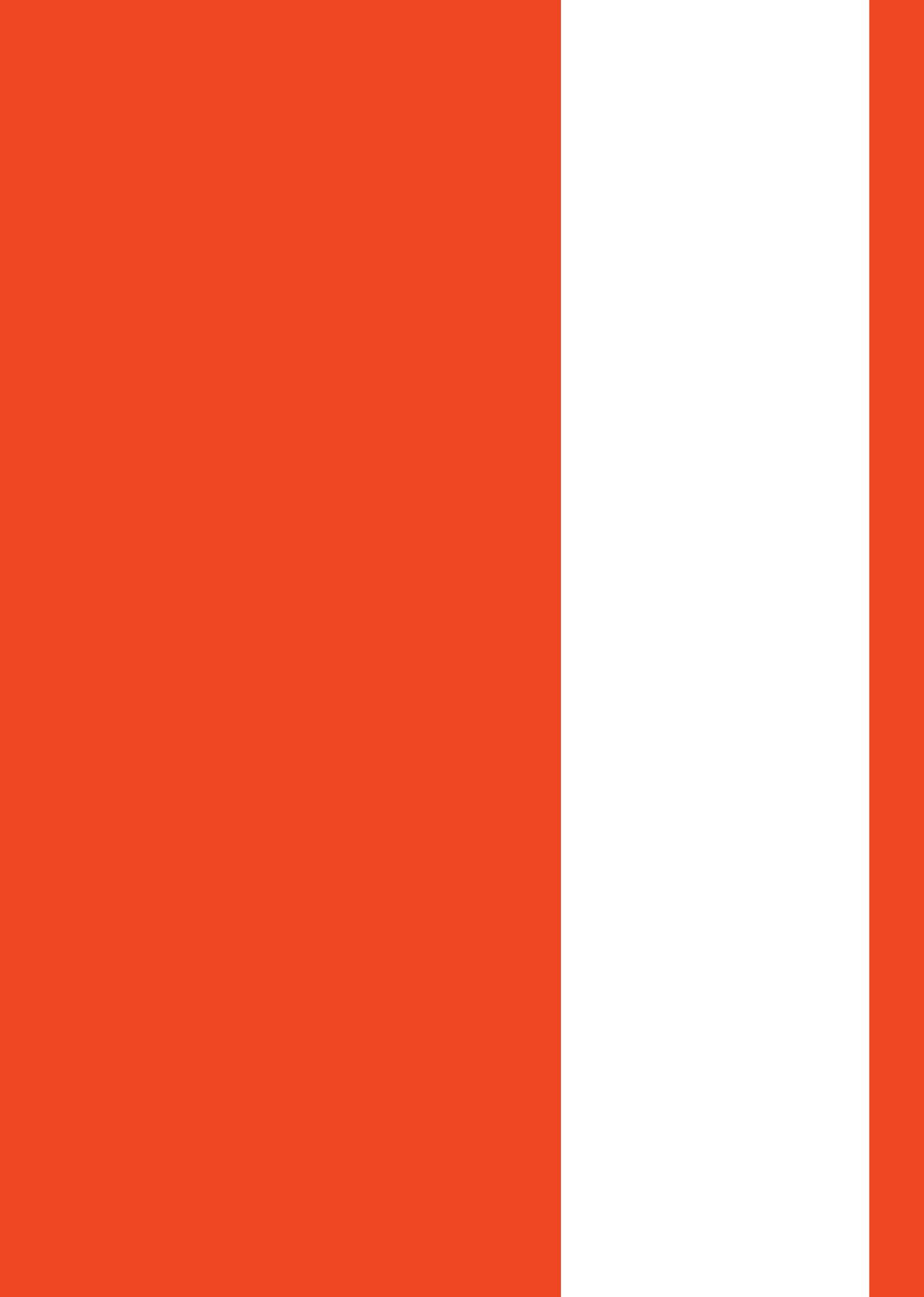
Annexes

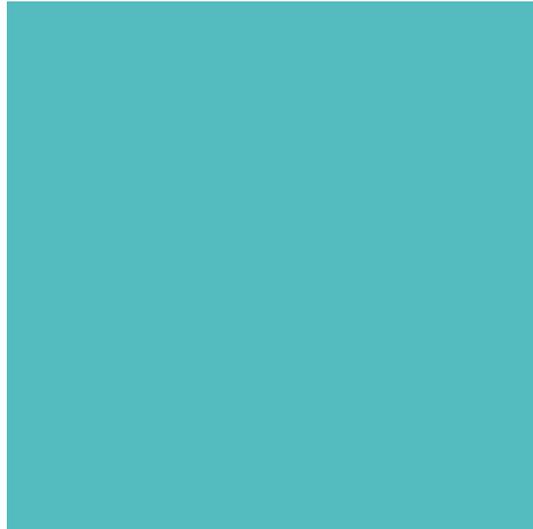
Annex A: Population and population density of 15 eco-development zones in Nepal

Focus geography	Eco-development zone	Population	Population density (per km ²)
Not considered in focus geography	Western Mountains	19,990	3
	Mid-Western Mountains	388,713	18
	Eastern Mountains	392,089	38
	Far-Western Mountains	463,345	58
	Central Mountains	517,655	82
All Terai	Mid-Western Terai	1,470,472	201
	Far-Western Terai	1,226,957	253
	Western Terai	2,095,640	398
	Central Terai	4,707,517	505
	Eastern Terai	3,818,119	525
Central Hills	Central Hills	4,431,813	375
Other Hills	Mid-Western Hills	1,687,497	123
	Western Hills	2,811,135	153
	Far-Western Hills	862,215	158
	Eastern Hills	1,601,347	149

Annex B: 9 Ps of product, with loan product example

Principle	Questions/Issues	Example
Purpose	What purpose does the product serve?	Short-term loans for expansion of small businesses
Product	Specific features/design and terms of the product	<ul style="list-style-type: none"> ▪ Loan size: First cycle: Nr10,000; second cycle: Nr15,000 ▪ Loan term: 12 months
Price	At what price will the product be available? What does the consumer have to pay?	<ul style="list-style-type: none"> ▪ Loan interest: 26% flat ▪ One-time registration fee: Nr100 ▪ Loan processing fee on each loan: Nr50
Process	How the product is delivered; the steps until sale	<ul style="list-style-type: none"> ▪ Credit officer (CO) to assess area, introduce concept and ask potential members to form groups ▪ CO is informed after group of five is formed ▪ Field officer to assess business by visiting site and residence ▪ Group is trained by CO and a registration test is conducted by CO and head office staff ▪ If group passes the test, group is registered and loan application form is given ▪ Group members sign as guarantors ▪ Loan is disbursed from branch office in cash ▪ Field officer to collect repayment on a weekly basis from group leader
Physical evidence	Physical appearance of the product and its delivery systems	<ul style="list-style-type: none"> ▪ For group registration: photo identification of member, proof of address, membership form ▪ Forms for loan disbursement: loan application form, business appraisal form, member passbook with loan and savings records, receipt book ▪ Office documents: loan ledger, cash book, bank documents (chequebooks, receipts, etc.) ▪ Monitoring: regular and frequent performance reports (manual and on system) ▪ A small office to be set up with 2-3 staff
People	Human interactions involved in delivery of the product	<ul style="list-style-type: none"> ▪ One CO for most field operations ▪ Branch manager will have responsibility of approving loan applications, marketing and monitoring
Promotion	How will the product be promoted (advertising, brochure, language, etc.)?	<ul style="list-style-type: none"> ▪ This product will have a six-month pilot, and initial loans will be given to individuals identified by staff through five-member groups ▪ A leaflet with the rules and procedures and repayment schedule will be given to potential borrowers ▪ Local <i>panchayat</i> (village assembly) will be informed, and the product will be inaugurated through the <i>sarpanch</i> (elected head of <i>panchayat</i>) ▪ Promotion will be on a small scale, with a small launch with local authorities
Position	How the product is positioned in the customer's mind	To help small business owners access convenient financial services
Place	How will the product be accessible to the consumer (distribution, accessibility, etc.)?	Branch office(s) of the FSP will offer the product and disburse the product, after completion of formalities; collection of repayment will be in the field, at the customer's site/residence





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