UNCDF | MM4P
MOBILE MONEY FOR THE POOR

Potential Agents in Nepal

December 2014

Mobile Money for the Poor (MM4P) is a global programme funded by UN Capital Development Fund (UNCDF), the Swedish International Development Cooperation Agency (Sida), the Australian Agency for International Development (AusAid) and the Bill & Melinda Gates Foundation.

Mobile phones have transformed lives in rich and poor countries alike. With a global population of over 7 billion people, there are now 3.5 billion phone subscriptions compared with 2 billion or so bank accounts. Across the 48 least developed countries designated by the United Nations, mobile phone penetration is at 42 percent while access to a bank account is at 14 percent on average.

MM4P provides support to branchless and mobile financial services in a select group of least developed countries where UNCDF currently operates to demonstrate how the correct mix of financial, technical and policy support can build robust branchless and mobile financial services ecosystems. The programme aims to develop scalable models that can be replicated in other challenging markets and hopes to work with partners that are committed to reaching the unbanked with appropriate, accessible and affordable services.

MicroSave
Market-led solutions for financial services

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We trust that this report will be helpful in building a deeper understanding of agent profiles which, when leveraged, could be used to deepen the outreach of branchless banking.

Table of contents

List of figures and tables 6

Executive summary 8

1 Background 10

1.1 State of agent networks in Nepal 12

1.2 Objectives of the research 13

2 Research findings 14

2.1 Approach 15

2.2 Findings 16

2.2.A Stage I: Identification of preferred value chains 16

2.2.B Stage II: Analysis of value chains 20

2.2.C Stage III: Identification of suitable value chains 23

2.2.D Stage IV: Design of value propositions 25

2.2.D.a Grocery store value chain 26

2.2.D.b Medicine shop value chain 28

2.2.D.c Readymade garment shop value chain 30

2.2.D.d Agri-input shop value chain 32

2.2.D.e Savings and credit co-operatives 34

2.2.D.f Remittance agents 35

3 The way forward for financial services in Nepal 36

4 Annexes 38

4.1 Annex A: Geography and demography of Nepal 39

4.2 Annex B: Coverage and limitations of the research 41

4.3 Annex C: Feasibility framework factors 42

4.4 Annex D: Research tool guides 43

List of figures and tables

Figure I:	Types of business in which potential agents are currently involved	**12**
Figure II:	Research framework	**15**
Figure III:	Stages of research	**16**
Figure IV:	Customers' preferences: Attributes in branchless banking agents	**16**
Figure V:	Customers' preferences: Preferred attributes of financial service providers	**17**
Figure VI:	Customers' preferences: Attribute ranking of financial service providers	**18**
Figure VII:	Presence of identified businesses in neighbourhood markets	**19**
Figure VIII:	Retailers' capability and retailers' interest in branchless banking	**20**
Figure IX:	Guiding principles of agent feasibility framework	**21**
Figure X:	Current businesses of those interviewed for value chain analysis	**21**
Figure XI:	Grocery store value chain	**26**
Figure XII:	Medicine shop value chain	**28**
Figure XIII:	Readymade garment shop value chain	**30**
Figure XIV:	Agri-input shop value chain	**32**
Figure XV:	Savings and credit co-operative functions	**34**
Figure XVI:	Remittance agent functions	**35**
Table 1:	Key indicators for level of financial inclusion in Nepal	**11**
Table 2:	Number of bank branches by region in Nepal	**11**
Table3:	Feasibility framework data for value chains	**22**
Table4:	Ranks of value chains	**24**
Table 5:	Total scores of value chains	**25**
Table 6:	Map of branchless banking functions in grocery store value chain	**27**
Table 7:	Map of branchless banking functions in medicine shop value chain	**29**
Table 8:	Map of branchless banking functions in readymade garment shop value chain	**31**
Table 9:	Map of branchless banking functions in agri-input shop value chain	**33**
Table A.1:	Population distribution in Nepal	**40**
Table B.1:	Research coverage	**41**
Table C.1:	Explanation of agent feasibility framework	**42**

Executive summary

Nepal is characterised by unique geographical diversity, with regions consisting of mountains (*parbat*), hills (*pahar*) and lowands (*terai*). Numerous financial institutions in a variety of forms—such as banks, savings and credit co-operatives (SACCOs) and microfinance institutions—are engaged in expanding access to finance for the Nepalese people. Despite these efforts, a significant proportion of the population lacks access to finance. This gap is mainly due to low population density in several regions, challenging terrain and topography and poor infrastructure (roads, connectivity, telecommunication and internet service), all of which make greater access to finance difficult to achieve.

In the past, the Government and private sector institutions conducted several studies to assess the need for financial services among low-income households in Nepal. In the wake of these studies, the Government and Nepal Rastra Bank have been proactively focused on paving the way for the financial sector to provide universal access. Nepal Rastra Bank introduced regulations to provide banking services through bank-led agency models, anchored on digital/branchless financial services.

The potential customers and the financial sector have been at the centre of the focus on financial inclusion, with significant research, discussion and debate on the issues faced by customers. However, due emphasis has not been placed on the agents, who are and would be the most important cogs in the emerging financial services machinery. Currently, the number of agents serving the unbanked population pales in comparison to similar figures in mature mobile money markets such as Kenya or Bangladesh. Until now, there has been no design to agent selection. Rather, it has basically occurred by default, based on an expansion strategy in which anyone interested was selected as an agent. There is no set of selection criteria or research on the profile of potential agents, the segments in which they operate and their motivations/aspirations/expectations for becoming banking agents. This gap has resulted in a mismatch of agents' expectations and the value propositions offered by banks, which could lead to the dissatisfaction of agents in the medium and long term. In the interests of branchless-banking stakeholders, UNCDF through its MM4P programme commissioned this research to identify potential agents, the segments in which they operate and their motivations to become mobile banking agents.

The research was undertaken with **two key objectives:** (1) to identify which businesses are suitable to be branchless banking agencies and (2) to suggest an appropriate value proposition for each suitable business identified. The research covered 21 districts in five development regions of Nepal. During the research, the team covered 346 customers and 114 businesses, using four different qualitative research tools: focus-group discussions, personal interviews, product attribute ranking and relative preference ranking.

The research team assessed people's preferences for type of service provider based on attributes those service providers embodied. Research established that customers prioritised attributes such as trustworthiness, honesty and good conduct. On the basis of these attributes, the **most preferred businesses** (based on the number of times they were mentioned) were the following: grocery stores, medicine shops, small restaurants, jewellers and agri-input shops. The reason underlying these preferences could be the frequent interaction between customers and these businesses. Though other businesses were also mentioned by customers, they were not present in all areas and were dropped from consideration as potential agents. By profiling markets through market walks, the

team determined that the aforementioned businesses were, in fact, present in neighbourhood markets (relative prevalence indicated by the order listed above). Subsequently, based on analysis of similar markets as well as suggestions from service providers, the team added **three more businesses** to expand the scope of the research: readymade garment shops, SACCOs and remittance agents. Of these, readymade garment shops had the strongest presence in neighbourhood markets. As remittance agents and SACCOs are already handling cash transactions made by customers, it was logical to include them as well. In total, then, **eight business value chains were studied**.

With the objective of assessing the value chains, the research team designed an assessment framework comprising attributes of the businesses and individual characteristics of the potential agents to analyse their suitability for agent banking. The team gathered detailed data on all eight businesses and, using the framework, scored each on the basis of their attributes. Higher scores indicated better fit. On the basis of low scores for a few key attributes, such as daily variance of the existing business and risk of cannibalising the existing business, the team ruled out two value chains: jewellers and small restaurants.

With the objective of mapping the functions of branchless banking for those in existing businesses and designing appropriate value propositions, the research team studied the remaining businesses in detail. The team concluded that, in the case of SACCOs, remittance agents and readymade garment shops, banks will have to either manage potential agents directly or through bank-appointed master-agents, since there is no significant value chain. In the case of grocery, medicine and agri-input businesses, a few functions such as monitoring and liquidity could be delegated to distributors. As far as value propositions for them are concerned, banks will do better to consider them first as their customers and, as such, provide them with attractive propositions in addition to the potential revenue they would earn as agents. In the case of grocery stores, for example, promoters look for small working capital loans that can be paid off in easy instalments, which they are currently unable to access. Instead of just emphasising the additional income they could earn from the new business, banks that offer and highlight such loans to grocery store owners could make the prospect of becoming an agent more attractive. In addition, distributors working as master-agents could be offered lines of credit to take care of their own business requirements. There should also be greater emphasis on marketing to highlight the potential for all businesses to cross sell while engaged in branchless banking activities. This report details customised value propositions for each of the six businesses that were studied in detail.

To summarise, banks will have to consider their own business models and limitations before expanding their agent network by means of a suitable value chain. Banks that have a large number of branches in remote areas could use remittance agents or SACCOs as branchless banking agents, as they could be monitored by regional branches. However, for banks with a limited number of branches, it makes more sense to use distributors as master-agents to extend their outreach. Therefore, each bank will have to give careful consideration to its own circumstances before it decides which businesses to use as its agents for branchless banking.

1 Background

Nepal is a landlocked country of 266,208,092 people, with most spread across large rural areas consisting of mountains and hills; the Government's 2011 census report indicated that 83 percent of the total population resides in rural areas with 50 percent in areas of mountains or hills.[1] This difficult topography makes equitable access to financial services across the country challenging, as many rural areas are out of reach due to the lack of roads and the lack of infrastructure and technology, and acts as a major obstacle to the holistic development of the country (see **tables 1** and **2** for a summary of the current state of financial inclusion in Nepal).

Table 1
Key indicators for level of financial inclusion in Nepal

Individuals		Firms		Providers	
Percentage of population with account at a formal institution	Percentage of population with loans from a formal institution	Percentage of firms with a savings account	Percentage of firms with loans from financial institutions	Percentage of firms using banks to finance investments	Number of bank branches (per 100,000 adults)
25.3%	10.8%	73.7%	39.1%	17.5%	6.7

Table 2
Number of bank branches by region in Nepal

Region	Number of bank branches
Eastern	410
Central	1,196
Western	614
Mid-Western	207
Far-Western	114
Total	**2,541**

Source: International Bank for Reconstruction and Development/World Bank, *Global Financial Development Report 2014*, 2014.

As evident from **tables 1 and 2**, bank penetration is quite low in the country. Banks have a disparate presence across all the development regions. Expanding universal access to financial services through brick-and-mortar branches in such a diverse geographical area is difficult. Consequently, many financial institutions have struggled to extend their reach to rural Nepal via traditional branches, as it has been a costly investment and a low revenue market.

Branchless banking holds great potential for positive returns for banks by providing financial services for the whole population.

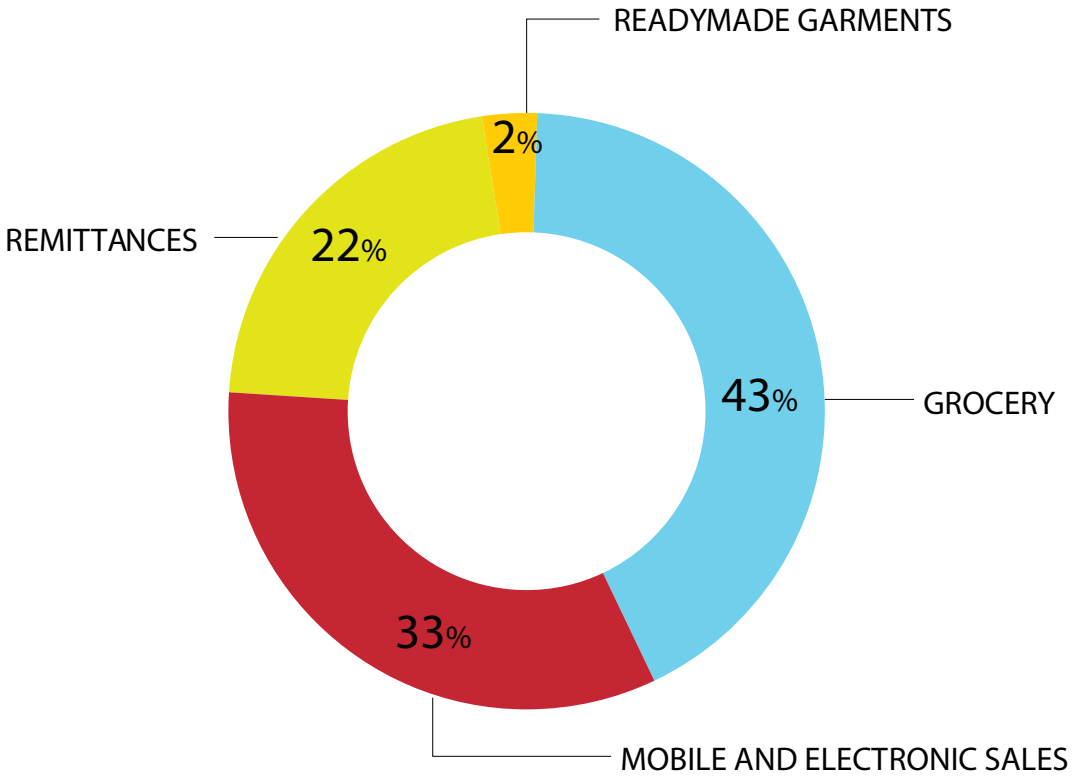
1 Government of Nepal—Central Bureau of Statistics, *National Population and Housing Census 2011*, November 2012.

1.1 State of agent networks in Nepal

Agent networks in Nepal are still in a formative stage. The recent *MicroSave* study 'Assessment of Agent Networks in Nepal' reveals that, out of just 650 agents (a very low number given the vast area of Nepal) from all networks in the country, almost 60 percent of agents are dormant. Dormant means that they have not conducted a single transaction in the last quarter. This situation effectively leaves only about 260 agents serving the entire country. If we remove the agents in and near Kathmandu valley region from the analysis, then the country is left with an abysmally low number of 134 active agents to cater to a population of around 24 million people. The ratio of people to agent comes to 179,104 in Nepal,[2] a stark contrast to 460 people per agent in Kenya and, in a more immediate context, 4,619 people per agent in Bangladesh.[3]

Little attention has been paid to developing a consistent strategy for selecting agents. There is no set of selection criteria being followed. To that point, **figure I** shows the diverse set of businesses in which potential agents are currently involved.

Figure I
Types of business in which potential agents are currently involved



As **figure I** also illustrates, little consideration has been given to potential agents that could be used for expansion. Until now, the approach has been to enter a market and select anyone who shows interest as an agent. Furthermore, there is very little understanding of value propositions to offer different agents. Currently, the only value proposition offered is the potential commission that agents may earn. Absence of a substantial value proposition leads to a high attrition rate due to low motivation.

2 Simone di Castri and Lara Gidvani, 'The Kenyan Journey to Digital Financial Inclusion,' July 2013.
3 Bill & Melinda Gates Foundation, 'FSP Maps: Bangladesh,' accessed 23 October 2014.

Since agents represent the most important aspect of branchless banking, it is critical when considering expansion to understand the profile of potential agents, the segments in which they operate, the factors that would motivate them to become agents, their aspirations as agents and their expectations for income. Moreover, since agents are the link between banks and their customers, it is imperative to understand customers' preferences for people who they can trust to provide financial services within the branchless banking model.

This research was undertaken with the aim of understanding the types of entrepreneurs for whom the agent banking business is most suitable. It was also important to gauge the interest and motivation of these entrepreneurs in commencing and sustaining the business alongside their regular business.

1.2 Objectives of the research

The major objectives of the research were as follows:

- To identify suitable business value chains in Nepal that could be targeted for branchless banking.
- To create value propositions for the value chains that are suitable for branchless banking.

In order to achieve the objectives, the research was designed to answer the following questions:

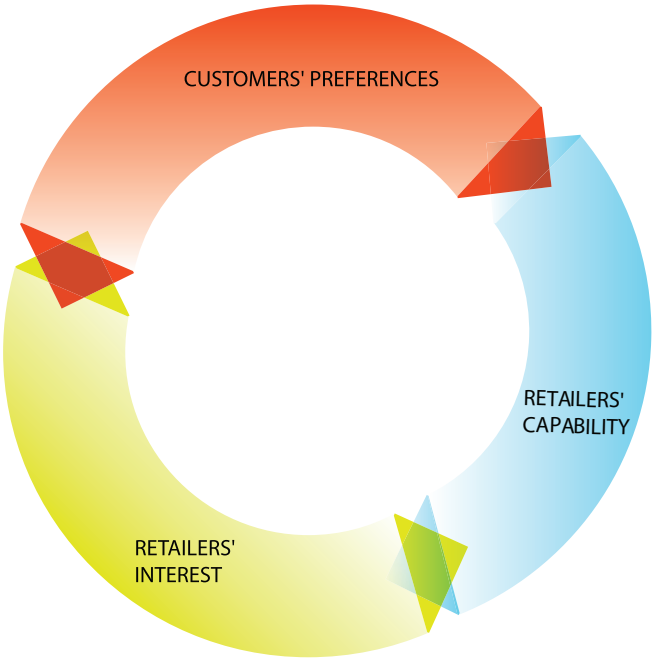
- What types of value chains are prevalent in under-banked areas? Who are the functionaries in each value chain and what are their key roles? What are the challenges faced within each value chain by current businesses?
- What are the most suitable value chains that could contribute to branchless banking?
- What are the value propositions for suitable value chains?

2

Research findings

2.1 Approach

Figure II
Research framework



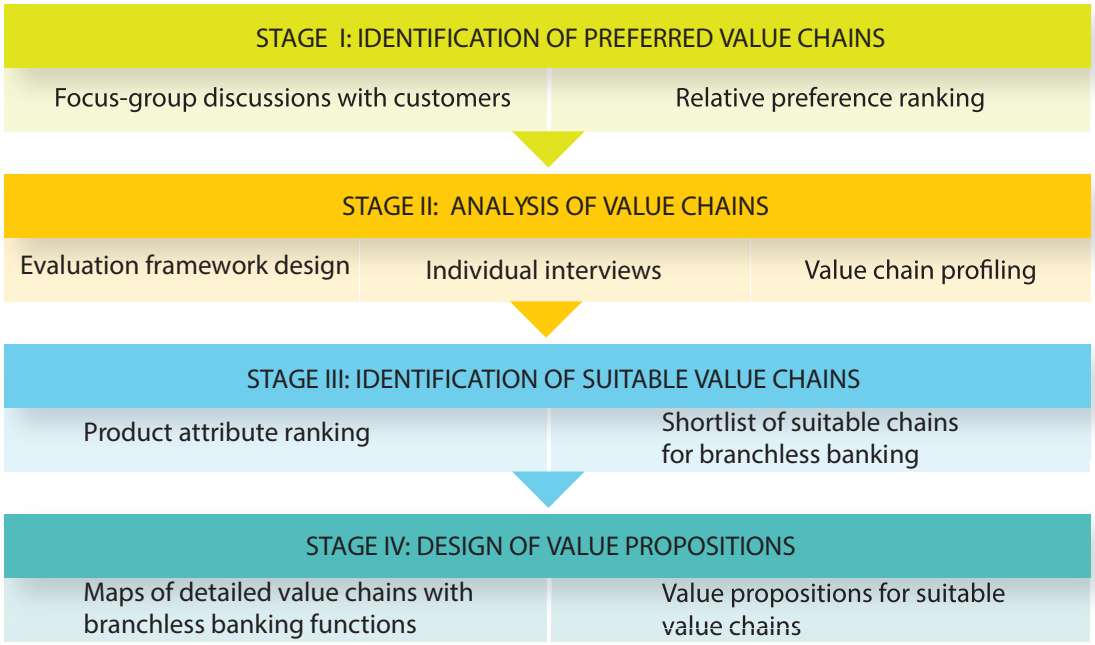
The research to identify suitable agents for branchless banking was anchored on the following (see **figure II** for a visual representation of the framework triad):

- **Customers' preferences:** What attributes do customers seek in the financial service provider? Which businesses do they believe to be better agents?
- **Retailers' capability:** In order to build an agent network, banks need to look at a few basics. How does the network under consideration fare on those basics?
- **Retailers' interest:** What are the motivations of retailers for becoming agents and delivering mobile financial services?

Based on the framework, the research team studied the businesses in detail (i.e., the functionaries and contribution of each functionary to the business as identified through customers' preferences). These businesses are referred to interchangeably as 'value chains,' 'retailers' and 'financial service providers' throughout the report. Thereafter, the team assessed the value chains based on critical parameters for branchless banking. Finally, the team looked at the factors that motivated the functionaries in each value chain to gauge their capability and interest in branchless banking.

The *MicroSave* team conducted research around this framework, in the following stages (see **figure III**):

Figure III
Stages of research

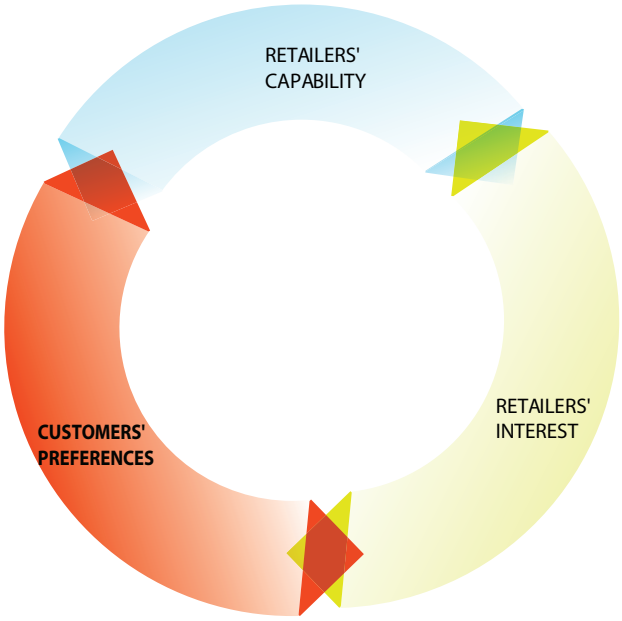


2.2 Findings

These stages, with objectives and research findings, are detailed in the following sub-sections.

2.2.A Stage I: Identification of preferred value chains

Figure IV
Customers' preferences: Attributes in branchless banking agents



Objective: To understand the types of businesses that would be preferred by customers as branchless banking agents (see **figure IV**).

Research tools: In this stage, customers' preferences for various types of businesses were explored through focus-group discussions and relative preference ranking.

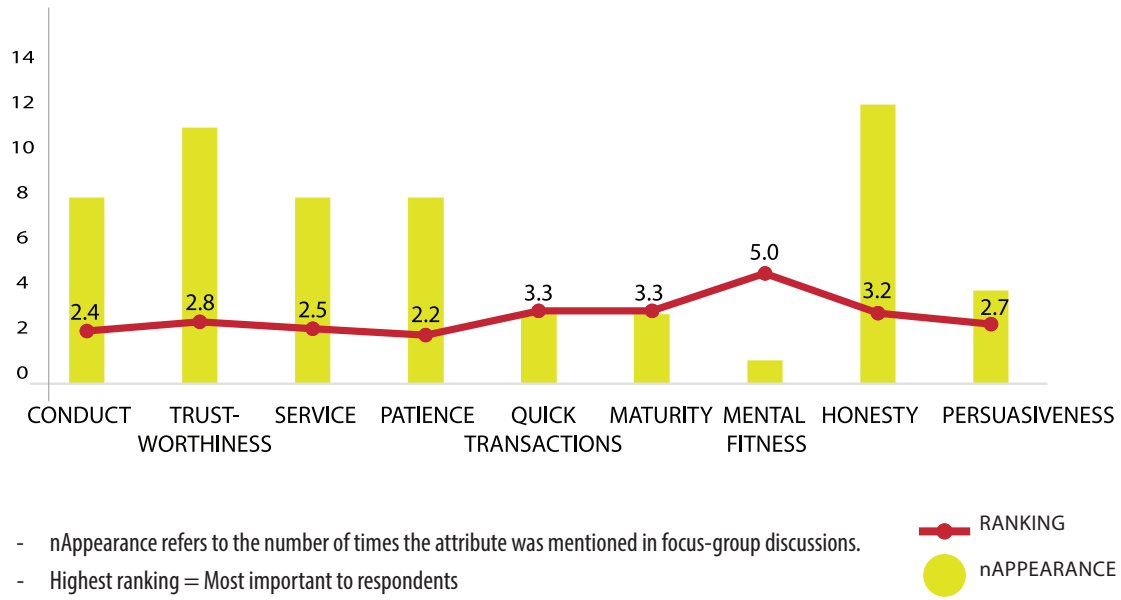
During focus-group discussions, the team spoke to over 100 customers across all development regions to understand if they would use banking services offered by businesses in markets close to them (see **annex D** for all tools used during the course of the research). The idea behind these discussions was to understand the factors that affect customers' usage of banking services offered via agency models. These factors included flexibility of transactions, reputation of the business, trust in the business, etc.

Research findings:

- **Conduct:** Should be respectful and patient during explanations.
- **Trustworthiness:** Should be trustworthy with funds (this attribute could be based on his/her current credit in the market).
- **Service:** Should be able to provide the highest customer value in terms of continuous availability and to have the capacity to honour transactions.
- **Patience:** Should be able to listen patiently to customers and to act diligently thereafter.
- **Quick transactions:** Should be comfortable with technology and so provide quick service.
- **Maturity:** Should bring *gravitas* to the role.
- **Mental fitness:** Should not have any history of bouts of anger.
- **Honesty:** Should be transparent with dealings in the current business.
- **Persuasiveness:** Should be able to convince customers to try new products/ services.

During **focus-group discussions** with customers, the attributes of trustworthiness, honesty and conduct were mentioned the most times (see **figure V**). Thus, it is clear that these attributes carry the greatest weight with customers. Service and quick transactions were the next most important attributes, with respondents appreciating service points that provide fast service and save them time.

Figure V
Customers' preferences: Preferred attributes of financial service providers



Note: - nAppearance refers to the number of times the attribute was mentioned in focus-group discussions.
- Highest ranking = Most important to respondents

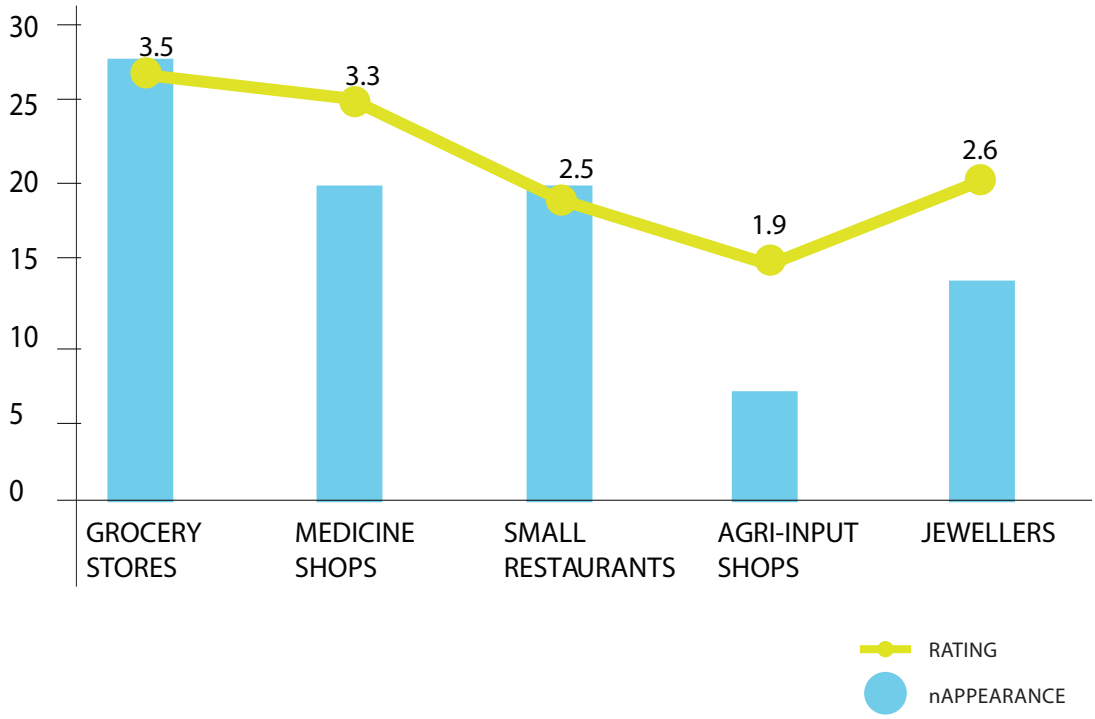
Service providers that customers interacted with, mostly on a daily basis, were assessed on the customers' preferred attributes. Under **relative preference ranking**, if certain service providers figured in the sessions a number of times, it indicated that they were the ones with whom customers were most likely to interact during business or personal transactions.

The service providers were rated from 1 to 5, with 1 being the least preferred and 5 being the most preferred. The average of their ratings gave each service provider a final score (see **figure VI**), which indicates how respondents perceive the service provider. Based on the figure, the following preference patterns were identified:

- Grocery stores are the most preferred choice for branchless banking agents.
- Medicine shops are the second choice.
- Small restaurants and jewellers are at the same level in terms of ratings. However, as small restaurants had a higher nAppearance result, they ranked above jewellers in terms of customer choice.
- Agri-input shops are the least preferred choice, perhaps because not all customers deal with them.

Figure VI

Customers' preferences: Attribute ranking of financial service providers



Note: - nAppearance refers to the number of times the service provider was mentioned in relative preference ranking sessions.
- Highest rating = Most important to respondents

The research team conducted **market walks** to ascertain the presence of identified service providers in markets close to the residences of prospective customers (see **figure VII** for more details on these service providers). The walks revealed the following:

- Grocery stores are the most prevalent businesses in markets, averaging 23 grocery stores per market.
- Small restaurants and medicine shops are present in all markets and follow grocery stores in their prevalence.
- Jewellers and agri-input shops are also present in most markets, averaging 3 each in those markets.

Figure VII
Presence of identified businesses in neighbourhood markets

When **figures VI** and **VII** are examined in tandem, it can be deduced that the businesses preferred by customers as potential branchless banking agents are also present in good numbers in neighbourhood markets.

Based on customers' preferences, the following **five value chains** were identified:

1. Grocery stores
2. Medicine shops
3. Small restaurants
4. Jewellers
5. Agri-input shops

****Expansion of the list of potential service providers****

Based on *MicroSave*'s experience in other similar markets and acting on suggestions made by service providers, the research team decided to expand the list so as not to exclude any business with agent potential. Thus, the following three businesses were also included:

- **Savings and credit co-operatives:** In Nepal, these are ubiquitous formal structures run by local people. They primarily target business owners.
- **Remittance agents:** Along with co-operatives, remittance agents are also present in almost all markets, as evident from the market walks. Since they are already serving customers by facilitating cash transfers, they are seen as very trustworthy and therefore fit to run a banking business.
- **Readymade garment shops:** Although these shops are not present in every market, most of the community has occasional interaction with them. Since readymade garment shop owners deal with customers for substantial amounts of time during their transactions, they were also included.

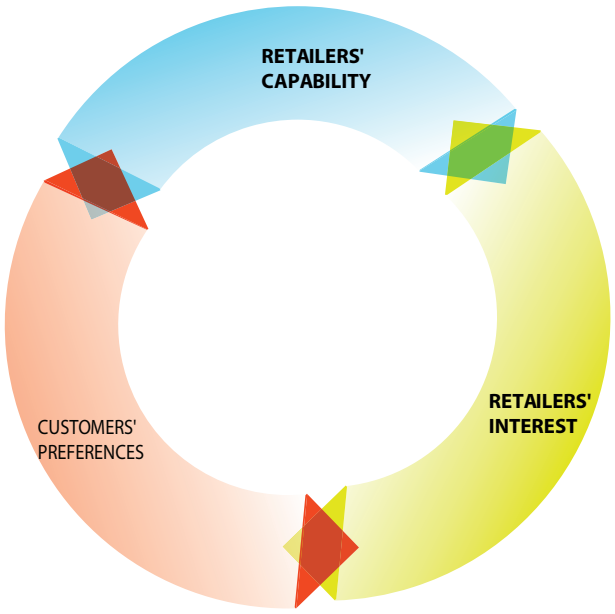
Outcome

Hence, based on the findings of stage I, the following **eight value chains** were further analysed to assess their feasibility as agent banking businesses:

1. Grocery stores
2. Medicine shops
3. Readymade garment shops
4. Jewellers
5. Small restaurants
6. Agri-input shops
7. Savings and credit co-operatives
8. Remittance agents

2.2.B Stage II: Analysis of value chains

Figure VIII
Retailers' capability and retailers' interest in branchless banking



In subsequent stages of the framework triad, the research team tried to understand the banks' requirements from an agency model perspective as well as retailers' interest in contributing to branchless banking.

Objective: To assess which types of value chains satisfy the critical parameters of branchless banking (see **figure VIII**).

Research tools: Feasibility framework and individual interviews

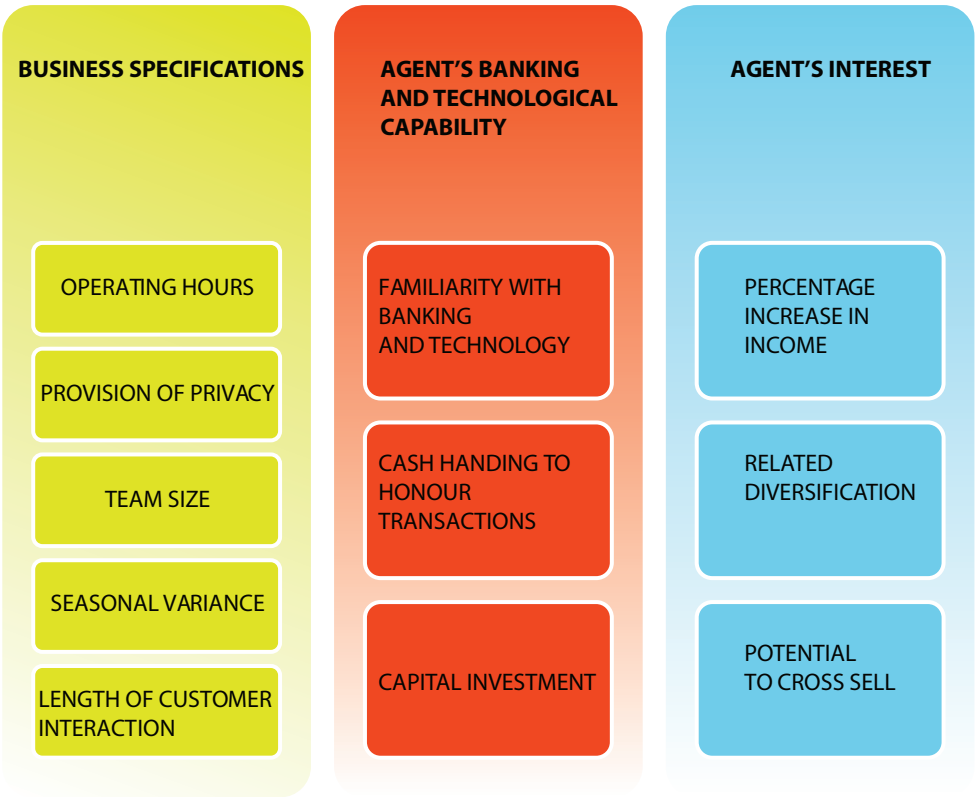
Based on the research framework originally introduced in **figure II**, the team assessed the following:

- **Retailers' capability:** Are potential agents able to fulfil the role desired in branchless banking? The question of capability could be answered by assessing (1) banking and technological capabilities and (2) business specifications.
- **Retailers' interest:** Is branchless banking financially lucrative for prospective retailers? This question could be answered by addressing (1) the value that branchless banking adds to retailers' income and (2) whether that value is commensurate with the effort put in by the retailer.

Research findings: In order to understand banks' prerequisites and potential agents' capability to contribute to an agent banking business, an **agent feasibility framework** was constructed.

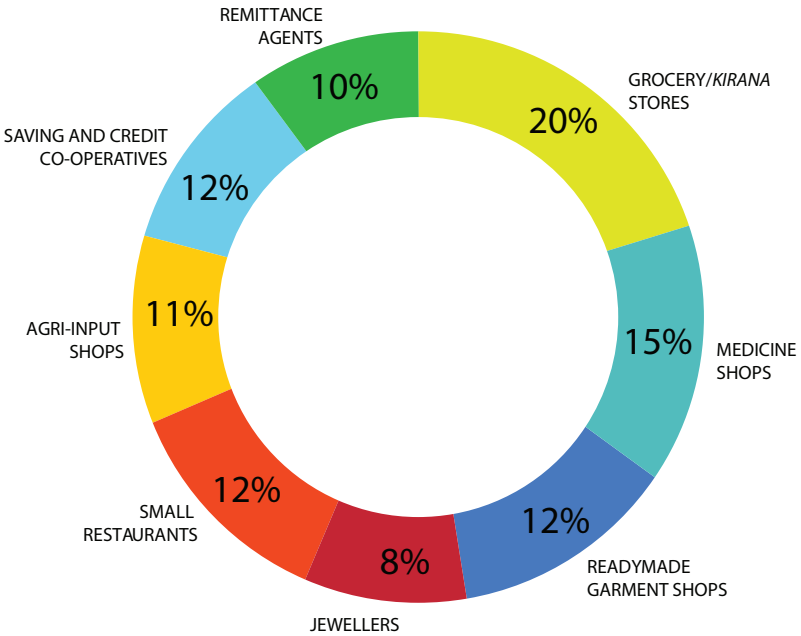
This framework, based on *MicroSave*'s research, categorises the factors critical to any value chain's feasibility for branchless banking (see **figure IX** for the guiding principles for the design of the feasibility framework, and see **annex C** for greater detail on the elements of the framework).

Figure IX
Guiding principles of agent feasibility framework



Based on the feasibility framework, **individual interviews** were conducted with **114 business owners** across **eight value chains** and **profiles** were created for further research (see **figure X** for the current businesses of those included in the interview sample).

Figure X
Current businesses of those interviewed for value chain analysis



Based on the guiding principles of the feasibility framework shown in **figure IX**, all eight value chains were explored and profiled (see **table 3** for the averaged results of each value chain).

Table 3
Feasibility framework data for value chains

		Grocery	Medicine	Garment	Agri-input	Jeweller	Restaurant	Co-op	Remittance
Business specifications	Customer footfall per month	1,000	400	400	300	200	500	500	300
	Shop space (ft)	120	120	120	120	120	400	1,000	200
	Number of operating hours	12	12	10	10	10	14	10	10
	Length of customer interaction in current business (minutes)	2	10	20	20	30	5	5	10
	Team size	2	1	1	2	1	3	6	3
	Within day variance in time availability (% from peak)	0%	0%	0%	0%	0%	50%	0%	0%
	Within month variance in time availability (% from peak)	0%	0%	0%	0%	0%	0%	0%	50%
	Seasonality of business (% deviation from peak)	0%	20%	50%	90%	50%	0%	0%	25%
Agents' capability	Number of banking interactions per month	0	1–2	1–2	2–4	6–8	0	>10	>20
	Usage of computer/ internet for business	No	No	No	No	No	No	Yes	Yes
	Daily cash handling (Nr)	4,000	4,000	10,000	30,000	50,000	10,000	50,000	100,000
	Investment in business (Nr) (working capital + fixed assets)	150,000	1,100,000	1,100,000	2,200,000	2,200,000	70,000	2,500,000	500,000
Agents' interest	Profit from current business (Nr)	10,000	20,000	12,000	20,000	30,000	5,000	30,000	25,000
	Return on time invested in current business (Nr per hour)	33	67	48	80	120	14	120	100
	Expected income from agency business (Nr)	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
	Relative incentive	30%	15%	25%	15%	10%	60%	10%	12%
	Potential to cross sell	High	High	High	Medium	Negative	Low	Low	High
	Related diversification	Medium	Medium	Low	Low	Medium	Low	High	High

Additional note:

The research team considered availability the paramount requirement for potential branchless banking agents, which means that a potential banking agent should be in a position to attend to customers and honour transactions during all business hours. To better assess availability, several factors were included in the framework to address it:

- **Within day variance in time availability (low as percentage of peak):** This factor assesses availability of agent throughout the day. The ideal should be 0 percent variance, in order to provide for a greater number of transactions.
- **Within month variance in time availability (low as percentage of peak):** This factor assesses availability of agent throughout the month. The ideal should be 0 percent variance, in order to provide for a greater number of transactions.
- **Seasonality of business (low as percentage of peak):** This factor assesses the variation in availability of agent through seasonal cycles in business. The ideal should be 0 percent deviation, in order to provide for a greater number of transactions.

The absence of or poor performance in these factors by a business could render it unsuitable for branchless banking.

Additionally, in order to focus only on relevant value chains, the team decided that any value chain that scored 50 percent or less on any of the above factors and that had a small team (1–2 members) would be eliminated from further study.

Finally, the team also considered the following factor as critical for potential branchless banking agents:

- **Potential to cross sell:** This factor is important in terms of retailers' interest. The higher it is, the better the proposition for a potential agent. Since a branchless banking agency may not provide the lion's share of income for an agent, it is better not to consider a business for further research if it has low potential to cross sell.

2.2.C Stage III: Identification of suitable value chains

Objective: To assess which value chains could be the most suitable for branchless banking.

Research tools: Product attribute ranking

Research findings: At this stage, the research team conducted interviews with business owners according to the feasibility framework parameters detailed in **table 3**. Based on responses from these interviews, the research team completed a product attribute ranking exercise for all the value chains. The team assigned a relative rank to each value chain for each factor/attribute, in terms of preference for that value chain over the others (see **table 4** for the ranks and overall scores of each value chain, with the highest score representing the best/the most preferred).

Table 4
Ranks of value chains

Factor types	Factors/ Attributes	Grocery	Medicine	Garment	Agri- input	Jeweller	Restaurant	Co-op	Remittance
Business specifications	Operating hours	7	7	5	5	5	8	5	5
	Privacy (shop space)	5	5	5	5	5	7	8	6
	Length of customer interaction in current business	2	5	7	7	8	3	3	5
	Team size	5	3	3	5	3	7	8	7
	Within day variance in time availability	8	8	8	8	8	1	8	8
	Within month variance in time availability	8	8	8	8	8	8	8	1
	Seasonality of business	8	4	3	1	3	8	8	5
Agents' capability	Familiarity with banking (banking interactions per month)	2	4	4	5	6	2	7	8
	Technological capability (usage of computer/internet for business)	6	6	6	6	6	6	8	7
	Daily cash handling	2	2	4	5	5	4	7	8
	Investment in business	2	5	5	8	8	1	8	3
Agents' interest	Relative incentive	7	5	6	5	2	8	2	3
	Potential to cross sell	8	8	8	6	1	4	4	8
	Related diversification	6	6	4	4	6	4	8	8
	Total score	**76**	**76**	**76**	**78**	**74**	**71**	**92**	**82**

Value chains were ranked with the most preferred value chain assigned the highest rank (i.e., 8) and the others assigned in descending order. For example, the restaurant value chain was given the highest rank of 8 for 'operating hours' since this value chain is open for longer hours than any other. The other value chains were then ranked in descending order for the same factor. It is intended that the highest rank represent the best fit for that particular factor.

Note: *In cases where two or more value chains had the same specific value for a particular factor, they were assigned the same rank but then the next corresponding rank(s) was(were) skipped. For example, medicine shops and readymade garment shops were given the same ranking of'5' for 'investment in business' because they had the same specific value; 'remittance agents' were ranked next as '3' and not '4' since rank '4' was skipped.*

Outcome

The value chains were scored as summarized in **table 5**:

Table 5
Total scores of value chains

S. No	Value chain	Total score
1.	Savings and credit co-operatives	92
2.	Remittance agents	82
3.	Agri-input shops	78
4.	Grocery stores	76
5.	Medicine shops	76
6.	Readymade garment shops	76
7.	Jewellers	74
8.	Small restaurants	71

Small restaurants were ruled out because of very high variance in 'within day variance in time availability' and having smaller team sizes to deal with this challenge. Jewellers were ruled out because of potential of cannibalisation with their existing business, as they extend small loans at higher interest rates that may conflict with banks' credit.

However, **six value chains** were identified for further investigation with the objective of finding a fit between those and the branchless banking model:

a. **Grocery stores**
b. **Medicine shops**
c. **Readymade garment shops**
d. **Grocery stores**
e. **Agri-input shops**
f. **Savings and credit co-operatives**
g. **Remittance agents**

2.2.D Stage IV: Design of value propositions

Objective: To create value propositions for each value chain found to be suitable for branchless banking.

Research tools: Stakeholder consultation

Research findings: The value chains identified in previous stages were studied in detail to map structures and functions. In order to assess how stakeholders in existing value chains could contribute to agent banking, the current hierarchy of stakeholders in each value chain was analyzed with respect to their functions, pain points and motivations for branchless banking.

This stage of the research was done through **stakeholder consultations** (i.e., discussions with wholesalers and distributors in each value chain) on the following issues:

- Current role in value chain
- Margins in current business
- Degree of interaction with other stakeholders, such as retailers and distributors
- Challenges/Pain points in current business
- Interest in new business and motivation for engaging in it

In this section, figures and tables are used to present each value chain along with the functions of the stakeholders and how the value chain could be leveraged for branchless banking. Furthermore, a proposition or incentive for each value chain is suggested for consideration by stakeholders. In fact, the research team developed a value proposition for each stakeholder whose role is critical for branchless banking. The value propositions addressed the following issues:

- Mitigation of anticipated challenges in branchless banking, based on the pain points of the current business
- Suggested incentives for prospective agents in the branchless banking business

2.2.D.a Grocery store value chain

Figure XI
Grocery store value chain

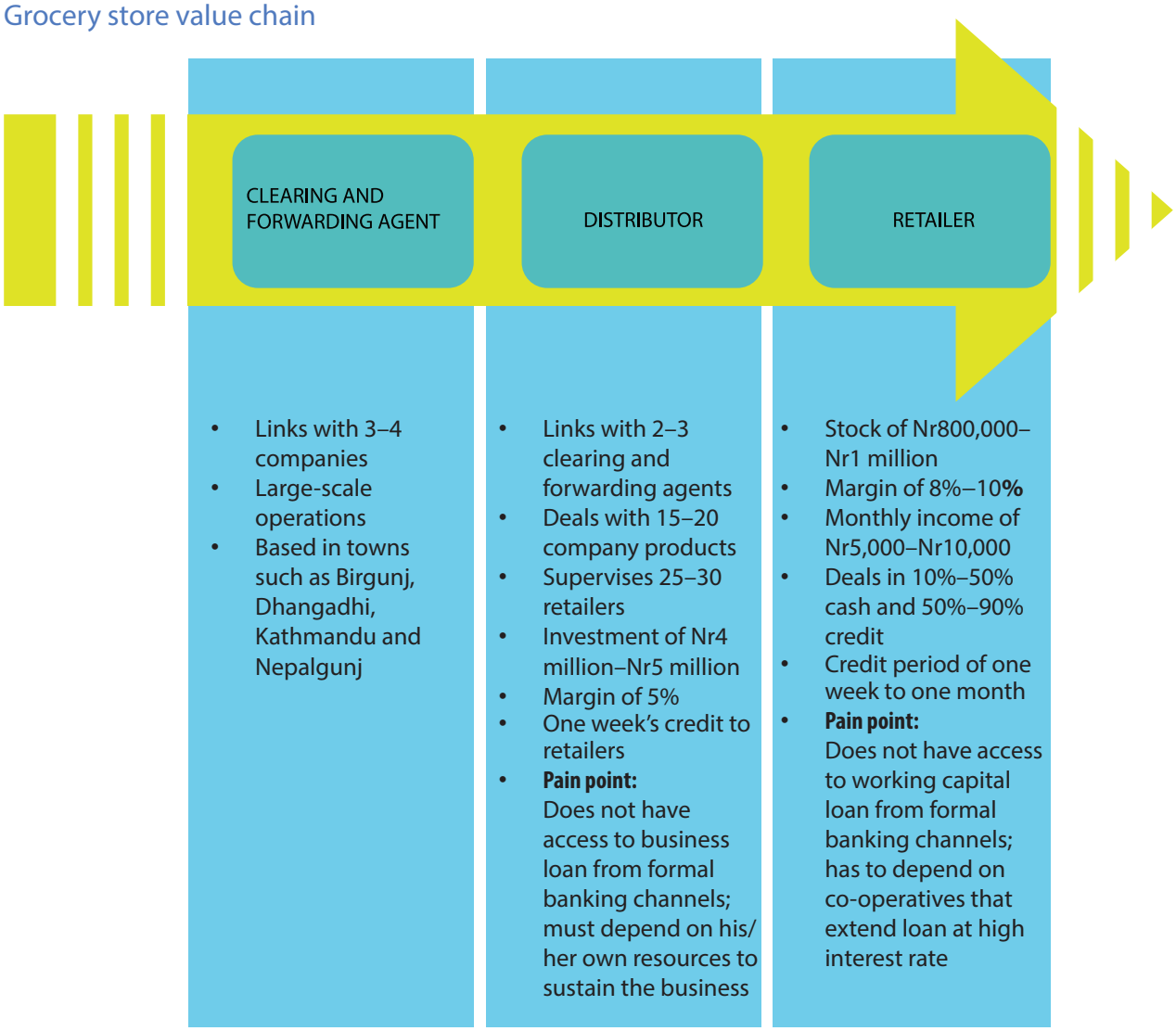


Table 6
Map of branchless banking functions in grocery store value chain

Activities	Possible Yes (√) / No (X)	Rationale
		Agent ~ Retailer functions
Account opening	X	In their current businesses, retailers spend less time with customers so it might be difficult for them to engage with customers to open accounts.
Cash-in/ Cash-out	√	These are akin to the usual transactions retailers facilitate. Hence, they should be easy enough to handle.
Loan initiation	√	As customers from all sections of society come to grocery stores and interact with them, there is great potential for recommending loans to customers.
Loan recovery	√	Retailers already give stock on credit to customers and recover payments at later dates, so this function seems to be easier to implement in such a context.
Third-party products	√	Given the predisposition to push new products in their existing businesses, it seems easy for retailers to introduce third-party products from banking and financial institutions.
		Master-agent~ Distributor functions
Liquidity support	√	Banks could provide credit lines to distributors who in turn offer the same to retailers.
Monitoring	√	As distributors already deliver stock to retailers on a fortnightly or monthly basis, they could monitor records during personal visits.
Technology	X	There is no technological background to support this function. The agents have to be trained in the technological aspect.

Value propositions for agents/ retailers

- Additional income: Increase in income by 50%–60%
- Credit cash: Credit cash limit at preferred interest rates and with interest-free periods
- Ease of repayments: Make repayments from their shops
- Elimination of cash-holding risk: Eliminate risk as cash is routed to customers doing cash-out transactions
- Cross selling: Stand to gain the most through cross selling due to incidental buying

Value propositions for master-agents/distributors

- Additional revenue for managing retailers
- Elimination of cash-holding risk: Cash routed through the agents
- Credit line: Credit at preferred rates and with interest-free periods, to replenish stock
- Business planning: Account-based transactions leading to increased control over planning

2.2.D.b Medicine shop value chain

Figure XII
Medicine shop value chain

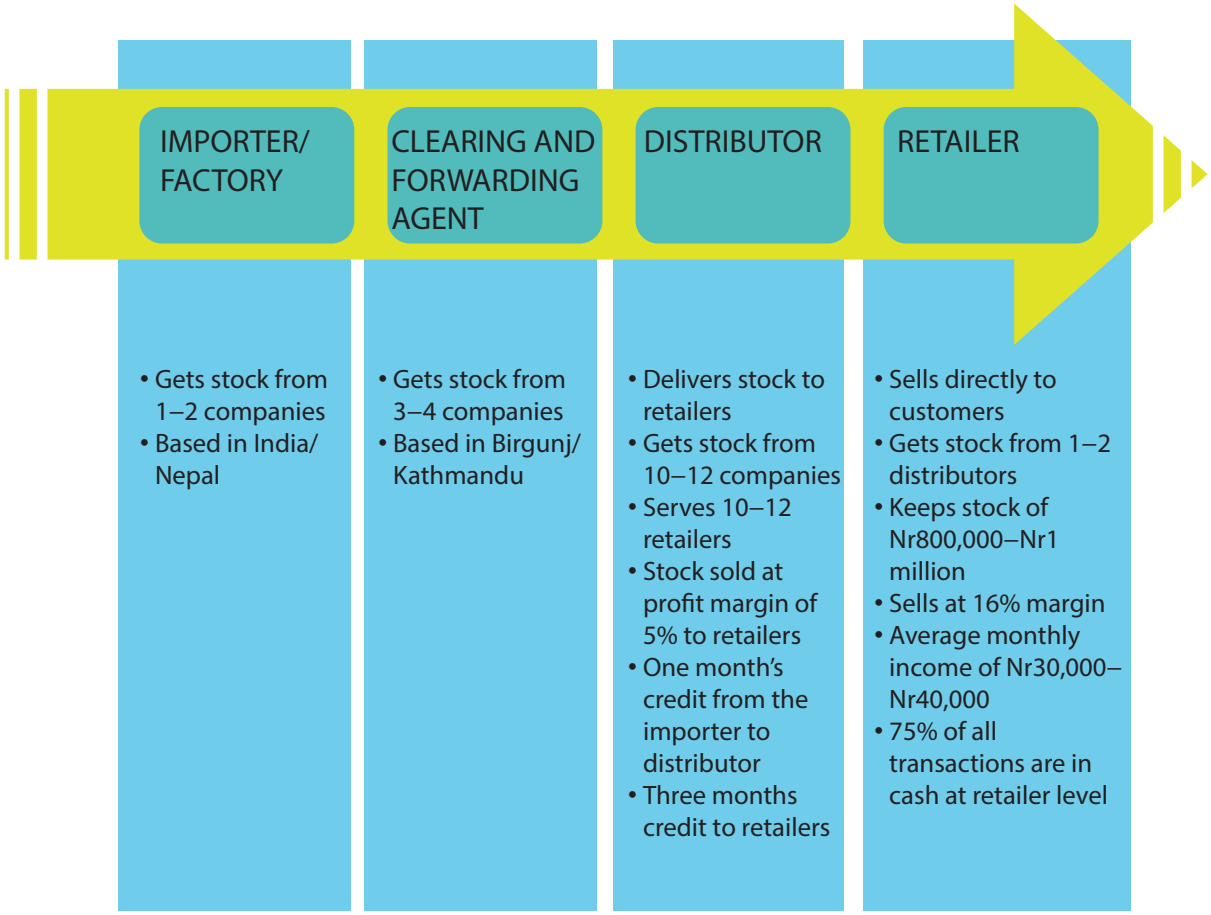


Table 7
Map of branchless banking functions in medicine shop value chain

Activities	Possible Yes (√) / No (X)	Rationale
		Agent ~ Retailer functions
Account opening	√	Retailers spend a lot of time with customers, which will enable them to persuade customers to open accounts.
Cash-in/ Cash-out	√	These are akin to the usual transactions retailers facilitate. Hence, they should be easy enough to handle.
Loan initiation	X	This function would be difficult to achieve for retailers, as most purchases are made with cash and there is no customer loyalty that could be used as proxy to credit history.
Bank loan recovery	X	Given the nature of their businesses, retailers cannot carry out recovery procedures as they are time consuming and require rigorous follow-up with customers.
Third-party products	X	Given that they usually do not push new products in the medicine business, it seems difficult for retailers to introduce third-party products from banks and financial institutions.
		Master-agent ~ Distributor functions
Liquidity support	√	Distributors have access to considerable capital, so they could leverage it for banking as well.
Monitoring	√	As distributors deliver stock to retailers fortnightly or monthly, effective monitoring seems easy.
Technology	√	Most of the distributors are well versed in basic technology; therefore, their capability could be enhanced to meet new requirements.

Value propositions for agents/ retailers

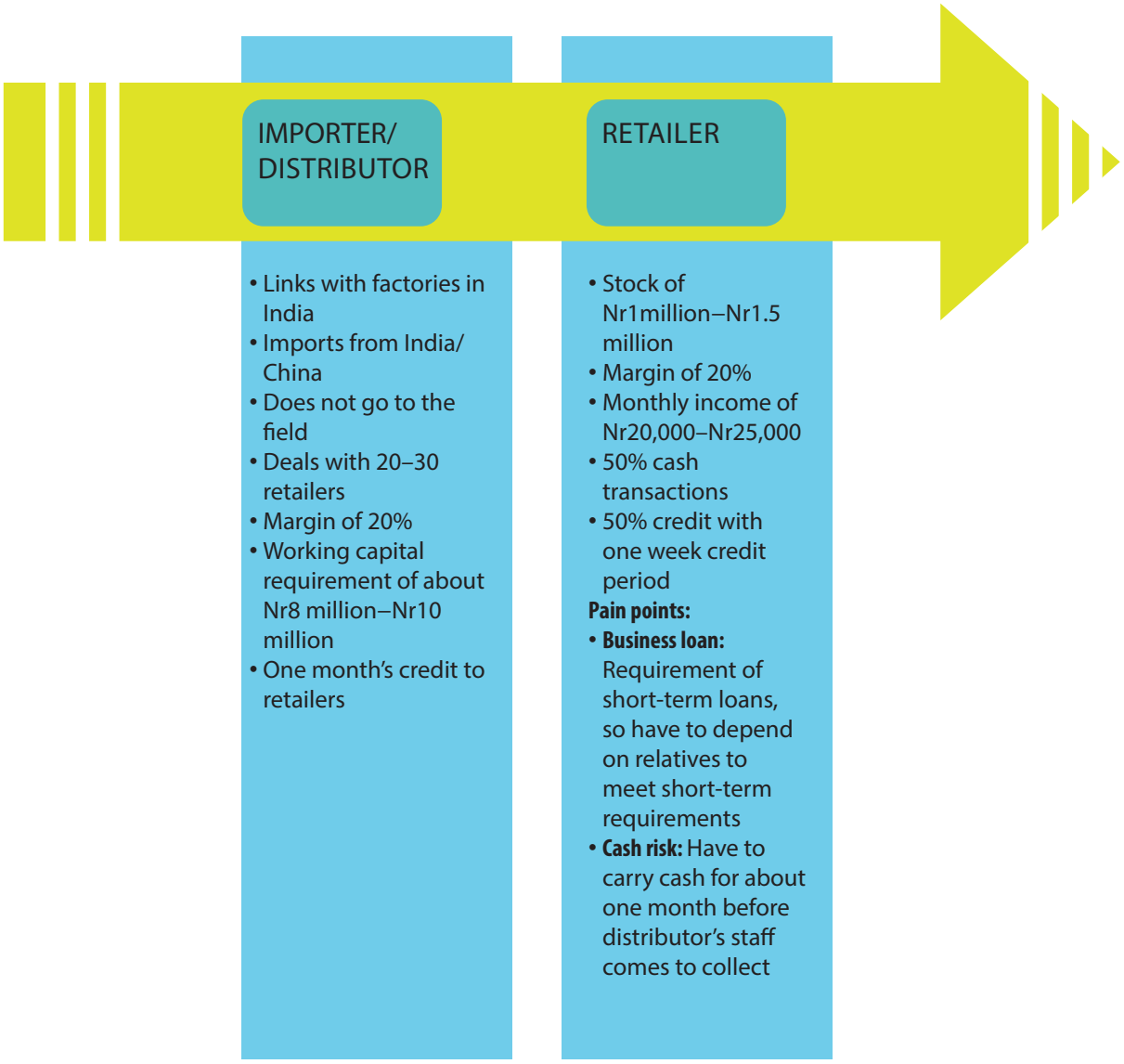
- Business loans with longer duration, and option to make payment instalments from their shops before due dates
- Elimination of cash-holding risk through cash-out
- Business enhancement: Account-based transactions lead to better control over business planning

Value propositions for master-agents/distributors

- Additional revenue for managing retailers
- Elimination of cash risk through liquidity support to shops at time of due collection
- Credit lines on the basis of stock, at preferred rates and with interest-free periods

2.2.D.c Readymade garment shop value chain

Figure XIII
Readymade garment shop value chain



Note: It is a very short value chain, in which sometimes the retailer himself/herself imports from China and sells directly to customers. In such cases, there cannot be a super-agent for monitoring agents.

Table 8

Map of branchless banking functions in readymade garment shop value chain

Activities	Possible Yes (√) / No (X)	Rationale
		Agent ~ Retailer functions
Account opening	√	In their current businesses, retailers spend a lot of time with customers, which will enable them to persuade customers to open accounts.
Cash-in/ Cash-out	√	These are akin to the usual transactions retailers facilitate. Hence, they should be easy enough to handle.
Loan initiation	X	This function would be difficult to achieve for retailers, as most purchases are made with cash and there is no customer loyalty that could be used as proxy to credit history.
Loan recovery	X	Given the nature of their businesses, retailers cannot carry out recovery procedures.
Third-party products	√	Given the predisposition to push new products in their existing businesses, it seems easy for retailers to introduce third-party products from banks and financial institutions.
		Master-agent ~ Distributor functions
Liquidity support	X	Banks provide credit lines to distributors; however, distributors do not have direct control over retailers. Therefore, liquidity would be difficult to maintain.
Monitoring	X	As there are no physical touch points for retailers' locations, it would be difficult to monitor processes and records.
Technology	X	There is no technological background to support this function.

Value propositions

- Additional profit: Profit from agency business could increase their overall profit by a substantial percentage.
- Better utilisation of time: Current business has lean periods through the day, month and season. Being able to alternate with the agency business will improve utilisation of time.
- Short-term loans: Banks can offer short-term bridge loans to ensure smooth functioning of current business.

2.2.D.d Agri-input shop value chain

Figure XIV
Agri-input shop value chain

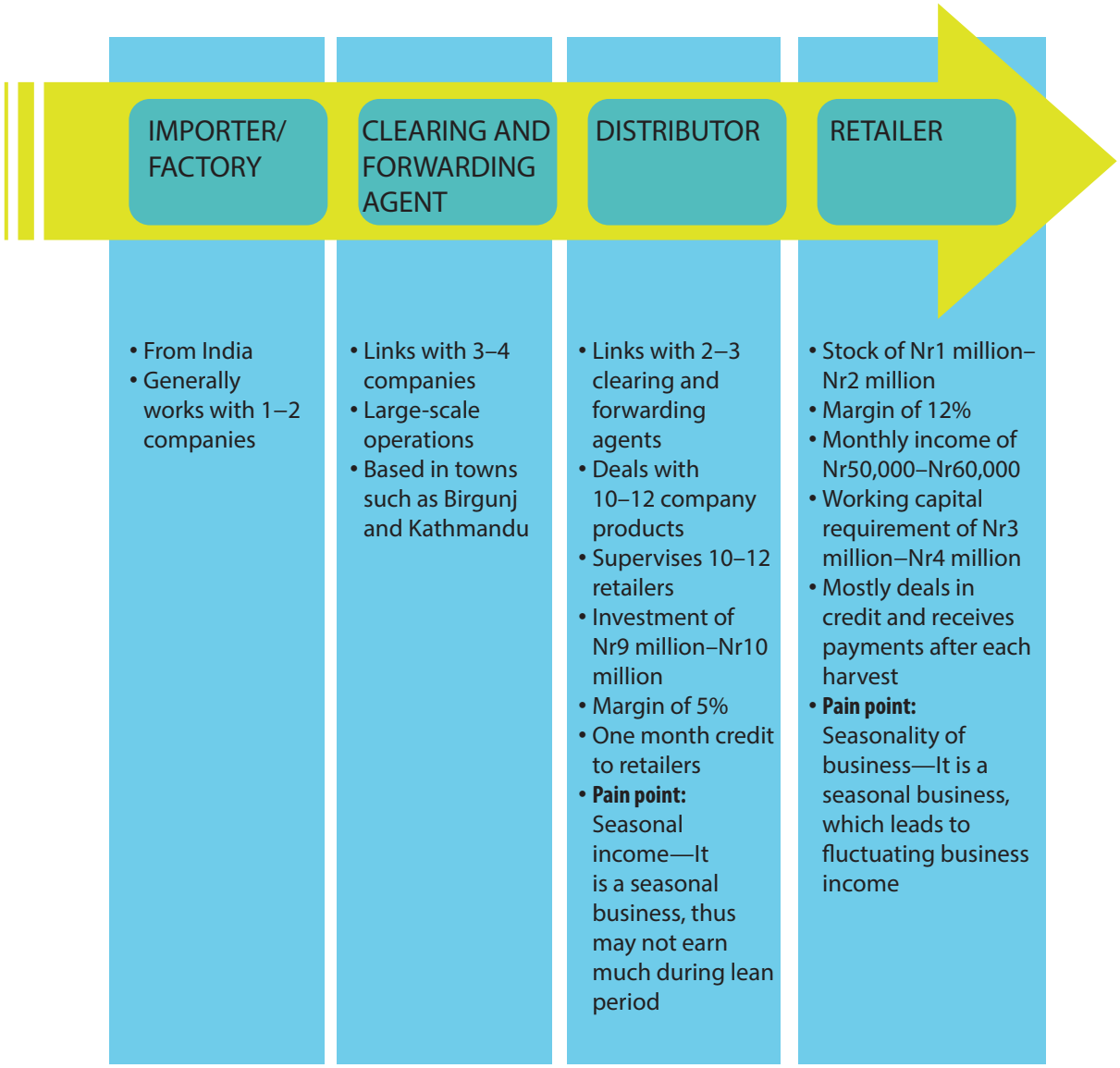


Table 9

Map of branchless banking functions in agri-input shop value chain

Activities	Possible Yes (√) / No (X)	Rationale
		Agent ~ Retailer functions
Account opening	√	In their current businesses, retailers spend a lot of time with customers, which will enable them to persuade customers to open accounts.
Cash-in/ Cash-out	√	These are akin to the usual transactions retailers facilitate. Hence, they should be easy enough to handle.
Loan initiation	√	These are very lucrative for retailers, as most of the purchases are made with credit and there is high customer loyalty that could be used as proxy to credit history.
Loan recovery	√	Given the nature of their businesses, retailers can carry out recovery procedures as they currently deal with client dues.
Third-party products	√	Since retailers push new products and persuade customers to buy new products, they will be capable of carrying out this function.
		Master-agent ~ Distributor functions
Liquidity support	√	Retailers have already taken loans from banks, so their credit history could be leveraged.
Monitoring	√	As distributors deliver stock to retail shops fortnightly or monthly, they could monitor records during personal visits.
Technology	X	There is no technological background to support this function.

Value propositions for agents/ retailers

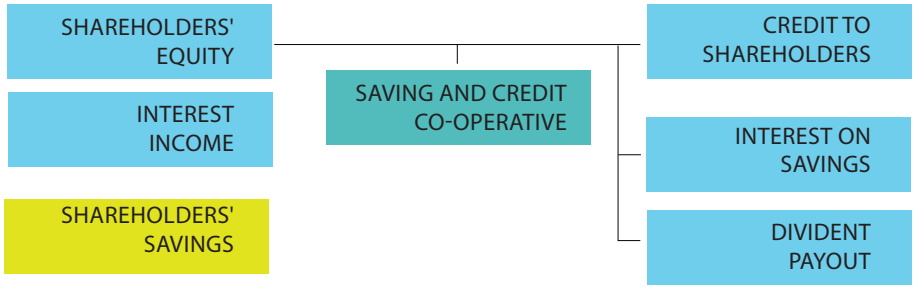
- Additional income, though may not be significant compared to current profits
- Smoothing of business income pattern, even earning during lean seasons
- Cross selling opportunities, when someone comes to make transaction at agent point
- Elimination of cash-holding risk through cash-out

Value propositions for master-agents/distributors

- Additional revenue of Nr40,000–Nr50,000 for managing retailers
- Smoothing of income pattern, as cash is better routed through agents for cash-out transactions and thus eliminates risk to distributor

2.2.D.e Savings and credit co-operatives

Figure XV
Savings and credit co-operative functions



Value propositions

- Members have to buy shares in order to avail of loans.
- Interest income: Members receive 8%–10% per annum on their savings. Co-operative receives interest income on loans extended.
- Enhancement of product bouquet: Addition of funds transfer will bring in additional income.
- Expansion beyond members: Co-operatives can also cater to non-members for the purpose of providing savings and credit products.
- Potential to raise funds with bank: Co-operatives can raise funds for their credit portfolio as well.

Currently co-operatives can do business with their members only, and they fall short of funds to meet credit requirements. Very few of them are computerised and they maintain their accounts manually.

Based on *MicroSave's* research, it is evident that co-operatives are preferred agents for branchless banking; however, such associations would be subject to the discretion of co-operative members and shareholders. Association with commercial banking may lead to a strategic shift for co-operatives. However, *MicroSave* believes that potential gains can outweigh the efforts required to make the shift.

2.2.D.f Remittance agents

Figure XVI
Remittance agent functions

- Brings his/her own float to run the business
- Has links with remittance companies
- Is involved in domestic as well as international remittances
- Deals with banks and technology

Pain points:

- Has to maintain huge float to meet cash-out requirements
- Income is not evenly distributed throughout the month and has peaks/ebbs

Based on *MicroSave's* research, it is evident that remittance agents are a preferred channel for agent banking, as they deal with formal financial institutions and technology.

Value propositions

- Smoothening of income: Branchless banking will help in reducing fluctuations in business income.
- Additional income: Branchless banking will add to current profit.
- Expansion of product bouquet: Agent can offer savings/credit products along with account-to-account fund transfers.
- Better management of cash: It may also reduce cash-out requirements, leading to lowering of float requirements.

3 The way forward for financial services in Nepal

- **Selection of suitable value chains**
  The research findings present a clear case for the development of appropriate agent networks for the delivery of financial services in Nepal. The findings indicate the preferences of customers for various types of businesses as agents or financial service providers in their neighbourhoods (please refer to **figure V**). It is evident from the research that each value chain would add its own unique qualities to increasing the perceived value of branchless banking. Therefore, agents need to be chosen carefully and appropriately. Factors such as the following must be considered: geography (i.e., lowlands, hills or mountains), location (i.e., rural or semi-urban), target client base, bank's capability in terms of outreach (in the case of direct linkage), technological requirements, etc. Careful selection would help the agents as well as the customers to access financial services with ease in neighbourhood markets, so they would no longer need to travel miles to banks or other financial institutions. The **feasibility framework** (please refer to **figure IX**) could also be used to select suitable value chains for branchless banking in any country.

- **Customised value propositions**
  Branchless banking has great potential to ensure financial services can be accessed in all parts of the country. It is imperative then that agent networks become permanent structures, which can only happen if agents are offered business propositions that are appropriate for them. This means designing a commission and benefits structure for each value chain, which addresses the pain points and limitations of the business involved. Based on *MicroSave*'s research and experience, it is clear that agent networks in various countries struggle. Their struggle is attributed to factors such as attrition due to low profit margins and lack of motivation. Therefore, the exercise of designing suitable value propositions for agents in Nepal could help with setting up and sustaining agents on the ground over the long term. This report has analysed the **business case for each of the six value chains** that were studied in detail (please refer to **figures X to XV**). This information can now be used by stakeholders when designing compensation or incentive structures for appointing agents. All indications are that these propositions could also be used for many other value chains, which means they could be used as tools for building a sustainable framework for branchless banking in other countries.

4 Annexes

4.1 **Annex A:** Geography and demography of Nepal

Nepal's ecological zones run from east to west for about 800 kilometres along its Himalayan axis and from north to south for 150 to 250 kilometres, and are intersected by its river systems.

Administratively, Nepal is divided into five development regions: Far-Western, Mid-Western, Western, Central and Eastern. The five development regions are further divided into 14 zones, 75 districts and 3,915 village development committees. The country is divided into three main areas: *Terai*, Hill and Mountain.

The **Terai area** covers the southern lowlands of Nepal, which lie at the foothills of the Himalayas. *Terai* is often translated in Nepali, Urdu and Hindi as swampland at the foothills of mountains. Twenty districts fall within the *Terai*. According to the '2011 Nepal Census,' it is the most populous area, with just over half the population (50.27 percent) living there.

The **Hill (**or ***Pahar*****) area** lies between the Mountain and the *Terai* areas. This area is at altitudes of 700 to 4,000 metres above sea level. Like the rest of Nepal, the primary livelihood in this area is agriculture. However, the higher altitude, the short growing season, and the land quality imply that households must supplement agricultural income with other income-generating activities such as livestock rearing and seasonal migration. Forty-four of Nepal's 75 districts are in the Hill area, and 43 percent of the population lives there.

The **Mountain (**or ***Parbat*****) area** lies 4,000 metres above sea level. Due to the high altitude and poor weather conditions, this area is sparsely populated. Eleven districts are in the Mountain area, and about 6.73 percent of the population inhabits it.

Some other facts about the population as per the '2011 Nepal Census' are highlighted below and summarized in **table A.1**:[a]

- The population of Nepal as of the census day (22 June 2011) was 26.49 million, with a growth rate of 1.35 percent per annum.
- The total number of households in the country was 5,427,302, with average household size at the national level decreasing from 5.44 in 2001 to 4.88 in 2011.
- The population density (average number of people per square kilometre) at the national level was 180 in 2011, compared to 157 in 2001. The highest population density was in Kathmandu District (4,416 persons per square kilometre) and the lowest was in Manang District (3 persons per square kilometre).
- The urban population (comprising 58 municipalities) increased from 13.94 percent in 2001 to 17 percent in 2011. Of this, 31 percent was located in the Kathmandu Valley in the Central region.
- The overall literacy rate (for those aged 5 years and above) increased from 54.1 percent in 2001 to 65.9 percent in 2011. The male literacy rate was 75.1 percent compared to the female literacy rate of 57.4 percent.

Table A.1
Population distribution in Nepal

Area/Region	Percentage of population
Areas	
Terai	50.27%
Hill	43.00%
Mountain	6.73%
Development regions	
Far-Western	9.63%
Mid-Western	13.39%
Western	18.59%
Central	36.45%
Eastern	21.94%

a Government of Nepal—Central Bureau of Statistics, 'Major Highlights of Census 2011,' 2012.

4.2 Annex B: Coverage and limitations of the research

4.2.A Coverage

The research was carried out in urban, semi-urban and rural locations in 21 out of the 75 districts of Nepal to create a diverse and representative sample (see **table B.1** for greater detail on the coverage of the research). The sample was selected to ensure that all five developmental regions across the *Terai*, Hill and Mountain areas of Nepal were adequately represented. The research team conducted the research in two phases.

- Phase 1 to research customers' preferences for prospective agents.
- Phase 2 to gain insights into the identified value chains with the objective of assessing the ones that were suitable for branchless banking and filtering out those that were not.

Table B.1
Research coverage

Category	Coverage
Districts	21
Customers	346
Focus-group discussions	43
Markets profiles	43
Businesses	114

4.2.B Limitations

The study was conducted using qualitative research methodology and tools to ensure in-depth understanding of respondents' behaviour and perceptions. Qualitative tools are not designed to be statistically significant, and as a result, the research does not presume to convey high levels of statistical accuracy. In addition, to cover a substantial sample size and to enable respondent interaction, the team had to rely on local financial institutions during the course of the research. As a result, the respondent sample does not assume high levels of homogeneity within the individual groups.

Responses to research questions were dealt with in two different ways: individual and consensus. Individual responses were necessary when questions pertained to age, occupation, education, mobile-phone literacy and other specific aspects of respondents' profiles. In group discussions, however, the final consensus of the group regarding various key questions was what mattered.

4.3 Annex C: Feasibility framework factors

Table C.1
Explanation of agent feasibility framework

Business specifications	Factors that may affect customer service at the agent point
Operating hours	For branchless banking, it is important to have long operating hours so as to ensure high levels of customer service.
Privacy	It is important that the place used to conduct transactions gives customers privacy during their transactions. Therefore, a separate enclosure or space for transactions is always preferable.
Team size	It is ideal for the purpose of financial transactions to have a bigger team size (2–3 people) since one person can be in charge of the existing business and the other people can handle the banking services so that services are not disrupted even if the owner leaves. This factor, however, is based on geographical location and the client base at that location.
Variance in business levels within day, month and season	Customers interested in financial transactions prefer a business that is likely to be able to handle their transactions at all times. Variance in business that directly affects the time available to serve customers, such as restaurants that have high daily variance or agri-input shops that have seasonal variance, means that there are chances that customers might not be able to conduct their transactions.
Length of customer interaction	To service customers for financial services/transactions, it is imperative that the prospective agent be willing to dedicate sufficient time to the customer who has come in to make a transaction. For example, the amount of time taken for interactions in medicine shops is higher than the amount of time taken for interactions at exclusive telecommunication recharge shops. Owners of the latter tend to get rather impatient if they have to spend too long interacting with clients.
Agents' banking and technological capability	**Factors that are related to an individual's capability for agent banking**
Capital investment	It is critical to consider capital investment so that the capacity to invest in a new business can be assessed.
Familiarity with banking and technology	If the prospective agent is familiar with banking operations and technology, it is easier to get them on board.
Cash handling	It is important that there be enough cash handled by the business on a daily basis in order to honour maximum transactions.
Agents' interest	**Factors that assess the motivation and interest of a prospective agent for the new business**
Percentage increase in income	It is clear that an increase in income over current income will result in more interest in the new business.
Related diversification	It is important to consider the degree of diversification from the current business. The lower the degree, the easier it will be to enter the agent banking business. For example, a restaurant might be completely unrelated to branchless banking whereas a remittance agent is highly related.
Potential to cross sell	It is vital to consider the potential to cross sell existing business services/products since it is a significant incentive. For example, a grocery storeowner might find that someone who comes in to make a financial transaction ends up buying a cold drink, which adds to his/her income. On the other hand, it is highly unlikely that someone who goes to an agri-input shop to make a financial transaction will also end up buying agri-input products.

4.4 Annex D: Research tool guides

4.4.A Research guide for retail shops

Welcome

- Greetings from the team.
- We are from an organization called *MicroSave,* which is a research organization based in India.
- Currently, we are conducting a study in Nepal to understand how the unbanked population can be given access to financial services through agents of banks and who would be the most suitable type of business person to become such an agent.
- Therefore, for this study, we would like to discuss a few things with you that may require a few minutes of your time.

General questions (about 5 minutes)

- What is your name and occupation?
- Contact:
- Age:
- Qualifications:
- Number of family members:
- Family income:
- Involvement of other family members in business:

(Fill in the following information through observation)

- Location of shop:
  - Marketplace Residential
  - Prominently visible Interior
- Number of years in business:
- Ownership of shop: Owned Rented
- Is the business registered?

  Area of shop: _____Ft X Ft

  Provision for privacy of transactions by customers:

  (Hint: Observe the place where people can deposit or withdraw cash.)

Brief description of the marketplace

Business-related questions (about 10 minutes)	Related probes
1. How is the current business doing?	1. How much time do you spend in the shop every day? 2. How many people assist you in your shop? 3. How many customers visit your shop on daily basis? 4. How many of the total customers are regular customers to your shop? 5. How often do you add new products to your range of products in the shop? 6. How do you communicate with customers about new products in your shop? 7. Do you face any seasonality or cycles in your business in terms of high and low business days? Is customer footfall or stock re-order affected by such days?

2. Understanding the value chain/supply chain of the current business	8. Where do you purchase your stock from? Distributors, wholesalers? 9. How far is the source of purchase (distance in kilometres)—another city/town or the same city or town? 10. Do you receive any support from distributors or wholesalers?
3. What is the quality of customer service like at the shop?	11. How much is the waiting time for each customer before he/she is attended to by the shopkeeper? 12. How much time does a shopkeeper spend attending to each customer (including interactions, answering queries)? 13. Do any customers leave due to long waiting times? 14. Do customers complain about anything? How do you deal with complaints made by customers, if any? 15. Do you deal with customers yourself or do your support employees deal with them more? (Observation based)
4. Pain points of current business	16. What types of issues do you face in your day-to-day business? 17. Do you face shortfalls of cash for meeting requirements? 18. Do you face problems while dealing with distributors, wholesalers etc.?
5. Financial strength of current business	19. Are you able to cover your expenses with your income? 20. Ideas about o General expenses (rent, salary of staff, utilities, leakages): o Re-order value of stock: o Frequency of re-ordering: o Which items are re-ordered the maximum number of times? 21. Transportation costs: frequency of bringing in stock, the value of stock transported in a single trip 22. Payment terms for purchase of stock: credit or cash 23. Mode of payments: cash, promissory note or cheque
Agent-capability related questions (about 10 minutes)	**Related probes**
Familiarity with banking	24. How often do you visit banks? When did you last visit a bank? 25. Which products/services do you use in banks? 26. Are you comfortable using ATMs? 27. What problems do you face in banking?
Accounting capability	28. How do you maintain your accounts: manually or with computer systems? 29. Who maintains your records and accounts? Self or employee?
Liquidity capability (Multiply number of customers daily with value of transaction by each customer to assess liquidity)	(Observation based): o Customer footfall o Value of purchases made by customers at the shop o Proportion of credit to cash customers
Technology capability	30. Do you use computers? 31. For what purposes do you use computers? 32. What do you access through the internet? 33. (Observation based): Mobile handset used—smart phone or basic phone 34. For what purposes do you use mobile phones: talking, internet? 35. Do you use internet banking or mobile banking? 36. Have you ever transferred funds through the internet/mobile banking?

Capital investment capability	37. In how many days do you replenish your stock? 38. (Observation based): o How much stock there is in the shop o Value of assets in the shop other than stock (i.e., computers, furniture, fixtures)
Closure Thank you for your contribution to this discussion. Do you have any questions/comments for us?	

4.4.B Research guide for remittance agents and savings and credit co-operatives

Welcome

- Greetings from the team.
- We are from an organization called *MicroSave,* which is a research organization based in India.
- Currently, we are conducting a study in Nepal to understand how the unbanked population can be given access to financial services through agents of banks and who would be the most suitable type of business person to become such an agent.
- Therefore, for this study, we would like to discuss a few things with you that may require a few minutes of your time.

General questions (about 5 minutes)

- What is your name and occupation?
- Contact:
- Age:
- Qualifications:

(Fill in the following information through observation)

- Location of cooperative :
  - Marketplace Residential
  - Prominently visible Interior
- Number of years in existence:
- Is the business registered?

Brief description of the marketplace

Business-related questions (about 10 minutes)

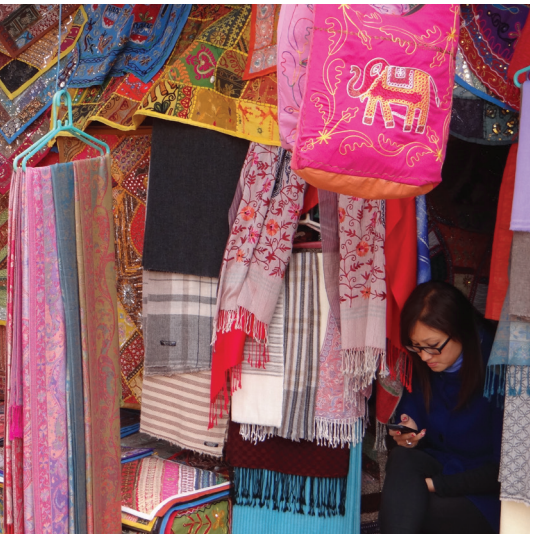
Total number of customers:
Value of portfolio:
Total savings value:
Total credit value:
Banks dealt with:
Interest on savings:
Interest on loans:
Savings and equated monthly instalment collected from homes of customers (value):
Salary to staff (Nr):

Types of products for savings and loans

Interest in becoming an agent for banks

Closure

Thank you for your contribution to this discussion. Do you have any questions/comments for us?



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