

# DIGITIZING THE DAIRY VALUE CHAIN IN NEPAL



## 1.6 Million

farmers are employed in the dairy farming sector.



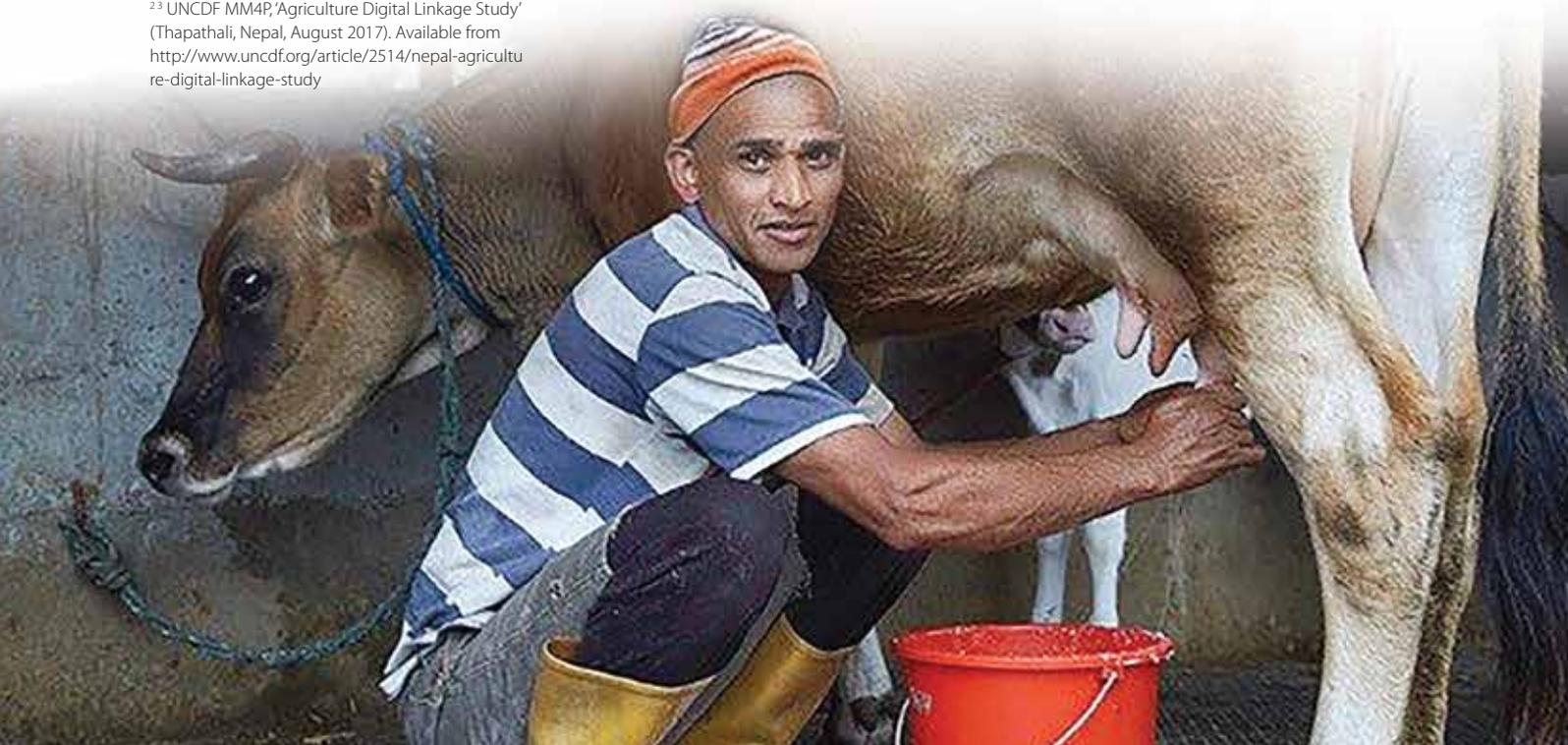
There are more than 3,500 Prabhu Money Transfer agents in Nepal.

In Nepal, the dairy sector is often organized and managed by cooperatives. The dairy sector contributes 9% to the GDP and employs 1.6 million farmers. There are more than 1,700 dairy cooperatives, each with a member base of 200 to 2,000 farmers. The cooperatives employ 20,000 individuals.<sup>2</sup>

Prabhu Management, part of the larger Prabhu Group, operates a network of 3,500 agents for Prabhu Money Transfer (a remittance company) and other companies in Nepal. Prabhu Management is expanding its business to digital financial services in rural areas by looking at the dairy value chain as a potential use case. However, the dairy value chain is marred with payment flow challenges that affect farmers' income and profitability.<sup>3</sup>

With a grant and technical support from the UN Capital Development Fund programme MM4P, Prabhu Management has initiated a pilot project in Bhaktapur to digitize payments in the dairy value chain. These payments, made through a mobile wallet in a community-based organization such as a dairy cooperative, together with other innovations can bring simple and seamless formal financial services like credit and insurance to farmers who are currently unbanked.

<sup>1</sup> FAO, 'Dairy Sector Study of Nepal', 2016. Available from <http://nepalagritech.com.np/wp-content/uploads/2016/10/Dairy-Sector-in-Nepal-FAO.pdf>  
<sup>2,3</sup> UNCDF MM4P, 'Agriculture Digital Linkage Study' (Thapathali, Nepal, August 2017). Available from <http://www.uncdf.org/article/2514/nepal-agriculture-digital-linkage-study>





## CHALLENGES TO SOLVE



### 1. SAFETY AND COST OF CASH MOVEMENT FOR DAIRY COOPERATIVES

Dairy processing units transfer up to Nr300,000 (US\$2790) monthly to a cooperative's bank account.<sup>4</sup> Safety and costs associated with manually carrying this cash are big challenges for dairy cooperatives. Two staff members are generally required to travel more than 15 kilometres to a bank to deposit the cash, which adds to the total cost due to additional staff salary and fuel expenses. Another critical challenge is manual record-keeping and payment-reconciliation. Currently, most cooperatives depend on a manual bookkeeping system, which is time consuming, error prone and unsecure.



### 2. DELAYED PAYMENTS FOR FARMERS

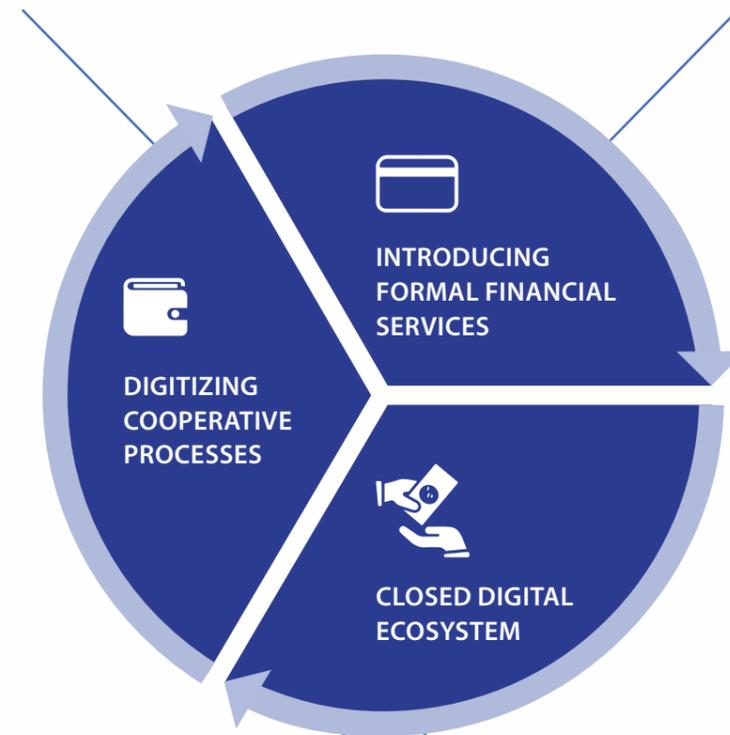
On average, a dairy farmer receives Nr7,000 (US\$65) per month from a cooperative. Farmers may experience financial distress in case of delayed payments. In such a scenario, they often rely on informal credit mechanisms, in the absence of formal savings or credit alternatives. As a 2016 FinScope Survey noted, '45% of the people involved in farming and other work rely on informal financial channels for borrowing.'<sup>2</sup>

<sup>4</sup> FinScope Survey, 'Detailed Country Report', 2016. Available from <http://nepaleconomicforum.org/portfolio/making-access-possible-nepal/>

## PROPOSED SOLUTION

FIGURE 1: Prabhu Dairy Ecosystem Approach

- To offer bulk payment solutions from a cooperative wallet to multiple cooperative member wallets.
- To offer savings, credit and insurance services in a wallet with support from Prabhu cooperatives and insurance.
- To integrate cooperatives with accounting software to help record and reconcile payments digitally.
- To offer bridge financing credit products through partner cooperatives.



- To enrol agricultural input suppliers, utility service providers, schools and market vendors in the Prabhu merchant network.
- To provide opportunities for farmers to digitally pay for agriculture inputs like fertilizers, seeds, pesticides etc.



## ECOSYSTEM APPROACH

# EXPECTED RESULTS

BY-2019



To expand formal financial services to low-income population segments (especially farmers engaged in the dairy value chain) to improve their financial stability and income levels. The project plans to register **18,000 dairy farmers** and **98,000 active rural customers**.



To organize partner awareness-building programmes. The project plans to partner with **20 new cooperatives**. As dairy cooperatives and their staff become educated on the wallet, the value they perceive of the partnership will increase, resulting in more aware and active customers.



To conduct various training programmes for agents on product, process, pricing and customer service. The project plans to expand additional **1,800 active agent points across Nepal**.



**Prabhu Management's vision is to enhance access to finance for rural population specially farmers through digital financial services. With UNCDF's technical assistance and grant support we are piloting dairy value chain digitization project in two districts. This is a path breaking project for DFS sector in Nepal. Learnings from this intervention will pave the way for introducing second generation digital financial products for farmers such as savings, credit and insurance.**



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