



February 2015



Acknowledgement

The authors thank the Institute for Money, Technology and Financial Inclusion School of Social Sciences, University of California, Irvine whose generous assistance and support made this study possible.

Our sincere gratitude to ASETC for all their co-operation in helping us implement this project.

Our grateful thanks to all the respondents, without whose participation in data collection, the study would not have been possible. We sincerely thank our dedicated surveyors and support team for their valuable contribution in conducting the field work.

In addition, we extend our appreciation to IFMR Research personnel Ajay Tannirkulam, Ishani Desai and Monisha Mason, for their contribution to the project. We thank Sharon Buteau and rest of the Centre team members for their guidance and feedback.





ABSTRACT

The Government of India and the RBI have taken various measures to promote and deepen financial inclusion in India. One of the more recent and innovative channels of increasing financial inclusion has been through kiosk banking. The essence of this study is to understand the different stakeholder perspectives regarding kiosk banking in India, the viability and sustainability of the model, the motivations of the village level entrepreneurs, and clients' acceptability of web-based financial transactions. Kiosk Banking is essentially branchless banking which uses a computerized device, which is connected to the web, to provide real-time banking in rural or urban locations. It allows for flexibility and aims to reach the most remote areas. In this study we partnered with the All India Society for Electronics and Computer Technology (AISECT) to examine and understand the operations of 30 of their CSCs. AISECT provides CSC services through Village Level Entrepreneurs (VLEs) or local village leaders who operate the CSCs. We obtained VLE lists from AISECT and surveyed 30 well performing VLEs in the Sagar district, Madhya Pradesh and our respondents included 30 VLEs and 300 beneficiaries.

From our field observations, it appears that operationally the greatest challenge for CSC success and kiosk banking is the relationship with the corporate SBI office. Lack of adequate infrastructure also poses an adequate problem that needs to be addressed, along with staffing where 40% VLEs mentioned that they require additional manpower.

Finally, it appears as though many beneficiaries simply use the kiosk banking services to receive government benefits and not to actually save. In order for kiosk banking to be sustainable and meet its goals, it must also educate people and help instill a habit of savings. This education aspect is currently missing and it will be a challenge for VLEs to try and integrate this into their work.





GLOSSARY

National e-Governance Plan (NeGP): The National e-Governance Plan (NeGP), takes a holistic view of e-Governance initiatives across the country, integrating them into a collective vision. The ultimate objective is to bring public services closer home to citizens, as articulated in the Vision Statement of NeGP. In May 2006, through the National e-Governance Plan (NeGP), the government made a commitment to introduce e-governance on a massive scale through Common Service Centres.

Common Service Centre (CSC): One of the government's initiatives to help with financial inclusion is the Common Service Center (CSC). Implemented under the National e Governance Plan (NeGP), the CSCs are ICT enabled front end service delivery points at the village level for delivery of Government, Financial, Social and Private Sector services in the areas of agriculture, health, education, etc. Banking through CSCs is commonly termed as 'kiosk banking' or branchless banking. This method of banking uses a computerized device, which is connected to the web, to provide real-time banking in rural or urban locations. It allows for flexibility and aims to reach the most remote areas. The CSCs have been set up by private entities called Service Center Agencies (SCA), who are appointed by the state governments. The CSC is run by a private individual, known as a Village Level Entrepreneur (VLE), who is appointed by the SCAs to run and manage the CSC in a pre-defined location.

Service Centre Agencies (SCAs): The CSC Scheme is being implemented in a public private partnership framework with a focus on rural entrepreneurship & market mechanisms. The CSCs have been set up by implementation partners called as Service Centre Agencies (SCA), who are appointed by State Designated Agencies through a transparent bid scheme.

AISECT (All India Society for Electronics & Computer Technology): In 2008, AISECT participated in the competitive bidding for the Central Government's prestigious Common Service Centre (CSC) Project and emerged as a leading Service Centre Agency (SCA). State Bank of India has joined hands with AISECT by appointing them as their BC for Madhya Pradesh and Chhattisgarh. AISECT has installed rural banking kiosks at 382 places in both these states.

<http://csc.gov.in/>

<http://aisect.org/services-e-governance/>





Contents

Introduction	2
Literature Review	5
Research Questions	12
Research Methodology.....	13
Analysis of KIOSK Operation	19
Kiosk Banking Financials and Scope of Suitability:	30
Scope for Kiosk Banking in Converting Rural India's Major In-Cash Transactions into Cashless Transactions	35
Kiosk Model: An Effective Inclusive Finance Instrument.....	41
Concluding Remarks and Recommendations	45
References.....	48





Introduction

Even after 65 years of independence, a large section of the Indian population remains unbanked. With a population of over one billion and the seventh largest country by area, 69% of India's population lives in rural India, where access to infrastructure and services are extremely limited. To be specific, in 2012, the average population per bank branch in India was 12,300 people; whereas, in rural India, there were only seven branches per 100,000 adults.¹ While there are many bank branches in urban India, this does not mean that there is better access to the banking system for the urban poor. Given that the majority of Indians live in rural areas where the current efforts towards financial inclusion do not seem to be sufficient, innovative methods for accessible banking is extremely vital.

Recently, the Government of India has been increasing its efforts in developing initiatives for financial inclusion to deliver banking services at an affordable cost to the vast sections of the disadvantaged and low-income communities. The Government of India is recognizing that the lack of financial inclusion plays a key role in amplifying poverty. Poor households have lifecycle needs and inaccessibility to formal credit leads them to borrow from moneylenders or relatives at a much higher interest rate². This worsens their financial position making them more vulnerable. Financial inclusion is essential for the poor to inculcate the habit of saving and to have access to formal credit avenues, but it is also important to fill the gaps in public subsidies and welfare programs. Given that considerable amounts of money that is meant for the poorest of the poor does not reach them, the government is pushing for direct cash transfers to beneficiaries through their bank accounts rather than subsidizing products and making cash payments. These financial inclusion initiatives will allow for transfers to be much more efficient and effective.

One of the government's initiatives to help with financial inclusion is the Common Service Center (CSC). In May 2006, through the National e-Governance Plan (NeGP), the

¹ <http://rbi.org.in/Scripts/PublicationReportDetails.aspx?ID=713>

² Banerjee et al. *The Miracle of Microfinance? Evidence from a randomized evaluation*. Abdul Latif Jameel Poverty Action Lab and Center for Microfinance. 2010.





government made a commitment to introduce e-governance on a massive scale through CSCs. A CSC provides varied government services in urban and rural areas through web enabled physical infrastructure. Banking through CSCs is commonly termed as 'kiosk banking' or branchless banking. This method of banking uses a computerized device, which is connected to the web, to provide real-time banking in rural or urban locations. It allows for flexibility and aims to reach the most remote areas.

Figure 1: CSC Objectives



In this study, we have partnered with AISECT³ to examine and understand the operations of 30 of their CSCs. A local village entrepreneur operates a CSC, which serves to be the change agent. These CSCs provide financial services (opening accounts, savings services, etc.) with SBI Bank as a partner and nonfinancial services (such as printing, internet access, photo services, etc.). The CSC promotes rural entrepreneurship, provides access to quality services, delivers public, social, and private services, and to take it a step further, the CSC enables community participation and helps to bring collective change in society. While

³ State Bank of India has joined hands with AISECT by appointing them as their BC for Madhya Pradesh and Chhattisgarh. AISECT has installed rural banking kiosks at 382 places in both these states.





these goals are ambitious, the CSC has certainly helped provide access to basic financial services to remote communities.

Given the reach and well-equipped infrastructure of CSCs, it is thought that providing financial services through CSCs will be cost-effective, sustainable and enable real-time banking for low-income rural households. The purpose of this study is to understand the various stakeholder perspectives regarding kiosk banking, the viability and sustainability of the model, the motivations of the village level entrepreneurs, and clients' acceptability of web-based financial transactions.





Literature Review

On December 29, 2003, former UN Secretary-General Kofi Annan said:

The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives.

The current approach to financial inclusion within India can be traced to the United Nations initiatives, which described the main goals of inclusive finance as access to a range of financial services including savings, credit, insurance, remittance and other banking services to all 'bankable' households and businesses at a reasonable cost. The Reserve Bank of India (RBI) has adopted an integrated approach towards financial inclusion by focusing on both the demand and supply side constraints.⁴

Among other things, the RBI has adopted a bank-led model for financial inclusion, but has also permitted non-bank entities to partner with banks in their initiatives, which makes it easier to reach remote areas. The RBI is also providing banks a relative degree of freedom to determine their own strategies for rolling out financial inclusion plans. They have encouraged banks to pursue financial inclusion as a commercial activity as opposed to a social service activity so that these activities can be sustainable and scaled appropriately. In addition, the RBI has advised banks to adopt innovative business models and delivery channels, such as the BC model, to include the financially excluded population as they have unique needs that require customization.

⁴ This approach was outlined in a keynote address delivered by Dr. K.C. Chakrabarty, Deputy Governor, RBI called "Financial Inclusion in India: Journey So Far And Way Forward" on 6 Sept 2013.





Understanding the BC Model

To ensure greater financial inclusion and increasing the reach of the banking sector, in January 2006, the RBI allowed civil society organizations to act as intermediaries in providing financial and banking services through the use of Business Correspondents or Facilitators. With the new financial inclusion goals, the RBI placed the onus on banks to come up with plans for providing banking services in villages with a population of 2,000 or more. Banks had the option of either opening branches in villages or providing banking services through the BC arrangement. Given the high initial costs for setting up a physical branch, many banks were encouraged to use the low-cost alternative of BCs. Under the BC model, banks, without approval of the RBI, can use NGOs, cooperatives, community-based organizations, IT-enabled rural outlets, post offices, insurance agents, and other such institutions to provide basic banking services.⁵ As of March 2012, roughly 96,828 Customer Service Points (CSPs)⁶ had been set up in villages, with no banks, under the BC model.⁷

Since 2006, substantial progress has been achieved in establishing basic financial infrastructure through the BC model; however, there is consensus in the literature that many reforms must take place in order for the model to overcome certain constraints and be sustainable. MicroSave mentions that very few agents break even, much less make a profit, as CSPs for banks.⁸ They also face problems due to late payments, erratic commissions, technology delays, customer trust, and little support for marketing, and often low contact with organizations they are working with. The MicroSave report also mentions that the intended beneficiaries, the very poor without access to full banking services, are also often unsatisfied with the services. They do not wish to be treated as *small*, worthy of only ‘no frills’ and are demanding passbooks, ATM cards, and real-time balance

⁵ This was outlined in the RBI circular titled, “Financial Inclusion by Extension of Banking Services - Use of Business Facilitators and Correspondents” on 25 Jan 2002.

⁶ Customer Service Points, usually set up by the BCs, are individuals, shops or other outlet points which are responsible for the direct contact with the clients. CSPs open bank accounts, conduct KYC, cash out withdrawals, receive payments and in some cases, extend credit.

⁷ Sa-Dhan. *Financial Inclusion: A Study on the Efficacy of Banking Correspondent Model*. July 2012. Pg iii.

⁸ Tiwari, Akhand, and Ann-Byrd Platt. *The State of Business Correspondence: Agent Networks in India*. MicroSave, March 2012.





information, just like any other bank customer.⁹ Many actually prefer dealing with local agents they know.¹⁰ The MicroSave report recommends standardization across banks for commissions and inter-bank cooperation, rigorous training for agents, better marketing for branchless banking, and increased interaction between banks and agents.

Sa-Dhan, in their report on the BC model and financial inclusion, also highlighted similar findings. In addition to the points mentioned, the report stressed that the most serious challenge the BC system faced was its commercial viability. Along with problems in the compensation structure, banks that are implementing the BC scheme see it as a mandated activity and an unavoidable part of the work. Clients also have little knowledge of the range of services the BCs offer and there is often no proper dedicated customer grievance channel for customers of BC in many banks. While the report concludes with multiple recommendations, a key takeaway is that BCs should be seen as an alternate channel for banks. BCs should be developed by the banks as one of the regular alternate channels to reach out to its customers, like the ATM or Internet banking, with accessibility to all. Similarly, a CGAP study on Business Correspondents and Facilitators raises issues regarding operations, viability, and regulatory concerns. The report concludes that the key to success to BCs lies in banks making client acquisition and business expansion a business proposition and not treating it as a CSR activity. Overall, it seems that the BC model, if rolled out carefully, has the potential to usher a second banking revolution in India.

Common Service Centers

Similar to the RBI initiatives, in order to make all government services available to the citizens of India via electronic media, the Department of Information Technology formulated the National e-Governance Plan (NeGP). Under the NeGP, the Indian Government aims to bring public services closer to citizens; their vision statement drives home its purpose:

⁹ Platt, A., et al. *No Thrills – Dormancy in No Frills Accounts*. MicroSave, May 2011.

¹⁰ Tiwari, Akhand, et al. *Optimising Agent Networks in Gujarat*. MicroSave, March 2011.

Lahiri A., et al. *Optimising Agent Networks in Uttar Pradesh*. MicroSave, January 2011.



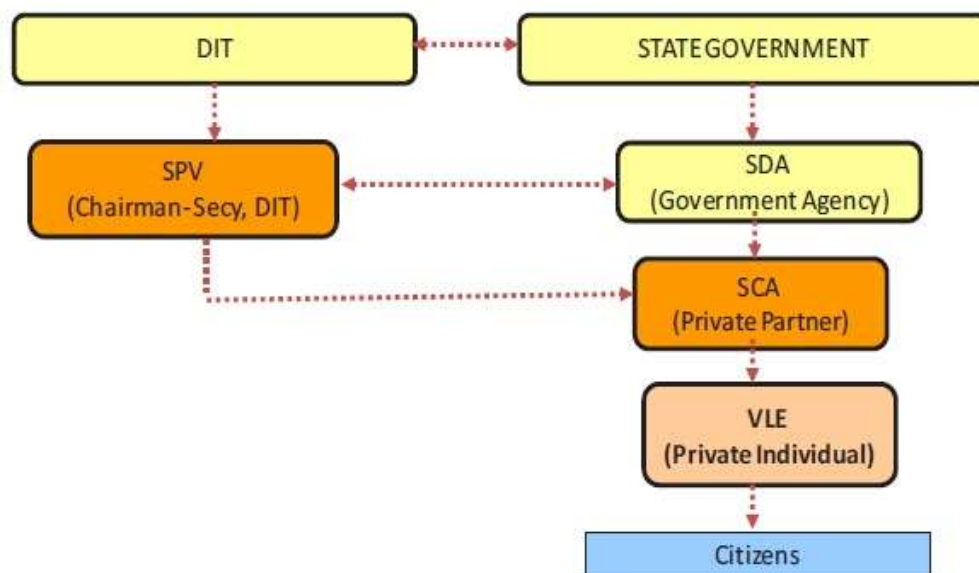


Make all Government services accessible to the common man in his locality, through common service delivery outlets, and ensure efficiency, transparency, and reliability of such services at affordable costs to realize the basic needs of the common man.

Given this vision, the Government launched the Common Service Center to both reduce government costs and provide rural areas access to government services. While CSCs provide access to nonfinancial government services, they also have the capability, through its infrastructure, to provide financial services; thus, aiding the RBI to meet its financial inclusion objectives.

The CSC scheme is being implemented in a public private partnership (PPP) framework with a focus on rural entrepreneurship and market mechanisms.

Figure 2: PPP Framework 1



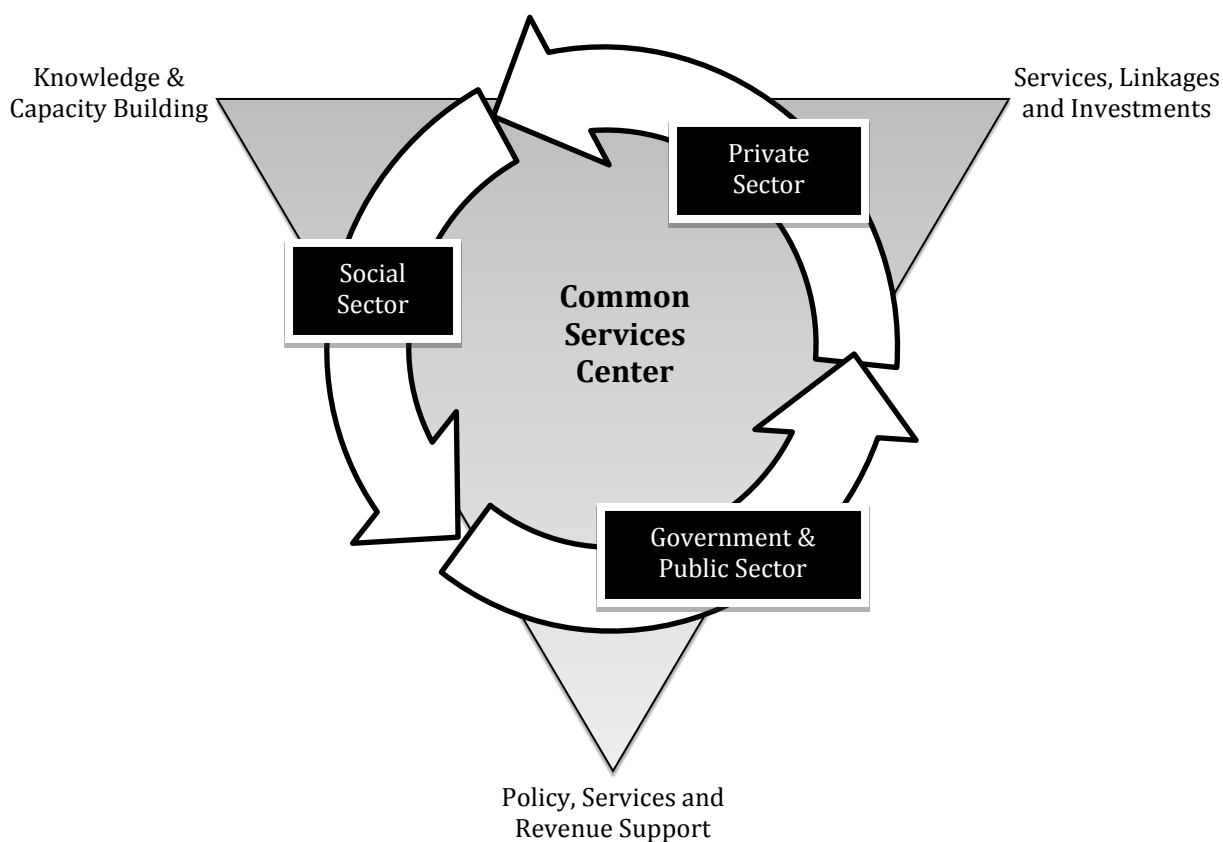
The CSCs have been set up by private entities called Service Center Agencies (SCA), who are appointed by the state governments. The CSC is run by a private individual, known as a Village Level Entrepreneur (VLE), who is appointed by the SCAs to run and manage the CSC in a pre-defined location. As of June 2011, 95,710 CSCs had been set up across the country,





covering 31 states/union territories out of the targeted 100,000 centers to be set up – one per every six villages (CSC Report, 2011).

Figure 3: PPP Framework 2



Previous Kiosk Studies

While CSCs are being constructed throughout India and are fairly new, researchers from around the world have studied the impact and sustainability of other kiosk models and examined centers that provide financial services in fairly remote areas. Researchers from Microsoft Research conclude that sustainability, as a business for kiosks remains difficult.¹¹ In their study, Toyama et al examine kiosks managed by Drishtee and n-Logue, both for-profit companies, in various geographies through India and claim that there is a

¹¹ Toyama, K., et al. *PC Kiosk Trends in Rural India*. Microsoft Research, 13 Mar. 2005.





fundamental challenge posed by the fact that the poorest communities are exactly the communities whose economies are too small to sustain a connected computer. They find that the predominant users of kiosks are students and that the gender of the kiosk customers mirrors that of the operator. With respect to operations, they find that marketing is most effective through word of mouth, with over 60% of respondents having chosen to make their first visit to a kiosk based on hearing from friends and family.

The study also finds the average monthly income at kiosks remains low (a mean of roughly Rs. 2000 per month); however, operators still reported to be satisfied with their kiosk businesses and did not see the kiosk as being the source of their primary revenue. The main focus of the study appears to be nonfinancial services, and financial services are never discussed. This might indicate that nonfinancial services are not as profitable alone. The study brings up a valid question regarding the kiosk model: Should kiosk projects be seen exclusively as an entrepreneurial space, or should it be a subsidized, public utility model? To answer this question a more detailed regional analysis is required, especially of successful kiosks in rural locations that provide both financial and nonfinancial services.

Similarly, in a study on the factors that influence kiosk success, Kendall and Singh examine 74 rural n-Logue kiosks and their main operators. They find that gender and education of the operator do not affect success, but that location of the kiosk and other measures of social standing, such as age, do. Kiosks that are nearer to a main road of a village are more profitable than those in other locations within the village and operators with a higher social standing may have better social networks through which they advertise their services to the village. The kiosks that they study are fairly new (the median age is only six months) and do not provide financial services as well.

In another paper, Toyama et al review research undertaken on rural kiosks in India, Ghana, and Kenya to understand social, cultural, economic, and technical aspects of kiosk projects¹². They highlight the common problems associated with kiosks, including

¹² Toyama, K., et al. *Review of Research on Rural PC Kiosks*. Information Technology and Communications





economic barriers such as high transaction fees, social barriers such as caste, confused branding, educational barriers, mistrust and overabundance of information, lack of information in a familiar form such as dialect or language issues, poor infrastructure, and frequent maintenance needs. Despite these problems, there are a few types of rural kiosk models that appear to be sustainable: computer-education centers, Internet cafes, government service centers, and photo shops. They mention that there has been experimentation with the kiosk model and there are other successful models, but these seem difficult to identify. Jhunjhunwala et al also discuss n-Logue kiosks, but mention that going beyond normal Internet applications and leveraging ICT, for items such as banking, to enhance livelihoods would be the primary means of sustaining rural kiosks.¹³

As the literature suggests, there is still a lot of uncertainty in what is the best kiosk model. On the demand or user side, studies show that the challenges for kiosks are high transaction fees, linguistic barriers, caste discrimination, confused branding, trust, and poor infrastructure. On the supply side, literature reveals that challenges for kiosks are infrastructure, frequent maintenance needs, and income generation. Previous studies have not discussed the kiosk and bank relationship; it's important to note that a kiosk generally operates under the jurisdiction of a bank. We have learned that sustainability is a challenge and that location matters for kiosks with nonfinancial services, but a comprehensive study on a CSC with kiosk banking that covers both financial and nonfinancial services has not been completed as of yet.

Resources for Sustainable Development, 2005.

¹³ Jhunjhunwala, A., et al. *N-Logue: The Story of a Rural Service Provider in India*. The Journal of Community Informatics, 2004.





Research Questions

In this study, we examine the CSC model to better understand its effectiveness and long-term viability. As mentioned in previous literature, there have been significant challenges with the BC model and with kiosks that provide nonfinancial services. In this study, we examine centers that provide both financial and nonfinancial services incorporating aspects of the BC model, specifically, the NeGP kiosk model.

Among other things, we examine the types of services clients are using and demanding to see if the CSC infrastructure is sufficient to fill in the gaps in rural areas. We also examine the challenges for kiosk banking from the supply and demand perspectives and look at the sustainability in the long term.

Key Questions

1. What services are clients using and demanding? Is the CSC infrastructure sufficient to fill these gaps?
2. What are the main challenges for kiosk banking from the supply and demand side?
3. Given the current practices, will kiosk banking be sustainable in the long term from the financial and strategic perspective?
4. How does this model of kiosk banking under CSC model of NeGP perform in comparison to the other models of financial inclusion drive?





Research Methodology

Sample Selection and Partner Organization

In 2010, kiosk banking through CSCs was piloted under the government program (NeGP) in Madhya Pradesh, Jharkhand, and Chhattisgarh, with Madhya Pradesh having the maximum number of CSCs (496) delivering financial services. Given our prior experience of working in Madhya Pradesh and the more matured intervention, we chose to exclusively base our study in the Sagar district of Madhya Pradesh. Madhya Pradesh also has a low penetration of financial services and poor socio-economic wellbeing of inhabitants relative to the national average. For the purposes of data collection, we partnered with the All India Society for Electronics and Computer Technology (AISECT) CSC-kiosks. AISECT is one of many Service Center Agencies (SCAs) that work with the State Bank of India (SBI) to implement the CSCs. AISECT provides CSC services through Village Level Entrepreneurs (VLEs) or local village leaders who operate the CSCs. In addition, AISECT monitors its CSCs and provides standard commission rates and fees across all its centers.

In order to fully understand the CSC model, we surveyed VLEs, beneficiaries of the CSCs, farmers who have registered with MP online¹⁴ at the CSC SBI bankers who oversee CSCs, and retailers that provide inputs to farmers. Given that we partnered with AISECT in Madhya Pradesh, the VLEs we surveyed in the Sagar district all work with AISECT. The local SBI branches we visited also oversee AISECT operations in the Sagar district. We obtained VLE lists from AISECT and surveyed 30 well performing VLEs in the Sagar district. A subset of these VLEs then gave us lists of beneficiaries (active clients who use financial services) and we surveyed 300 beneficiaries. The same VLEs also gave us names of farmers to survey and retailer shops in the area. We surveyed 60 farmers and 10 retailer shops. We also met with five local SBI branches that oversee the VLE operations in their given jurisdiction.

¹⁴ <https://www.mponline.gov.in/portal/index.aspx?langid=en-US>





Figure 4: Map of Sagar District in Madhya Pradesh, India

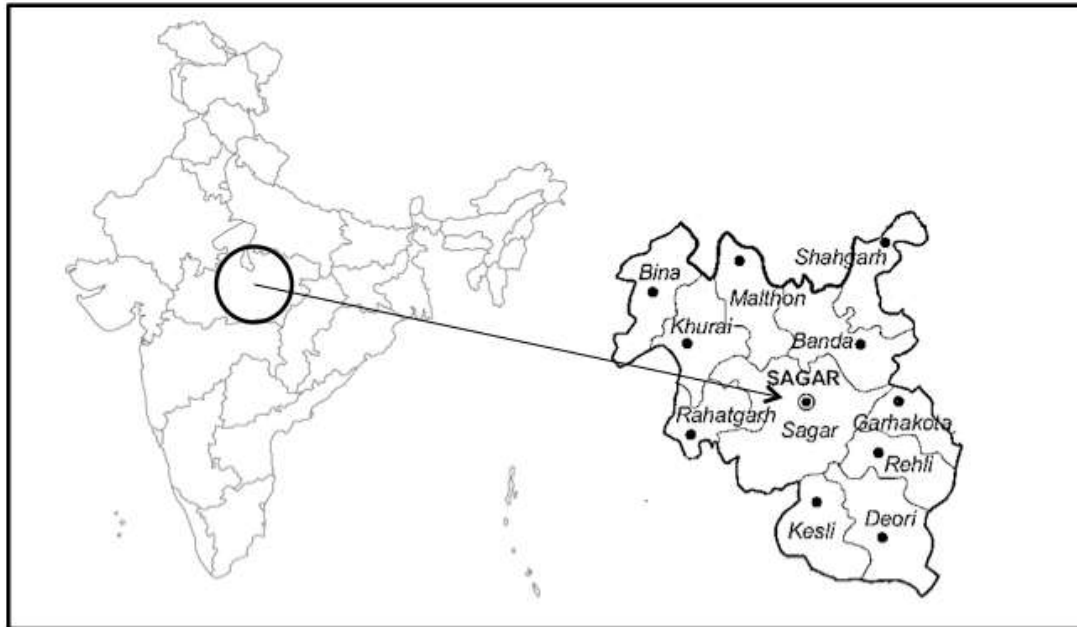
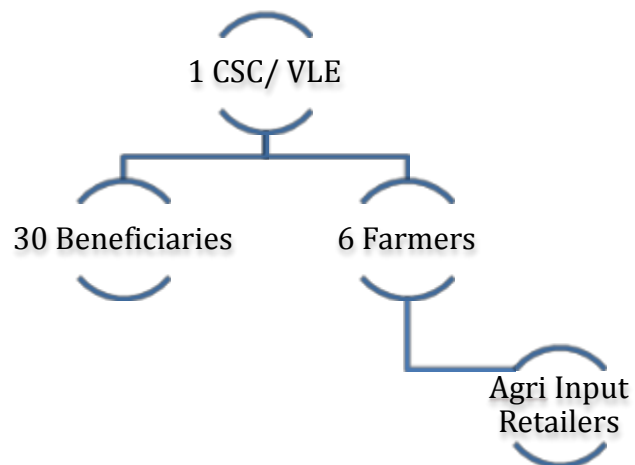


Figure 5: Diagram of Sample Selection





Data Collection

Since we aimed to understand both the supply and demand side of kiosk banking, we designed a comprehensive survey that asked a range of questions on usage, service preferences, quality of services, price and commission of services, technological challenges, perceptions, and the future of the model. We used electronic data collection with the VLEs, beneficiaries, and bankers in order to get real time data and ensure consistency in data collection efforts.

As mentioned, VLEs provided us names of beneficiaries and farmers; however, we were unable to acquire addresses and phone numbers, as these are sensitive pieces of information that only the bank branches maintain. We were able to acquire the village names and had to track down the beneficiaries by going door-to-door as we surveyed. Additionally, we learned that roughly 80% of the beneficiaries of kiosk banking are school-aged children who receive benefits from the state therefore, the majority of our lists consisted of respondents under the age of 18. In order to get a reasonable sample of other customers, our surveys were intentionally restricted to be delivered to roughly ten minors per every forty beneficiaries surveyed per kiosk.

Through our surveys in Madhya Pradesh, we learned that, on average, roughly 80% of the VLE kiosk clients are school-aged children (ages 8-18). These children, usually with parent support, open accounts to receive cash in government scholarship money for educational expenses, cycles, and clothing provided to them from the state. While some VLEs indicated that this instills good saving habits from a young age, others seemed to indicate that many are not actually saving, but simply opening an account to cash in their check, which is also a good start.

Mr. Shailendra Singh, a resident of Rewa district in Madhya Pradesh was involved in marketing of home appliances in Indore and was earning about Rs. 8000 per month. He opened a CSC with 10 computers, 2 printers, broadband internet, digital camera etc and the CSC provided services such as education, MPOnline, photocopy, photography etc. With the opening of this CSC, his income increased to Rs. 12000 per month and he was able to stay at his native place.





Case Study 1

In 2005, according to the 61st National Sample Survey (NSS) in India, children accounted for 45% of Madhya Pradesh's total population and 7% of India's children lived in the state. Since children are a sizeable population in MP and bank branches complain about being overcrowded, it makes sense for kiosks to help guide this segment of the population to open accounts and access banking services. The goal for the future is to use direct cash transfers through bank accounts for scholarships and eliminate the process of issuing a check. A common challenge for VLEs is aiding parents to gather the proper documents for their child to open an account. Since many of these children are minors, they need a parent to open a joint account, but many of the parents do not have proper identification information to open an account. While the bank branch might not be able to provide individualized guidance, kiosk banks are able to more effectively guide children and their families to access banking. Hopefully, with innovative measures and additional financial education, kiosks can actually help the younger generation learn about the added benefits of banking and encourage savings. Children requiring to have a bank account to be able to avail scholarships could have positive externalities of (1) imbibing a savings behavior in younger generation, (2) making parents realize the importance of saving and banking services, (3) increasing the footfall of parents at kiosk and exposing them to various banking and non-banking services, and (4) facilitating increase in household savings. If successful, this could lead to a real turn-around in the mission of financial inclusion.

Ms. Mandbe Sahu of Tikamgarh block in Madhya Pradesh opened a CSC with 4 computers, 3 printers, internet and digital camera. This CSC offered services such as education through IGNOU, MPOnline, typing, photocopy, photography and TATA Sky recharge. Before opening this CSC, she worked as a computer operator and earned about Rs. 2000 per month. With this CSC, her income increased five times to Rs. 10,000 per month.





Basic Sample Characteristics

For the study, we examined different sets of stakeholders and users of the CSCs. The two main groups used for analysis are the VLEs and the beneficiaries. As mentioned, we surveyed 30 VLEs in the Sagar district of Madhya Pradesh. These 30 VLEs are managing well-performing CSCs and were pre-selected for us to survey by AISECT. The average age of the VLEs was 32 years with a range from 23 to 44. They were all male and all had passed tenth standard, with 70% also having graduated from college. The CSCs of these VLEs had been in operation for an average of 3.3 years and each provided services to people from roughly 35 villages.

The 300 beneficiaries surveyed have a mean age of 31.5 years however, in reality the mean is much lower since the majority of beneficiaries are school-aged children. The age range in our sample is 6 years to 85 years. All the beneficiaries speak Hindi, with most also speaking Bundelkhandi (a local dialect of Hindi that is common in the north central region of Madhya Pradesh). There also appears to be a diverse range of castes and sub-castes present in the sample. When surveying a minor, the parent responded along with the child. 2/3 or 66% of our sample are male; however, in actuality, the VLEs indicated that there are equal numbers of female and male beneficiaries using the kiosk banking services. 55% of our sample report that they are the person who makes the majority of the financial decisions in the household and there are approximately six people per household. All the beneficiaries had at least one savings account and have been using the CSC services for an average of 1.1 years.

With respect to education, roughly 20% of the sample report that they are illiterate and 18% have never attended school; only 15% have passed 12th standard. This is similar to the 76.46% literacy rate observed in Sagar by the 2011 Indian Census. With respect to occupation, over 50% of the beneficiaries are involved in casual non-agriculture labor, petty businesses, or are students. Roughly half of the sample made money from casual labor in the past year, earning an average of INR 35,132 for the entire year. It seems that relative to the Sagar and Madhya Pradesh population, our sample is slightly well off in





terms of income and literacy, which seems reasonable as most in our sample regularly access banking facilities.

Table 1: Basic CSC characteristics

	Mean	Standard Deviation	Min	Max
Number of years CSC has been in operation	3.32	1.80	0.92	7
Number of years CSC has been providing financial services	2.39	1.20	0.75	6
Age of Infrastructure in years	2.48	1.35	0.75	5.25
Total number of clients (financial and non-financial services)	6979.31	5006.88	900	20000
Number of villages covered	35.63	37.78	4	165

Table 2: Basic VLE characteristics

	Mean	Standard Deviation	Min	Max
Age of VLE	32.33	5.15	23	44
Monthly Income (INR) through CSC	12233.33	7166.41	3000	30000
Years worked as a VLE	3.18	1.76	0.75	7
Years of education	14.97	1.82	10	16

Table 3: Basic beneficiary characteristics

	Mean	Standard Deviation	Min	Max
Age of user	31.58	13.03	6	85
Household size (# of people)	5.94	2.68	1	20
Literate (binary 0/1)	0.68	0.47	0	1
Years of education	6.96	4.65	0	16
CSC usage (number of years)	1.14	0.76	0.083	3.5
Number of savings accounts	1.32	0.84	1	12





Analysis of KIOSK Operation

In order to analyze the CSC's effectiveness and long-term sustainability, we must understand the operations and structure of the CSC. In this section, we will analyze various components of the CSC's operations including training and support, staffing, marketing and advertising, internal infrastructure and systems, and recordkeeping and financials.

a. Training and Support

Proper training and continuous support for the VLEs is critical in making the CSC banking model sustainable and effective. Out of the 30 VLEs surveyed, 26 had worked prior to becoming a VLE. VLEs had worked in various industries such as teaching, sales, labor, farming, small businesses, cleaners, in construction, and as LIC agents, among other things. While the range of previous work varied significantly, 73% of VLE's reported that the CSC is their only business or current source of income. Given this, the majority of VLEs dedicate their complete attention to their CSC business.

We asked VLEs a range of questions about their training experiences, customer support quality, and interactions with other VLEs. With respect to training, 63% VLE's had received training prior to becoming a VLE. The training was free and on average 3 to 4 days in length and covered basic banking operations, management practices, and general knowledge on AISECT's operations. Interestingly, over 50% found the training to be extremely unbeneficial and only 20% found it to be very beneficial. The responses to this question were quite polarized. 73% VLE's had attended trainings after starting the CSC. These trainings were also free and again about half found the trainings extremely unbeneficial and the other half found them extremely beneficial.

While the BC, in this case AISECT, and the bank (SBI) is seen to regularly monitor VLE activities¹⁵, we found that there appears to be a disconnect between the BC and the VLEs. On average, the BC and the SBI branch is in contact with the VLE a few times a month to

¹⁵ 93% or 28 out of 30 VLEs reported that the BC/bank monitors activities on a regular basis.





monitor CSC activities; however, 66% of the VLEs mentioned that the BC and/or the Bank do not provide feedback or operational support. This could perhaps be attributed to the fact that the representative or person who visits the VLE does not have the proper training or capacity to help in certain technical areas. Of the VLEs who did receive support, they said support is received with technical problems, providing forms, and when VLEs ask for guidance on an issue. However, when discussing risk, 97% of the VLEs did not perceive any risks associated with their relationship with the BC (AISECT).

We also found that VLE interactions were extremely valuable. 80% of VLEs had said they had interacted with other VLEs to learn about procedures and 90% said that it's beneficial to interact with other VLEs. 88% of the VLEs who had interacted with other VLEs said that these interactions improved their CSC. Many stated that they were able to improve technical knowledge and learn more about financial services and marketing through their colleagues. Overall, 87% VLEs wished they had more opportunities to interact and engage with other VLEs through formal and informal channels.





Case Study 2

Driven to start a personal business, one of the Village Level Entrepreneurs we surveyed in the Sagar district delved into his motivations for operating a CSC. At the age of 44, this VLE learned about the CSC through an AISECT seminar while he was operating a photo studio. Operating the CSC from the first floor of his home, he had been running the CSC for nearly a year and has around 2,500 clients. He said he was primarily motivated to start the CSC for economic reasons.

He spoke to us from his living room, which was directly above his busy kiosk. Along with operating the CSC, he also runs a learning center for AISECT. He mentioned that he receives the benefits of an extra income with center. Running the CSC with his wife and eldest daughter, he was extremely proud of his daughters who are all currently either in school or college. He felt his work as a VLE helped his daughters receive a proper education and help the family business. In the future, he hopes to expand his space and purchase more computers to accommodate additional customers.

While discussing his economic motivations, he also mentioned that his work as a VLE increased his status and social credibility in his society as it increased his connections and networks. While financial inclusion was never discussed as a motivation, he understood the importance of his work and realized that he was helping to instill good savings value to young children.

Mr. Ratnesh Kumar Jain, worked as a grain agent in Imlai in Damoh district, Madhya Pradesh and earned Rs. 4000 per month before opening a CSC. His CSC offered services such as MPOnline, Suvidhaa Online, mobile phone recharge, photography etc and had infrastructure such as computers, printers, internet and digital camera. With this CSC, his monthly income improved to Rs. 12000. This CSC was very beneficial to the residents of the village where it was located as they were able to save considerable time and money because before the CSC was opened, they had to travel 35 kms from their village to access internet





b. Staffing

Given the volume of customers who come in and out of the CSC, a potential hindrance for CSC growth is proper staffing. Given the remote locations of many of the kiosks, reliable help would seem difficult to find. Out of the 30 CSCs, 26 employed staff at their centers. There was an average of 2.3 additional employees per CSC. The employees have a range of educational backgrounds; however, all of them have passed the ninth standard so we can assume they are all literate. While family members are common to employ, only 12 of the 26 CSC employ family members. 40% of the VLEs mentioned that they require additional workers, and 92% of these VLEs actually plan to hire new staff in the next year. VLEs commented on how finding competent, reliable, and long-term staff was difficult. Additional staff members are trained by the VLE and they mostly help with paperwork and interact with the clients at the counter. The VLEs mentioned that they have to invest time to train new staff; therefore, they are careful before hiring anyone new without proper due diligence. As some of the previous studies mentioned, staffing is a critical problem for maintaining a center and can potentially hinder long-term sustainability.

c. Marketing and Access to CSCs

The Microsoft study revealed that confused branding is a problem with many kiosks. They mention that, “many kiosks try to be all things to everyone” and cite the example of a farmer getting agricultural advice from the same place their children go to play computer games. With respect to our sample VLEs, since they were all a part of AISECT and belonged to SBI branches, the branding was fairly clear. The branding was consistent among the thirty CSCs with SBI and AISECT logos. All the VLEs used Hindi and English on their materials, with two also using Bundelkhandi, a local dialect. 29 of the 30 advertised their services in the villages through billboards or pamphlets. Given that we surveyed well-performing CSCs, marketing was not seen as a challenge by the VLEs surveyed. The VLEs, however, did mention that nonfinancial services were rarely used and that this was an area they could improve on in the future.





With respect to the beneficiaries, when we asked them to tell us the first thing that came to their mind when they saw or heard ‘CSC’, they almost exclusively referred to financial services with responses like “a place to take money out” or “a place where an account opens quickly”. Due to SBI’s logo, beneficiaries’ perception of the CSCs appears to be mainly financial and banking related – this even translates to service usage. Most VLEs indicated that even though they have a range of services, nonfinancial services are not used very frequently. However, this might be attributed to selection bias since we only selected high frequency users to survey. Only about 14% of the beneficiaries said they learned about the CSC through advertisements, while 55% said they learned about it through other villagers and their friends. More than advertisements, word of mouth seems to be extremely powerful with usage. Among other things, VLEs used pamphlets, wall paintings, banners, and boards to market their services. We saw many colorful boards and signs for the CSC in the villages we visited.

Image 1: Signage for a CSC



Given the findings from our study, we saw that language and caste did not present any challenges in the context of CSCs in Sagar. We noticed that a diverse range of castes were accessing the CSC services and given that Hindi was the dominant language in the region, language did not seem to be a barrier either. Branding, however, as mentioned in the





previous studies, seems to be a challenge as the perception regarding CSCs seems to be only related to financial services. The nonfinancial services could be better marketed; however, it also seems that most of the revenue is collected from the commission that the VLE makes from AISECT (the BC) for financial services like opening a bank account.

In terms of access, mostly all of the CSCs were located on a main road or central location in the village. 95% of the beneficiaries found that their CSC was easy to locate; in fact, 78% reported walking to the center and 9% mentioned taking a bus. Overall, access and marketing of the AISECT CSCs in central MP seem to be very strong.

d. Infrastructure

Perhaps the most critical component of operations, infrastructure and technology play a large role in the CSC. Equipment wise, all the VLEs have at least one computer and printer, with the majority also having a scanner, copier, laminator, and a camera. The range of computers is 1 to 5 with a few having more than 12; however, these CSCs usually ran other data entry centers on the side. While all the CSCs have Internet, 70% of the CSCs provide Internet as a service; however, most of them (76%) have had to stop work due to poor Internet connectivity for at least a day per week. Power cuts seem to be a major issue in the district with 77% of CSCs facing power cuts in their area; 60% of these CSCs have a backup power generator.





Table 4: Technological devices available at a CSC

Item	Number of CSCs that have the item
1. Computer	30
2. Printer	30
3. Scanner	22
4. Copier	20
5. Laminator	18
6. Binding Machine	2
7. DVD Player	3
8. Projector	2
9. TV (LCD or other)	1
10. Camera (digital or other)	25

With respect to infrastructure, we found that many CSCs face critical technical difficulties. 50% of the CSCs sampled mentioned that they face technical problems on a daily basis. The remaining face difficulties on a weekly or monthly basis. The main difficulties deal with SBI server failures, slow servers, and some computer problems. While kiosk users appear to complain frequently to the VLEs about technical issues, over 70% of the beneficiaries surveyed said that the financial services at the CSC was easy to use; only 3% said it was difficult to use and this was primarily because the internet or server was down.

e. Recordkeeping/Financials

Given the infrastructure, maintaining records can be a difficult; however, all the VLEs surveyed mentioned that they have a formal record of each transaction. 20 of the 30 mentioned they have computerized or digital records, whereas the other 10 have paper or written records. Given that we had spoken to 30 well-performing CSCs, this could also be attributed to a selection bias. None of the VLEs mentioned recordkeeping to be a potential risk.





f. Customer Service

Another important component for long-term sustainability is customer service. 27 of the 30 VLEs mentioned that customers are able to complain about the services and provide feedback. Customers seem to openly voice concerns to the VLE in an informal manner; these complaints are not formally documented. The remaining 3 mentioned that they do not receive complaints about their services. Complaints are mostly about server and technical problems, with a few customers asking for passbooks, which are currently not available as a kiosk. Given the nature of the complaints and the fact that SBI has to be involved to solve these issues, the VLEs are often at a loss for what to do. Despite this, 100% of the VLEs felt that the customers trusted their services perhaps due to the fact that the services were provided by a local area resident. While 75% of the VLEs say they try to incorporate client feedback and improve their services, the rest mentioned that the problems are related to the bank branch and/or the network and they cannot resolve it alone. As the previous studies mentioned, client trust is a barrier to long term sustainability; however in the case of our study, we find that trust in the CSC and VLE is quite high and 99% of the beneficiaries state that they will continue to use the CSC in the future.

g. Challenges

During the surveys, VLEs did not strongly vocalize any particular risks to the success of their CSC. A few discussed infrastructure, kiosk competition (competition with other non-SBI kiosks), and customer service issues; however, the overwhelming majority responded with a no in every potential risk area. From our field observations, it appears that operationally the greatest challenge for CSC success and kiosk banking is the relationship with the corporate SBI office. Infrastructure was the main challenge; however, to improve infrastructure and eliminate server problems, the parent bank has to step in and find a more sustainable technological solution. From discussions with the local SBI branch managers, it became apparent that they could not solve the larger server issues and had limitations in how they could assist VLEs. With an improvement in connectivity and enhancements to the server, SBI can perhaps help reduce a lot of the infrastructure problems.





Another challenge is the issue of staffing. 40% of VLEs mentioned that they require additional staff at the present moment; however, in the future, if business expands then many more will also require additional manpower. It seems difficult for VLEs find reliable and dedicated staff. Many staff members come in as temporary short-term workers and it becomes an additional cost of the VLE to train new people. Working in a CSC requires semi-skilled labor in more rural settings – a laborer might find more returns to their skills in a city working; thus, VLEs are often left with less skilled options. Finding innovative ways to staff CSCs is imperative and will require guidance from the BC/AISECT.

Finally, it appears as though many beneficiaries simply use the kiosk banking services to receive government benefits and not to actually save. In order for kiosk banking to be sustainable and meet its goals, it must also educate people and help instill a habit of savings. This education aspect is currently missing and it will be a challenge for VLEs to try to integrate this into their work.





Case Study 3 : Banks Perspective on Kiosk Banking

Through conversations and interviews with SBI Branch Managers in central Madhya Pradesh, we were able to gain more insight into their perspective and thoughts for the future of kiosk banking.

The main objective from the banks perspective to incorporate the BC model is clearly financial inclusion. A positive outcome of kiosk banking through CSCs is that, while bringing in new customers, it has also decreased traffic and large crowds in the actual bank branches, making services accessible for more people. A branch manager in the Garhakota block in the Sagar district mentioned that since their traffic decreased in the bank branch, they are able to focus on high value customers, provide better services in a timely fashion, and access small clients as well. It seems that you no longer require a physical brick-and-mortar facility to open accounts and deposit/withdraw money.

There also seemed to be difference between how urban and rural branches managed kiosk operations. Kiosk operations are also newer in the urban areas and this could account for the difference. While urban branches were flooded with city clients, they did not appear to be as aware about their kiosk operations as the rural branches. Many of the rural branch managers even had time to even personally visit their VLEs a few times each month. Given that banks did not hire staff dedicated solely for kiosk operations, the cost for banks seems relatively low – especially given the outcomes from kiosk banking. In most cases, over 50% of clients were using their account at least once a month; however, as the branch managers mentioned, these clients generally held very minimal balances of around Rs. 100 - Rs. 200. Both branch managers and VLEs unanimously cited server and technological problems as a major challenge; however, given that there is no dedicated staff for kiosk operations in most branches, these problems are unlikely to be resolved soon. Other challenges for banks is building trust with clients. Clients don't easily trust kiosks/VLEs and many do not see it as a substitute for visiting an actual branch. The other challenge is getting potential clients to understand the value of opening an account – there is a need for financial literacy in more remote locations.

In the next 2-3 years, bankers hope that everyone under their jurisdiction has a savings





account with their local kiosk and that the kiosk handles every account with a small balance to decrease crowds in bank branches. They also hope to offer and market additional services such as RD/FD accounts and insurance services more aggressively.

The branch managers had differing views on the future of kiosk banking. Kiosks have the capability of being centers that provide a wealth of information in remote locations such as, weather, agriculture information, travel services, government services, and other small services. While it has been a good means to provide services to rural locations and decrease branch traffic, capacity building, trust, and technology difficulties are major challenges. Another issue is the fact that CSCs, who house kiosks, are being encouraged to take on a lot. As one manager stated, “Kiosks could be impactful. But it involves a lot of training and time. Kiosks [and VLEs] are very busy already and it’s hard to give them even more work.” The other issue is the idea that the CSC and kiosk center is essentially becoming a monopoly in the community and the VLE is perceived as the leader of the community since he is providing access to multiple banking and government services that are hard to access otherwise. While the VLEs do not work for the government, it is easy for a villager to blur the lines. Another manager stated, “We’re making one person a ‘hero’ in the community. A lot more people should have leadership roles in the community.”





Kiosk Banking Financials and Scope of Suitability:

There are policy developments for expanding and streamlining the scope of the business correspondent model in promoting financial inclusion among the underprivileged community, however the major challenge is, whether this model is sustainable and makes any business-case for the banking industry and other key stakeholders such as BC? As the BC evolves over the years, a number of operational models have emerged under this framework. Corporate BCs and individual BCs are most common in the ground. While in the individual model, the individual agent directly plays the intermediary role between the principal bank and clients, Corporate BCs appoint customer service points (CSPs). These are the sub-agents and play the key driver role as the interface point between the clientele, principal bank and business correspondent. One could reason that as the model is attempting for greater financial inclusion, it should be treated under 'corporate social responsibility' by the banks. However, the question remains what about the profitability of the CSPs, in our study case these are known as Kiosk units operated by VLEs. The VLEs/CSPs are the building-blocks in this entire arrangement of financial inclusion. A study conducted by CMF-IFMR on "Analysing the financial viability of business correspondent model and client satisfaction", found that Kiosk model (operation) is not profitable to provide only financial services in rural areas. It seems if the mandate of the kiosk model can expand and its established infrastructure is used as a channel of providing financial and nonfinancial services, it might be more financially viable and sustainable.

The Kiosk model seems promising and has an upper-edge among the different models of customer service points. As it is part of the government's e-Governance scheme; the village entrepreneur not only offers financial and non-financial services, it also heavily engaged as an intermediary between the government schemes and common people. Though, there are CSPs, those are mostly retailers and are able to offer financial services under the BC arrangement, as well as, clients also access his/her business products/services. In case of 'Kiosk model,' it is able to offer a wider range of services and products under three different streams such as, government benefits, banking services and his/her own business offers. Researchers also observed that the Kiosk not only limits its business to these three





components, it also play a major role in converging market offers as an agent of various business units and the underprivileged community.

The study sample shows, these Kiosks are operating for the last three years and their average client outreach is about 7800, out of them about 25% of clientele are regularly availing their non-financial services too. The Kiosk is covering about 25 to 30 villages in the same locality. All most all of the VLEs engaged branding and advertising as a key strategy, as it helps them in reaching out to perspective clientele. However, the major support is coming from the bank and corporate BC on advertisement.

To understand the financial viability of the Kiosk model; transaction details, costs and revenues details were taken to assess the viability. Assumption is that if the channel could be financially viable, then it can be replicated across the 'BC model of banking. To this end, extensive data on the nature and volume of transaction, operation costs, and revenues was collected from the VLEs. The establishment cost (capital) is not considered under the analysis, as a large section of the VLEs have not invested, just to setup their unit only for the purpose of operating as Kiosk. These units are old and have their own business and have been appointed as VLEs under the e-Governance and BC arrangement. However, there is a large portion of the cost of up-gradation shared among the stakeholders like banks, corporate BCs, and government. Only a portion of the investment comes from the VLE. Hence, the analysis of cost and revenue extensively focused at the operation.

VLE does about 11781 financial and nonfinancial transactions per month, with an average of close to 400 transactions per day. The table below shows the nature of transactions are taking place at the Kiosk.





Table 5: Average Monthly Transactions at CSC

Average Monthly Transactions at CSC			
Financial		Non-Financial	
Nature of Transaction	#	Nature of Transaction	#
Opening of Savings Bank accounts	62	Government to citizen services	879
Opening of RD and FD accounts	9	Business to citizen services	7913
Numbers of Savings deposits	224	Citizen to citizen services	409
Numbers of RD and FD deposits	21	Commerce/online services	350
Numbers of Withdraw (including Govt. Payments)	876		
Numbers of Money transferred	45		
Life Insurance	7		
Other Insurance (vehicle)	305		
Bill Payments	53		
Receive of government payments	419		
Produce financial statements	209		
Total	2230		9551

Given the VLEs operate in rural areas, the nature and volume of banking transactions is impressive. Data clearly reflects that the issues of dormant accounts that BC model of banking is severely facing in India, is not a case under the Kiosk arrangement. It could be interpreted, that offering a wide range of products and service, helps in addressing the issues of a dormant account. It is not just a target oriented model of financial inclusion. The wide range of transactions at Kiosk reflects that this model is not only efficiently complying the objective of financial inclusion by achieving the target in number but it is very efficiently able to deepen the banking services in its operational area.





To understand the financial viability of the Kiosk unit; monthly operational cost and revenue details were collected from the VLE's financial records. While, all VLEs maintain their transaction details these are either computerised or in manual registers. However, researchers observed that these VLEs need to improve their account skills. Following are the details of the operational cost and revues of Kiosk unit.

Operational costs: operational / recurring costs are the regular revenue expenditures that VLE is spending to operate the Kiosk business. Specifically, VLE is spending on travel, office/shop rent, employee wage, water bill, electricity, hospitality and others.

Revenue: under the Kiosk model, the major source of the revenue for VLE is the commission on various banking transactions and offering government schemes. VLE also earn by charging fees to clients for his/her value added services.

Table 6: Average monthly income and expenditure of the VLE.

Monthly Finance Statement of Kiosk Unit			
Expenditure	Amount (INR)	Income	Amount (INR)
Wage / salary	763	Revenue from financial services	9617
Kiosk premises rent	1537	Revenue from non-financial services	5717
Travel cost	953	Miscellaneous	483
Electricity and utilities	1158		
Maintenance and repairs of equipment, etc.	533		
Equipment and stationaries	1523		
Miscellaneous and hospitality	50		
Profit	9298		
Total	15816	Total	15816





The average monthly operational (finance) statement shows, VLE earns INR 9298 per month, which is impressive. While, about 61% of total revenue comes from the financial services, 36% of revenue contribution from non-finance offers of Kiosk makes a significant difference. The above data clearly shows that Kiosk model is profitable. It is proven that the Kiosk model with a wide range of products and services (not limit with financial products only) is a viable business model and one that can cater to the underprivileged population.

The researchers are in a view that, given the capacity of the Kiosk infrastructure and VLE's reputation and trust among local population; the business scope of the Kiosk unit can be broadened further to serve a wide range of stakeholders, specifically the farmer and retailers in the locality. Kiosks services can further deepen in converting major volume of cash-based rural transactions into electronic transactions, which will further make the model more financially viable and it will make a right business case for the financial inclusion drive in India.





Scope for Kiosk Banking in Converting Rural India's Major In-Cash Transactions into Cashless Transactions

The Government of India plans to make India a 'less-cash' economy¹⁶ with clearly defined outcomes and timeline. Over the years, Reserve Bank of India and the Government have been persistent on establishing an inclusive electronic payment system to ensure safe, efficient, interoperable, and an accessible payment method that is compliant with international standards. In contrast, as per the National Payments Corporation of India (NPCI), an average of only six electronic-cash transactions are made per person in a year in India. Further, a negligible number (0.6 million) of retailers in India have an infrastructure that allows them to accept payments through cards. This clearly indicates that there is a long way to go and the scope for converting cash-based transactions into cash-less transactions is enormous.

While government's initiative towards enabling a less-cash economy will have to ride a certain distance, one needs to look at how the current platform (payment infrastructure) such as CSC under government's e-Governance scheme, which is also operating as customer serve point (CSP) under business correspondent contributes towards the same. The CSCs are successfully abled to facilitate banking transactions such as small deposits, payment, remittance, withdrawals etc. However, the model has not yet explored the potential to facilitate the predominate nature of rural livelihood transactions, specifically agricultural transactions. Cash-based agricultural transactions are very significant in rural India, apart from few schemes such as Kisan Credit Card, and payments from government units to farmer on sale of agri-produces, all other transactions are cash based. The volumes of cash based transactions are substantial and often pose high liquidity risk. The major

¹⁶ <http://www.financialexpress.com/article/economy/govt-eyes-less-cash-economy-via-digital-payment-revolution/43331/>





cause is lack of availability of such infrastructure and facilities, where farmers and retailers/wholesalers can engage through electronic platform.

Given this above mentioned scenario, the study also attempted to identify the scope of converging CSCs' web-enabled infrastructure and kiosk banking model in other ways that can facilitate the substitution of in-cash transactions of a village (especially in case of agriculture) with cashless transactions. Researchers interacted with farmers and retailers/wholesalers, surveys were also administered with this population to understand the nature and volume of agricultural transactions in the study area. Agriculture is the major source of income for about 95% of households in the study villages, where about 31% households depend on the agri - labour. The average landholding of a farmer household is about 3 acres. While, a large section of the households (80%) are small (landholding 2.5 to 5 acres) and marginal (landholding <2.5 acres) farmer, 70% of their agricultural lands are irrigated. Farmers in these villages are practicing cultivation mainly in two seasons i.e. Rabi and Kharif and the main crops are wheat, soybean, vegetables (potato and onion), gram etc.

Major cash transactions occur broadly for the agri-inputs, harvest and sale of agricultural produces. The data table below clearly shows that almost the entire farmer community does cash purchase for all major agri-inputs. Further, a farmer does cash transaction for the same agri-inputs, more than two times.

Table 7 : Cash Transactions for Agri Inputs

Major Agri Inputs	Avg. No of Times	Avg. Quantity / Per Farmer	Avg. Spent (INR)	% Farmers Reported Cash Purchase*
Purchase of Seed	2.2	528 Kg	15957	92%
Purchase of Fertilizer	2.5	695 Kg	15014	100%
Purchase of Pesticides	1.3	4 Ltr.	5733	99%





Farmers purchase agri-inputs from nearby markets that are around 5 to 10 kilometres from their villages. Most of the farmers reported that they prefer to purchase inputs from same retailer/s that they have been transacting with over the years. However, in case of the sale of agri-produces, researchers observed that farmers deal with two different stakeholders depending on the produces. While, wheat and soybeans are sold to ‘farmer cooperative societies’ or government outlets, farmers prefer to sell their cash-crops (vegetables) to the retailers and wholesalers in the market. These outlets are 5 to 10 kilometres from their villages. As discussed above most of these events are cash-transactions, and it also involved transport and opportunity (time) cost for farmers. Often, government outlets and societies pay the due amount to farmers for their sale by cheque and it takes about 15 to 20 days for farmers to get their dues in form of cash. In either case, farmers reported that they lose money and it affects their income. To deal with retailers, farmers compromise in bargaining the unit price for their produces to avoid any form of loss in case of un-sold produce. In addition, they also do credit sales of their produce to the retailers. It takes time to receive the credit amount and farmers also spend money on transport to collect it at the later stage too. In the case of a cheque received; farmers pay bank charges and it also takes time to be credited in their account. In addition, the farmer has to travel to the nearby bank branch, which involves transport cost and time cost for them.

Researchers observed that most of the retailers in the study areas primarily serve the client segment which consist of small and marginal famers. These retailers’ client base is spread over 5 to 30 kilometre radius (covering about 10 to 40 villages). The average footfall per retail unit is about 50 to 60 clients per day, and there is no bank transaction with their clients’ at all, most of the transactions either are cash and credit. Though all of these retailers have bank accounts (savings bank or credit accounts), none of them have instruments for facilitating electronic transactions/payments.

Given the scope and capacity of the Kiosk model of banking, which has direct interface with core-banking as well, and is also linked with the government departments and schemes, researchers attempted to understand the perspective and willingness of the famer and





retailers under certain hypothetical situations. These concepts are already tested in India and have shown the positive results. Farmers and retailers responses are discussed in the following section.

Hypothetical Scenario I: Introduction of Kiosk to facilitate the electronic transaction and play the role of an enabler; where farmer places his/her order over phone to the retailer, s/he usually buy inputs from, collects the bank details of the retailers and remits the money from his/her (farmer) account to the retailers account. The products are then delivered at the farmers place.

While, a minor section (16%) of farmer expressed discomfort for such an arrangement, overwhelmingly a larger section of farmers (84%) expressed their willingness to participate in such a programme. Further, most of the agreeable farmers also expressed their willingness to pay for such services that range from INR 10 to 50 per unit. Responding to the same scenario, large section of retailers (65%) also expressed their willingness to participate in such arrangement/programme. Farmers see a lot of benefits from such programme, it will minimise their time consumption, reduce transportation cost and they will also get the home delivery benefits. However, a section of farmers also expressed their reservation as this system will not allow any credit transaction that they use to avail from the retailers in their direct interaction; as they have to pay the amount on the day itself. On the other hand, many retailers viewed this system as one that will help in enhancing their client based and it will also reduce credit transactions. However, many of them are also skeptical about such facilities.

Hypothetical Scenario II: Introduction of Kiosk to facilitate the electronic transaction and price, etc.; where farmer place his/her order online or over phone to the retailer of her/his choice, collect the bank details of the retailers and pay the due amount by using the Kiosk facility. The products are then delivered at the farmers place.

A larger section of farmers (80%) are willing to participate in this programme and are willing to pay a very similar amount for the services that they expressed in the first





scenario. Apart from the obvious benefits of transportation cost and time, farmers expressed their enthusiasm for such a scheme as it will also give them a lot of information on a range of retailers and their offered price, which will help them to take an informed decision. While, many retailers expressed their desire to participate given such facilities are arranged, as well as, they viewed that in the second scenario, it will raise the competition and it will also assist in increasing the customer base.

Further, the researchers also tried to understand the farmers' perspective under different hypothetical scenarios where farmer would be able to place his agri-produces for sale. Two difference scenarios where given to the farmers to expressed their views. Scenario one, where farmers has already identified the buyer for his agri-produces, use the Kiosk facility to receive his/her dues from the buyer (retailer) in his account. About 80% of the famers surveyed expressed their willingness to participate in such an arrangement and they are also willing to pay commission and fees for the facility. Many of them see the benefit of receiving their due amount quickly and there will be no hassle of visiting bank branch to en-cash their cheques.

Scenario two – farmers get themselves registered at the Kiosk with the details of their agri-produces (quality, quantity etc.). Similarly retailers will register themselves at the Kiosk with the details of the price they are willing to pay for the agri-product they are looking for. Farmer and buyer can reach-out to each other over phone or online, once the deal is made, the produce will be transported and buyer will remit the due amount at the farmers Kiosk account. While, a negligible number of famers expressed their reservation in participating in such an arrangement, about 89% of the farmers expressed their readiness in joining it. On top of the obvious benefits, many of the farmers see that such arrangements will not limit them with just one or few buyers. They are in view that it will really help them in reaching-out to the most competitive market and can get a fair amount for their produce. Farmers also responded in a very similar fashion, where in one scenario, it asked them to register at the state government's programme 'MP-online' and the government will provide information on price and mandi that you could take your produce to. The quality of your





produce will be checked there and you will get your due amount through your Kiosk account.

Given the Kiosk's unique position, as it operates at the door-step of targeted clientele and equipped with high technology; it has the potential to cater to the farmer and retailer segment in converting their cash-based transitions into cash-less (electronic) transactions. However, certain specific policy issues need to be addressed; the major challenge is the limitation (upper cap) on the Kiosk unit's volume of transaction and the limit in transaction value. Kiosk units need to further empowered by building the skill and know-how of the unit operators, as well as, policy restriction on banking transaction limits need to be addressed.





Kiosk Model: An Effective Inclusive Finance Instrument

‘Financial inclusion’ has become an integral part of Government’s strategies, policies and actions that intends to ensure wellbeing of the poor at a large scale. The entire financial inclusion drive in India is primarily aligned with the G20’s nine principles. Over the years, number of attempts have been made to bring the ‘under privileged population’ into mainstream finance in India. In a similar spirit to deepen the financial inclusion among poor households, the Government of India has recently announced multiple measures such as ‘Pradhanmantri Jan-Dhan Yojana’ which provides a bank account, a debit card and life insurance coverage of INR one lakh for the poor, openings for new bank licenses, relaxation of KYC (by introduction of Aadhaar card), provision of new regulatory framework in the form of allowing for establishment of small banks, payment banks, NBFC-MFI guidelines etc., use of technology, expanded scope of business correspondent model, revision of the provisions of Self Help Group (SHG-2) and Kisan Credit Card (KCC), rural livelihoods schemes, focus on microfinance plus activities such as financial literacy campaign etc. Government’s National e-Governance Programme attempts to make all government services and schemes accessible to the common man through common services delivery outlets and ensures efficiency, transparency and reliability of these services at an affordable cost. Financial services provided through this NeGP platform can be seen to adding further value to the financial inclusion landscape in the country.

A closer look into these recently introduced processes, provisions and products clearly indicates the guiding principles/ rules of financial inclusion as have been prioritized by the government and other key stakeholders. These include (1) client centric approach: efficiency in client selection, enabling client to make informed choice and client protection (2) savings led inclusion: bank linkage through savings accounts, (3) real-time /time bound services: intensive use of technology and innovation, (4) accountability and transparency: minimised fraud and corruption through direct benefit transfers, and (5) provision of affordable products and services to a larger client segment. Following paragraphs of this section try to see how well the KIOSK model adopts these principles?





The idea of the **client centric approach** is to provide a conducive environment to the clientele offering required and reliable information and services, while, protecting their interests. The Kiosk infrastructure is managed by the village level entrepreneur (VLE) who belongs to the local community ensuring a great level of trust among clients as they deal with a known person. Our survey with the client also validates this assessment, where it found that 99% of the beneficiaries expressed their willingness to continue using Kiosk for their financial transactions in the future. This number is encouraging because client retention has always been observed as a challenge in India. Researchers also observed that the necessary required information on banking system, products, associated costs, grievance processes and client rights are clearly displayed and disseminated at the unit using posters, pamphlets and hoardings. This is done in a way that the information is comprehensible to the users. In addition, it was also observed that the VLE is regularly engaged with clients in providing all the information that is essential in making an informed financial decision. While, financial education schemes are not mandated to be channelized through these Kiosks, the amount of information VLEs have access to and provide, extends personal guidance to the clients and builds a comfort level. Studies on banking systems in India¹⁷ have shown that people do not really understand the product features, costs etc. especially when provided by a formal financial institution. This is attributed to the reasons like fear of a fancy infrastructure, problems with language and feeling of not being welcomed. In the Barriers to Bank Banking Study a conversation was cited between the Client and Staff, which shows customers are many times not welcomed.

Client: Good morning, madam. A few days ago, I collected information to open a savings account. Here is my application form.

Staff: You wait. I will call you. [Note: Client waits for half an hour.]

Client: Hello madam, I've been waiting 30 minutes. I am getting delayed for my office.

Staff: Actually, we are also busy. Otherwise, come tomorrow.

Client: Can I wait for 5 minutes?

Staff: I cannot give you 5 minutes. You wait. I call you

¹⁷ Mowl, Amy and Boudot, Camille Barriers to Basic Banking: Results from an Audit Study in South India, 2014 - 2015





Kiosk model overcomes all these challenges. Additionally, as these Kiosks have a strong association with the government's e-governance plan, they are playing a role of bridging the gap between many (otherwise not known) government schemes and community. Availability of this wide range of financial and non-financial services assists in deepening the client centric delivery mechanism.

Kiosk is playing a crucial role in pursuing inclusive finance through a ***savings linked*** approach. As the Kiosk is a customer service point under the arrangement of business correspondence, it facilitates opening savings bank accounts for the clients it serves.

In other forms of financial inclusion models/ schemes that are also channelized through opening of savings bank accounts, one of the major challenges policy makers, bankers and BCs face in general, is the large number of dormant savings accounts. In case of Kiosk Model of banking, the data shows that a significantly large section of clients (i.e. 85%) use the account regularly with an average frequency of 5 deposits per client in a year. About 90% of the clients surveyed also informed that they used Kiosk to withdraw the money from their savings account at an average frequency of 5.3 times per client. Although this facilitation of transactions is commendable, a very minimal (7%) section of clients use this Kiosk platform for more sophisticated savings devices such as recurring deposit and fixed deposit products. Researchers also observed that the Kiosk serves an interesting number of school going children as the government's student scholarship scheme is routed through these CSCs. In the process, these children getting a practical exposure to the modern banking system. The combination of exposure to banking system, money in hand and learning numeracy at school is going to instill a greater degree of confidence among these children towards money management and financial decision making in future. This exposure at kiosk is expected to have a domino effect by gradually impacting the financial behaviour of parents. A systematic inclusion of financial education programme in the model would enhance this effect further.

The Kiosk model entirely operates on technology platform. The principal bank's core banking solution is linked to the Kiosk system, hence any transaction taking place at the Kiosk unit reflects in the bank record on real time. The system is very similar to online





banking that ensures the time bound benefits. CSC allows clients to check the summary of their transactions and to get a printed copy of the same. It also enables clients to get intimation on his/her mobile for the transaction. To further help the illiterate clients, there is an in-voice confirmation of the transaction that they receive immediately. People fear the use of technology but such a service really enhances the trust of the clients on the Kiosk model of banking.

Kiosk model is highly accountable and transparent. The participation of multiple stakeholders including the state, principal bank, and the business correspondent enforces a multi-layered monitoring mechanism. Regular visits from bank officials, officials from the corporate BC, and concerned government departments and periodic reporting (MIS) mechanism brings robustness in the system. This leads to close interaction with the target population which aids in addressing people's demands grievances in a faster fashion. The joint-venture of government's e-Governance and bank's agent model ensures fraud and corruption free business and provision of services. Further, the government's Adhaar (UID) scheme promises to ensure a further efficient selection of targeted population.

The model is a reliable source to access sustainable and affordable products and services. As discussed above, the collaboration among important stakeholders along with engagement of village level entrepreneur to deliver products and benefits at the customer service point makes this system highly accessible to the common man. Further, the investment of government, principal bank and BC in infrastructure, technology and training makes the delivery mechanism much economical for the clients/ common man. This is because their desired financial and non-financial products and benefits are delivered in their locality, which minimises the transaction cost, specifically their travel and time cost. Moreover, as this mechanism has a great reach in the remote areas and has the potential to entirely reduce the physical monetary transactions, banks see it as an opportunity to deepen their client outreach. Researchers have also observed that banks are in a practice of asking their regular clients to use Kiosk unit to do their small bank transactions, which gives an opportunity to banks to allot more time for their larger clientele at the branch. This helps banks to judiciously meet the under-privileged population's need.





Concluding Remarks and Recommendations

As mentioned in the previous section, kiosk model is not very unique in its design but in its approach. This strategic approach comes with a lot of merits and promising potential towards provision of formal financial services to the poor. Given the strength of the model due its offering in terms of diverse products, delivery mechanism and governance and ownership, researchers make the following strong recommendations that could add further value to the entire system.

Maximizing the potential of VLEs: Given the educational qualification of VLEs and the current experience with handling kiosk, related technology and financial and non-financial products, it would be to the larger benefit to gradually upgrade the skillset of these entrepreneurs. More complex and sophisticated financial products can be eventually marketed through these centres. As key selling points of these kiosks are trust and accessibility, it is important that these centres evolve with time to be able to deliver a complete package of services to the underprivileged.

Facilitating change in financial behavior at a larger scale: The job of VLEs is such that they possess a lot of valuable information that can guide people towards making judicious financial decisions. Efforts should be made to formalize the knowledge sharing between VLEs and clients so that it could lead to longer term behavioural change that standard financial literacy programmes struggle to achieve. Additionally, the foot-traffic from school-going children is highly encouraging. These children should be given more structured information and tips towards money management that they could share with their household members. This type of knowledge dissemination might take time to show results but is sure to have positive implications.

Incorporating a 'push' marketing strategy for innovative products: Physical and psychological positioning of a VLE is such that he/ she is a key person in its area of operation. He/ she has a good social network and can be considered central to the social





network of the community it serves. Social Networks¹⁸ can be used as a powerful tool in pushing good financial behavior and in take up or increased usage of a good financial product, like a savings product.

Their importance is also being realized by the government. The famous Self Help Group Bank Linkage Programme (SHG-BLP) has worked over years to create community level institutions called SHGs that are central to a community. Given the kind of information these SHGs have and the skill set they possess, government is now trying to channelize various welfare programme through these, one key programme among these is the rural livelihood programme¹⁹ Researchers strongly believe that, on similar lines, social network of VLEs can also be utilized to push some important products like 'pensions and insurance'²⁰ and some innovative products like 'commitment savings'²¹. Research shows that such products sell on trust and a convincing incentive structure. They also require regular reinforcement that is difficult for any other agent to do who cannot be in constant touch with the clients.

Strategically strengthening the kiosk banking model in the space of e-Governance: The working space of e-governance in India as per NeGP is very comprehensive and diverse. Currently, it is structured in a way that financial services or banking is just a small part of the basket of services it provides. Researchers foresee the potential of using this platform, because of various reasons as mentioned in the report earlier, towards strengthening the financial inclusion agenda of the country. Focus in the country is on utilizing the technology and converging it with the various different models that are functioning well independently but are limited by their scope. If kiosks are used as a hub for this convergence, then the system could result in better outcomes. For instance, farmers are being provided extension services on mobile phones or through some other technology platforms. Kiosk is being

¹⁸ Banerjee et al, The Diffusion of Microfinance, 2012

¹⁹ <http://aajeevika.gov.in/>

²⁰ Cole, Shawn, Ginie, Xavier, Jeremy Tobacman, Petia Topalova, Robert Townsend & James Vickery : Barriers to Household Risk Management : Evidence from India, 2010

²¹ <http://ifmrlead.org/a-randomized-control-trial-of-a-soft-commitment-product-a-pilot/>
<http://ifmrlead.org/the-economics-and-psychology-of-long-term-savings-and-pensions/>





used by the state government to register all the farmers on MPOnline²² With details on authorized kiosks across India, application for new kiosks and also providing the opportunity to submit complaints, the website is a useful tool for information on kiosks.

Now, both these models are functioning really well and are achieving what they intend to achieve but if they are brought together and all the information sharing is routed through kiosk, then it could prove to be more beneficial to the farmers and others in the agriculture supply chain and can eventually lead to much more cashless transactions (as mentioned in Section VII of this report)

In all, the kiosk banking model has huge potential to successfully service the underprivileged. All it requires is more attention and strategic leveraging of its unique attributes.

²² <https://www.mponline.gov.in/Portal/CitizenHome.aspx>





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