



Digital Finance
Product Concepts
for Western Nepal

November 2015



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MicroSave
Market-led solutions for financial services

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November 2015

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Executive summary

The Western regions of Nepal,¹ unlike their Central and Eastern counterparts, are characterised by low population density and high incidence of poverty. The Western regions comprise 45 percent of the total population of Nepal, though they constitute 62 percent of the total geographical area of the country. The Mid-Western and Far-Western regions have the highest incidence of poverty, with some 45 percent of households classified as poor.

Offering limited economic opportunities to their people, the Western regions have farming and small businesses as the primary income-generating activities for most inhabitants. A number of people also migrate to other parts of Nepal and abroad for work.

This report looks at the Western regions as a distinct geography with a specific set of financial needs. Three prospective customer segments for digital financial services (DFS) are identified for the Western regions in the report: farmers (with mostly small landholdings), small business owners and domestic/foreign migrants.

While the lifecycle needs of these customer segments are more or less the same, there is a marked difference in the financial requirements based on the income-generating activities in which they are engaged. Small farmers, with long crop cycles, have regular expenditure for managing their working capital, while their income comes in lump sums (at the time of harvest). Business owners, on the other hand, have more or less a regular flow of income and expenditure—with periods when income exceeds expenditure and vice versa. Migrant workers need credit to travel abroad, facilities to send the regular income they earn home as remittances, and facilities to save.

The different financial requirements at different points in time call for different financial products. Thus, this report identifies three broad financial product types—savings, payments and credit—for the three distinct customer segments recognised. These product types are further classified into specific products with specific target customer segment(s) and zone(s) (**see table 1**).

¹ In this report, the terms 'Western regions' and 'Western Nepal' both refer collectively to three development regions of Nepal: Far-Western region, Mid-Western region and Western region.

Table 1
Summary of products proposed

Product type	Product	Target customer segment(s)	Target zone(s)
Savings	Basic savings	All customer segments	Hills and Terai
	Income-based savings	Farmers and business owners	Hills and Terai
Payments	Person-to-person money transfers	Domestic/Foreign migrants	Hills and Terai
	Bill payments	All households	Hills and Terai
Credit	Cash flow based credit	Small business owners	Hills and Terai
	Easy agriculture credit	Small farmers	Hills and Terai
	Remittance-linked credit	Foreign migrants	Hills and Terai
	Livestock credit	Farmers	Hills and Terai
	Savings-linked overdraft	Farmers and business owners	Hills and Terai

While some of these products are suitable for all customer segments, there are some which cater only to a specific segment. Therefore, when a product is more suitable for a particular customer segment and zone, it is highlighted.

For each product recommended, the report provides a checklist for making the product perform and be accepted better by the target customer segment(s). Though it is not an exhaustive list, it provides some guidelines to financial service providers for product launch.

The report also outlines the basics of agent banking and ends with guidelines to convert product concepts into prototypes and further into full-fledged financial products to be launched in the field.

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

About the Western regions

The Western regions comprise nine ecological development zones in the areas of Mountains, Hills and *Terai*.² However, excluding Mountain zones (which are not the focus of this report), there are six eco-development zones covered by this research: Mid-Western *Terai*, Western *Terai*, Far-Western *Terai*, Mid-Western Hills, Western Hills and Far-Western Hills (see map 1).

Map 1
Western Nepal



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

Distinct geographies in the Western regions

- Western, Mid-Western, Far-Western Hills
- Western, Mid-Western, Far-Western *Terai*

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



The Western, Mid-Western and Far-Western regions are home to 45 percent of the total population of Nepal, though they constitute 62 percent of the total geographical area of the country. When compared to their more prosperous Central and Eastern neighbours, they are relatively poor. In fact, the Mid-Western and Far-Western regions have the highest incidence of poverty with some 45 percent of households classified as poor (International Fund for Agricultural Development, n.d.). Most of the districts in the Far-Western Mountains perform poorly in all three dimensions of the health poverty index: health, education and income (Nepal National Planning Commission and United Nations Development Programme, 2014).

The penetration of formal financial institutions in the Western regions, especially the Far-Western and Mid-Western regions, is also poor (**see annex A**).

The Western regions offer limited employment opportunities to their residents, with most engaged in small-value business or farming as their primary economic activity. Apart from these activities, many inhabitants migrate within Nepal (to the Central and Eastern regions) and outside the country for work.

Broadly speaking, the Western regions are characterised by the following features:

- Low-value agriculture and business activities
- High incidence of poverty
- High outgoing migration of domestic/foreign workers in search of employment
- Low population and population density
- Poor penetration of formal financial institutions



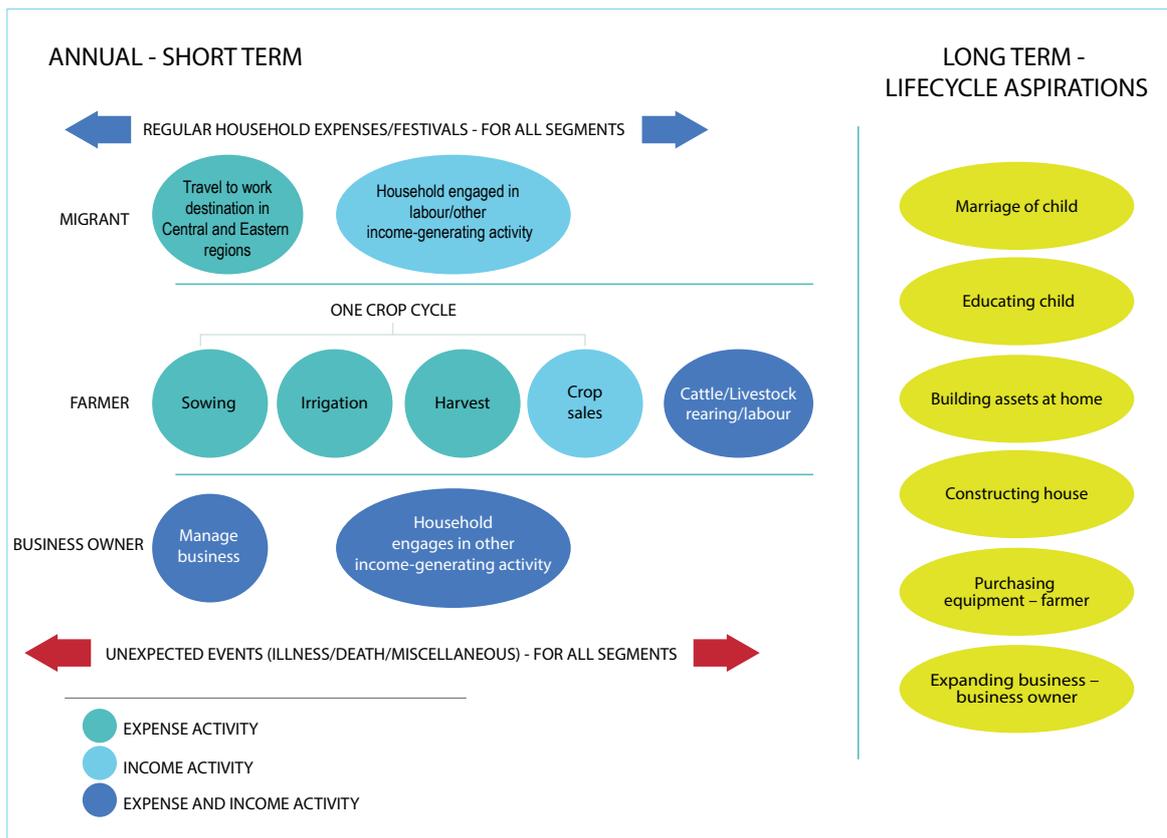


2

Prospective customer segmentation

Based on the occupation and income levels of the people, three prospective customer segments were identified for digital financial services (DFS) in the Western regions. These segments are **small farmers, small business owners and domestic/foreign migrants** (see figure I).

Figure I
Activity and cash flow by prospective customer segment

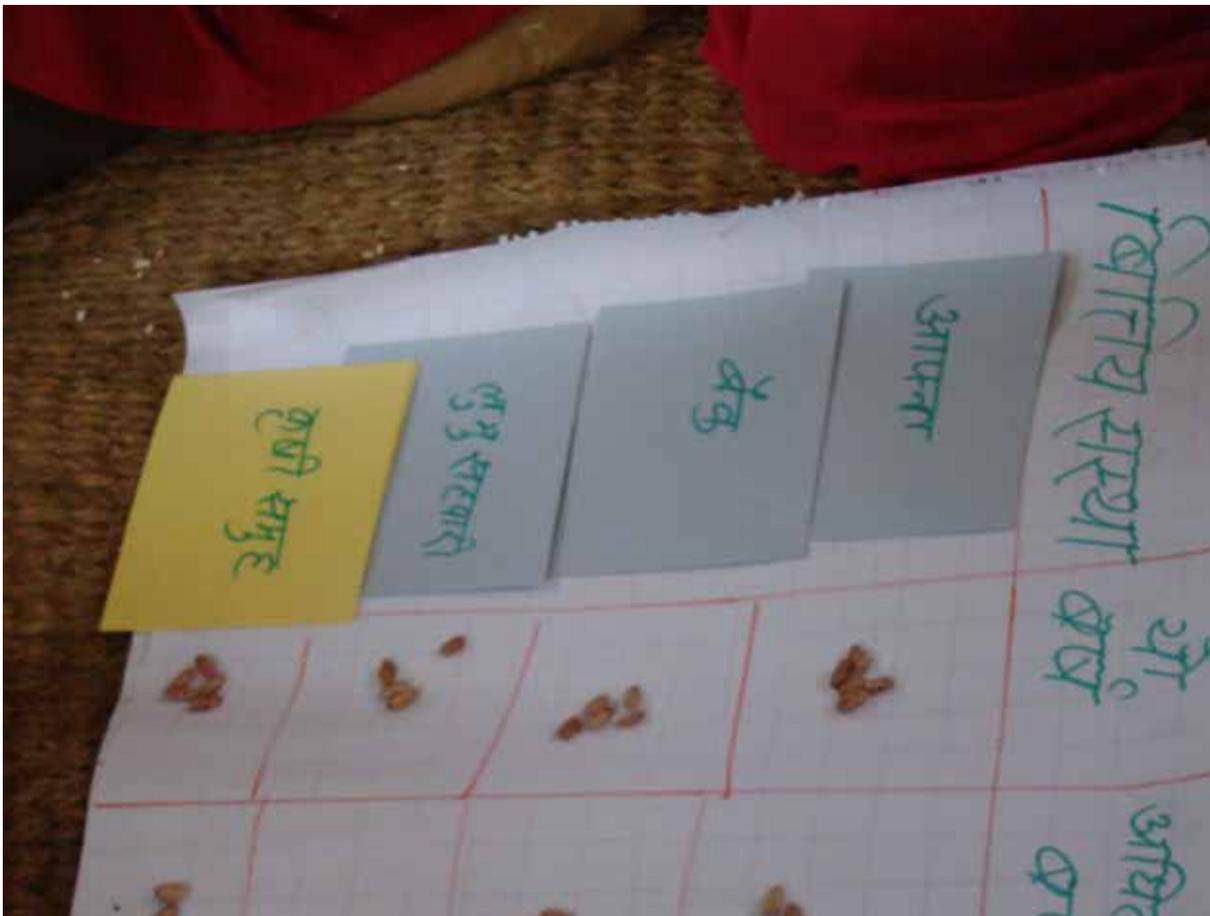


2.1 Small farmers

Farmers in the Western Hills and *Terai* zones have relatively smaller landholdings than their counterparts in the Central and Eastern regions, and they generally grow rice, wheat, maize and pulses.

These farmers have varied credit and savings requirements during a crop cycle. Generally, there are two crops per year. For each crop cycle, there are financial needs during the sowing season in the form of working capital loans for purchasing seeds, fertilisers and agricultural implements and for paying wages to hired labourers. At harvest time, farmers again need credit for hiring labour. Between sowing and harvest, farmers need irrigation support, which again requires working capital. Post-harvest, farmers generate income by selling the produce.

Apart from these short-term immediate needs, these farmers require long-term capital to purchase agricultural equipment such as tractor in the *Terai*, to buy livestock, or to pay for digging a well to increase farm productivity. In the absence of easily accessible formal financial services, farmers have to depend mainly on their savings and expensive informal sources of credit to meet different financial requirements. Thus, small farmers in Western Nepal have credit as well as saving needs at different points in the crop cycle.



2.2 Small business owners

Business is a primary income-generating activity for a large number of people in the Western regions. The businesses there are mostly small in terms of income generation (e.g., mobile phone repair shop, general merchant). Small business owners require working capital in small amounts at short intervals. Since they do not have a fixed income flow, they also need flexibility in saving.

2.3 Migrants

Due to poor economic opportunities available in the regions, people from Western Nepal migrate to the Central and Eastern regions of the country in search of work—these people are classified as **domestic migrants**. With a large population of migrant workers with diverse financial requirements, this segment of the population offers potential for a variety of savings, person-to-person payment and credit products linked to their remittances. There are also **foreign migrants** who migrate to Malaysia and the Middle East, especially from the Western Hills.



3

Product concepts

In the next section, product concepts that financial service providers (FSPs) can develop to serve these customer segments in the Western regions are discussed.

Based on demand research (*MicroSave*, November 2014a; November 2014b; December 2014), three broad categories of financial products for the customer segments identified in the Western regions were selected: savings, payment and credit. Below specific products within those categories are discussed, including important product features, target customer segment(s) and zone(s), and a checklist for the success of each product.

3.1 Savings products

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

FSPs must offer savings products as they bring people hitherto unserved by banks 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 Western regions offer a basic savings product along with a flexi/income-based savings product.**

3.1.1 Basic savings account

A basic savings account shall be the primary offering of FSPs aiming to launch DFS products in Western 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 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

A large number of people in the Western regions are dependent on local groups and village-level cooperatives for savings. These avenues are limited in their product offerings. With a reliable banking service point, many customers will be willing to use services offered by their most reliable service avenue: banks.

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 savings services that customers currently use
- Provides opportunity to receive other benefits such as remittance, credit and government-to-person transfers

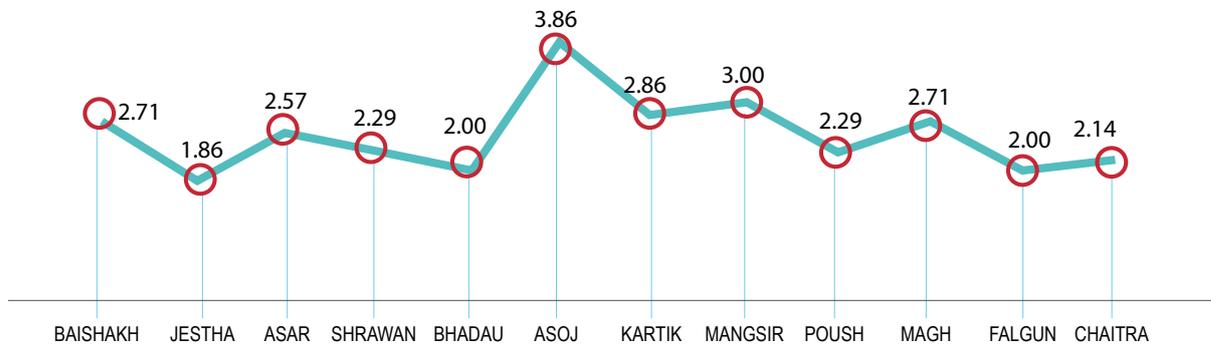
Checklist for making product successful

- ✓ 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.

3.1.2 Flexi/Income-based savings

In Western Nepal, income streams of most customer segments are low and unpredictable; income of farmers and small business owners shows seasonality (**see figure II**). The prospective customer segments will benefit from a savings product that captures deposits when they have higher income. With this thought in mind, a flexi/income-based savings product is proposed for farmers. It will be a product for which farmers will commit to a minimum savings amount, without any limits on maximum deposits.

Figure II
Income variation in Western Nepal (Output of seasonality analysis)



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

UNMET DEMAND

There is a lack of specialised saving avenues that provide users with the flexibility to save according to their variable income. A flexible savings product serves the needs of their fluctuating income levels better than a product that requires a strict commitment.

Target segment(s) and zone(s)

- Farmers and business owners
- 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 October–March period when customers' incomes exceed their expenses, leaving them with funds to invest in savings products.
- ✓ FSPs shall seek a minimum value commitment from users 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 and will also cover at least one crop cycle.
- ✓ FSPs may pay higher interest rates 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.
- ✓ Users shall be allowed to directly deposit into this account. The amount at maturity could be transferred to the basic savings account of the user.

3.2 Payment products

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 Payment products often encourage customers to try and regularly use the DFS interface (essentially, the agent) and subsequently motivate customers to use DFS for savings and credit as well.

It is proposed here that FSPs focus primarily on **person-to-person (domestic and foreign remittances) payments** in Western Nepal. Furthermore, they should look forward to offering **person-to-business payments** (bill payments for electricity, airtime recharge, cable/dish television, etc.).

3.2.1 Person-to-person money transfers

The Western regions witness a high level of domestic and foreign migration since economic activities in the regions have not yet developed. These migrants send money back to their families in the Hills and *Terai* zones of Western Nepal from various parts of Central and Eastern Nepal and abroad. However, since the penetration of formal institutions in the Western regions is limited, migrants have to depend mainly on informal routes for remittances.

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 and foreign migrants
- Hills and *Terai*

Product's unique selling proposition

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

Checklist for making product successful

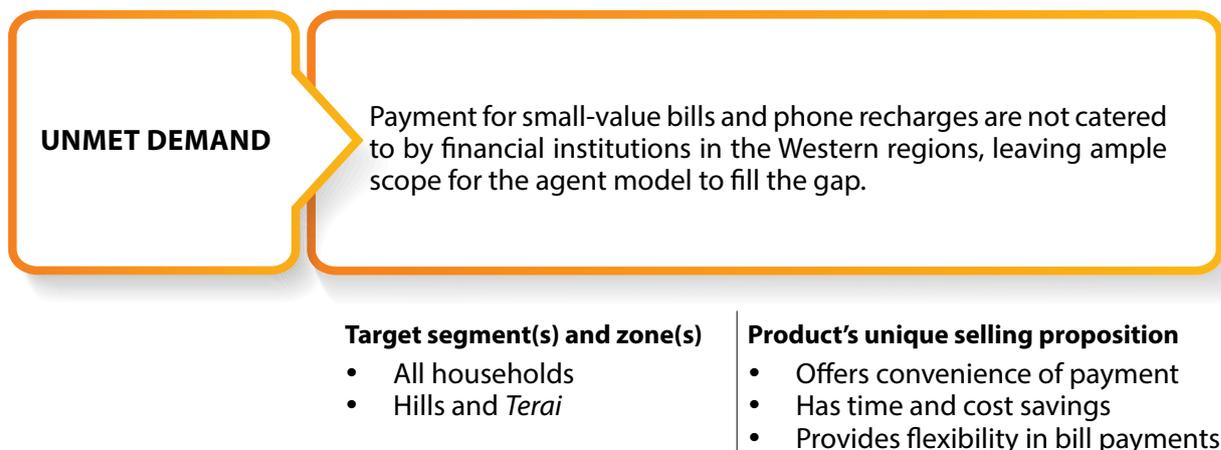
- ✓ FSPs shall ensure that agents at source locations (whom family members would use to withdraw money) and agents at migrant destinations (whom migrants would use to deposit money) are able to honour withdrawal and deposit requests without fail. If they are unable to do so in real time, either due to low float or network issues, there will be a loss of trust in this service.

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

- ✓ 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.

3.2.2 Bill payments

Since low population density and high poverty levels in Western Nepal may act as a hindrance to uptake of this product, the authors recommend that bill payments be offered as a novelty. The authors assume there will be uptake of payment products such as for airtime recharge and cable/dish television bills in Western Nepal.



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.

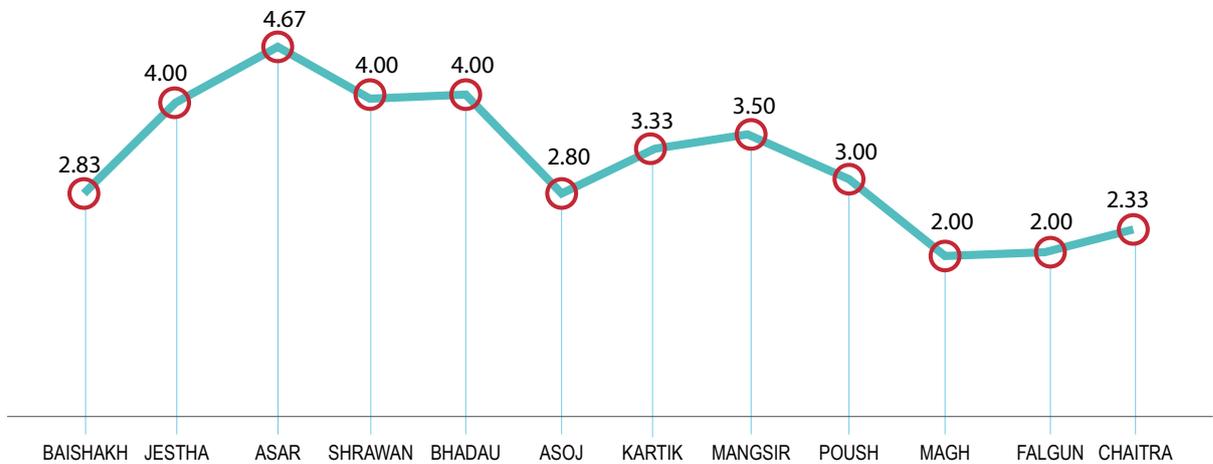
PAYMENT OF GOVERNMENT BENEFITS AS POTENTIAL OFFERING

Despite low population density, the authors believe that the Western regions offer some 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. FSPs must take care in promoting these services so as to not 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.

3.3 Credit products

Credit products through agents shall be a crucial part of the product suite for FSPs in Nepal. Currently, customers in Nepal have a trust deficit when it comes to using banks. Customers find bank processes cumbersome and time consuming, and prefer to use local financial institutions to fulfil their credit needs. Offering credit through agents will serve the dual purpose of increasing outreach for the FSP while also eliminating avoidable steps for the customer. This approach will have a multiplier effect: customers will opt for such credit products, their trust in the agents as a banking channel will increase and, thus, their use of the channel will increase (see section 4 for more on customers' trust in agents as a primary barrier to DFS uptake in Nepal). A suite of credit products that will meet customer requirements is proposed: **working capital loans for businesses (group lending), easy agri-credit and livestock loans for farmers, remittance-linked credit for foreign migrants and distress/emergency loans or savings-linked overdraft** (see figure III for variations in credit needs in the Western regions).

Figure III
Variation in credit needs in Western Nepal (Output of seasonality analysis)



Line values represent the average weight respondents assigned to household credit needs in the respective month.

3.3.1 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 Western regions. 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)

- Small business owners
- Hills and Terai

Product's unique selling proposition

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

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.

3.3.2 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)

- Small farmers
- Hills and *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 and low turnaround time

Checklist for making product successful

- ✓ FSPs will have to create a credit scoring model based on farmers' landholdings and types of crops.⁴ 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.

3.3.3 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.

Migrants going to foreign locations need large sums of money to meet travel expenses. They borrow this money from informal sources and pay usurious interest rates. FSPs should cater to this customer segment by offering a relevant credit product. Therefore, 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

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

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 in urban centres 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
- 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

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.

3.3.4 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)

- Both small business owners and farmers
- 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.

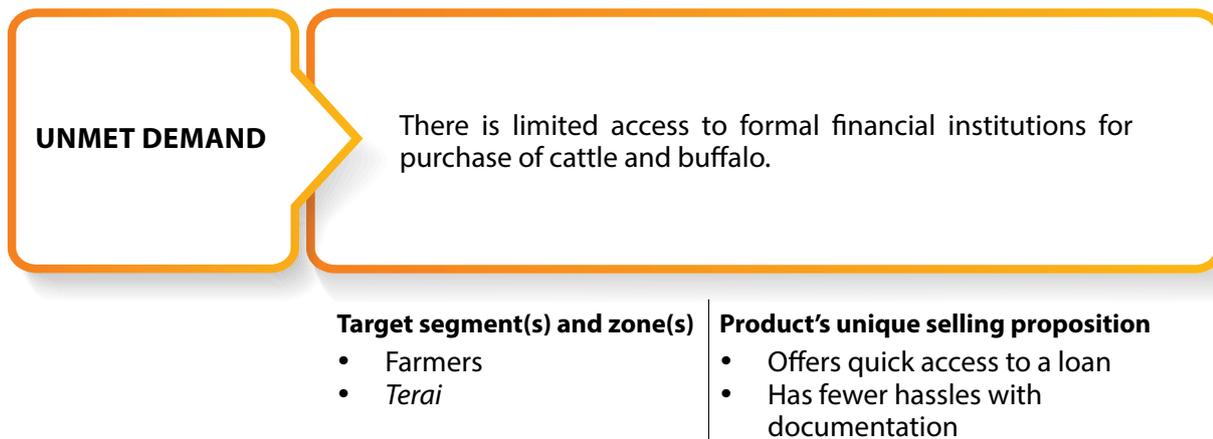
3.3.5 Livestock loans

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 30 percent of agricultural GDP and 11.5 percent of total GDP of the country (Food and Agriculture Organization of the United Nations, July

2005). 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.

3.3.5.1 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 *Terai* farmers is proposed.



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.

3.3.5.2 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 Hills of Western Nepal, 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
- 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.

3.4 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 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

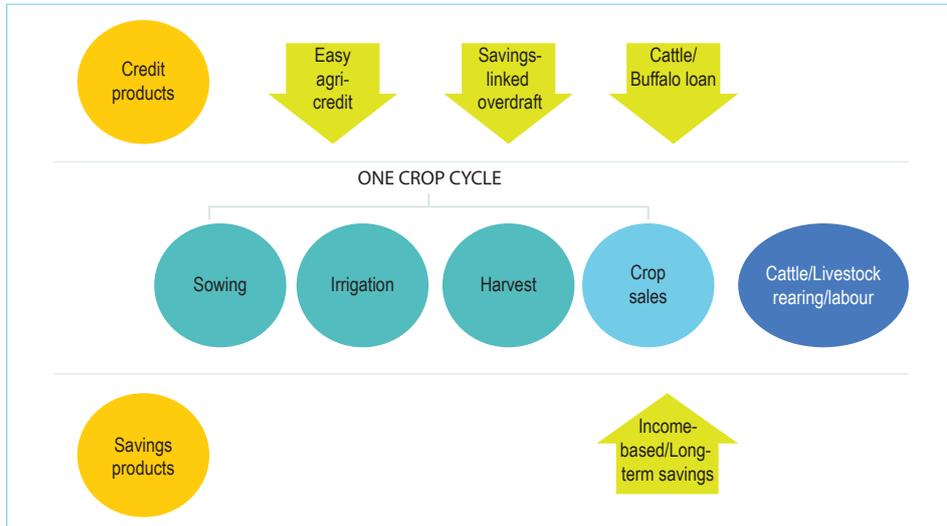


Figure V
Product suite offered to meet varied needs of business owners

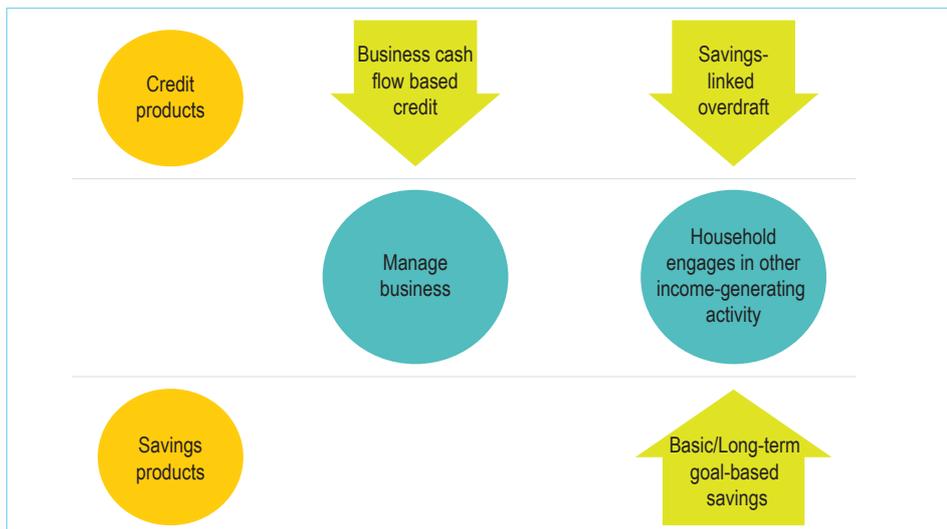
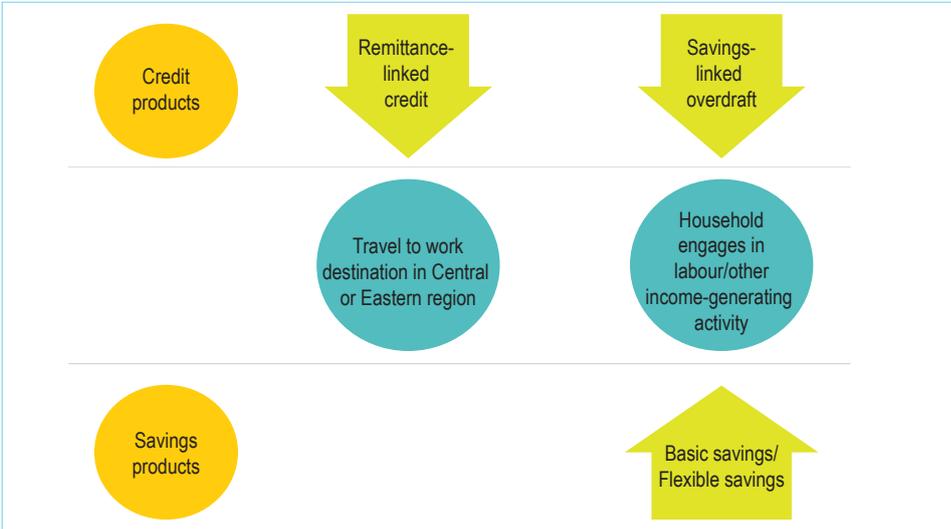


Figure VI
Product suite offered to meet varied needs of migrants



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.



4

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.

4.1 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

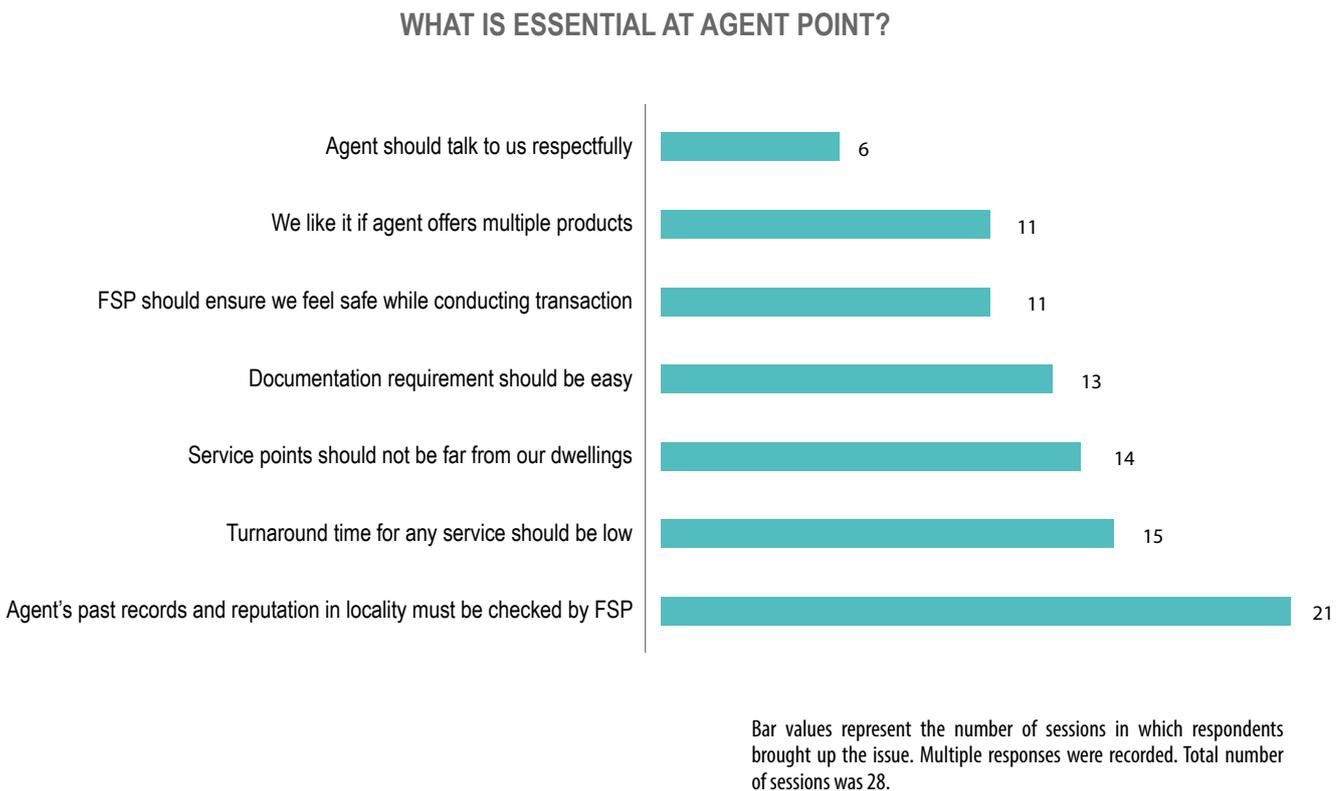


Column values represent the number of sessions in which respondents brought up the issue. Multiple responses were recorded. Total number of sessions was 14.

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.

4.2 Recommended activities to convert ideas into products

In order to convert the ideas proposed in section 3 to actual products, it is recommended that FSPs in the Western 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 Western 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.



5

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6

Annexes

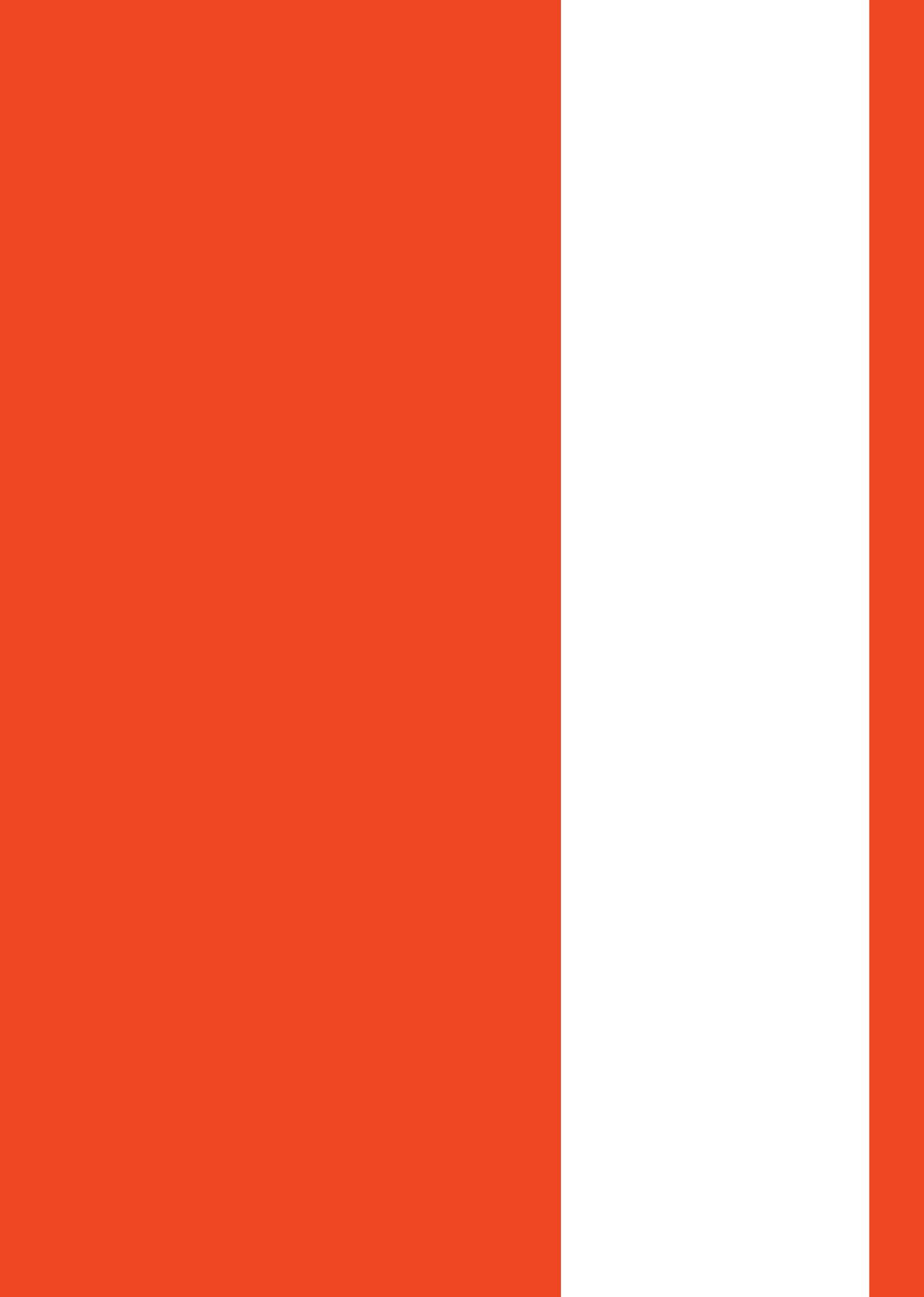
Annex A: Branches of banks and financial institutions by development region

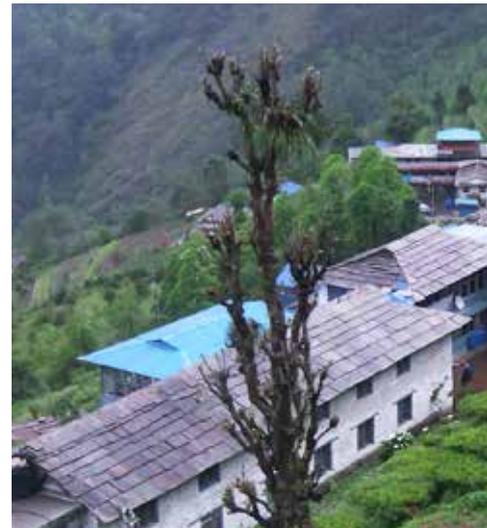
Developmental region	Class A	Class B	Class C	Class D	Total
Eastern	287	109	26	244	666
Central	770	316	136	288	1,510
Western	264	290	66	180	800
Mid-Western	136	75	9	88	308
Far-Western	90	28	2	61	181
Total	1,547	818	239	861	3,465

Source: Nepal Rastra Bank, 2014

Annex B: 9Ps 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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