



Digital Cash Transfers and Financial Inclusion in India

Key Elements for Implementation

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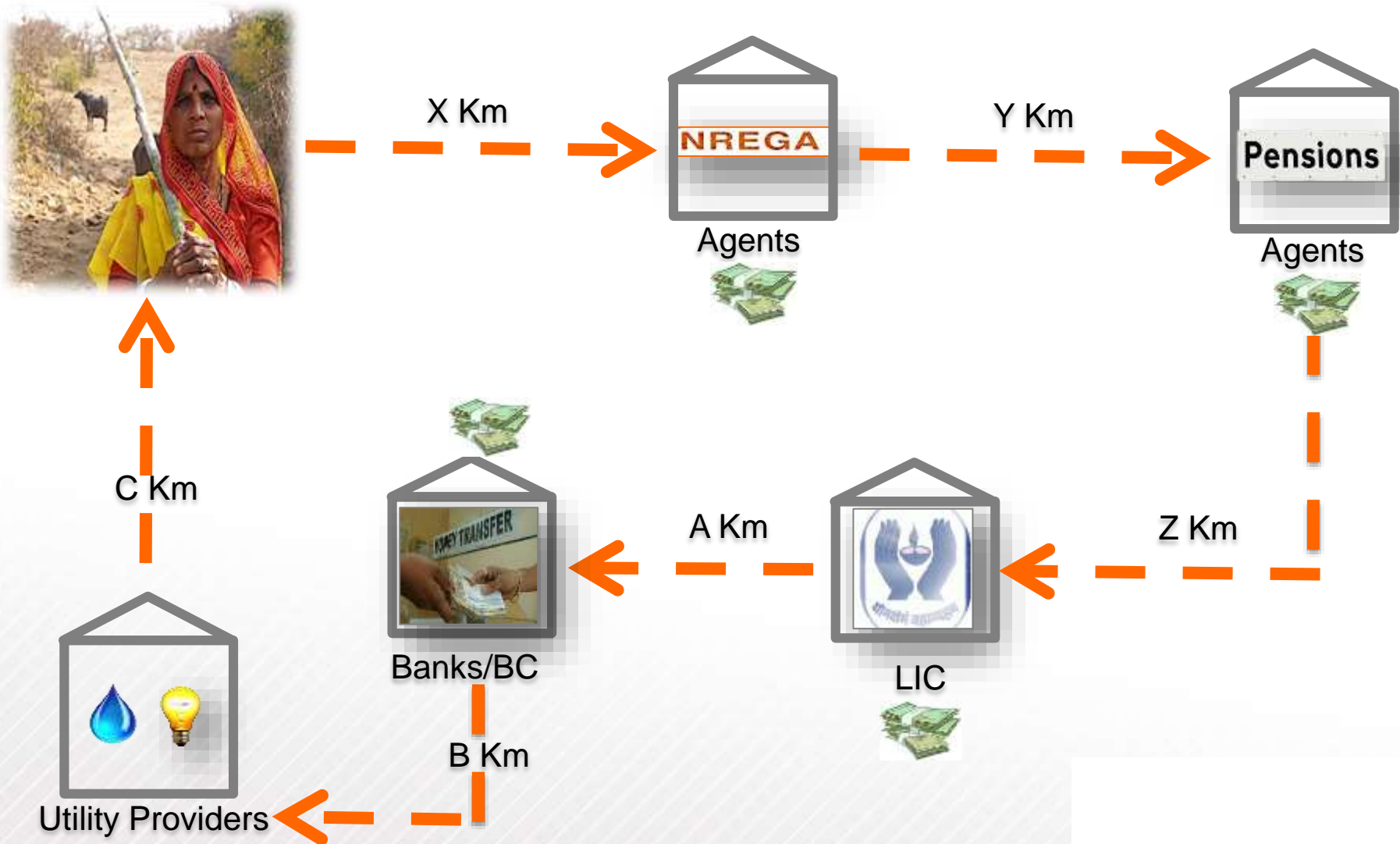
Developing Digital Payments Architecture: Rationale

Create **efficiencies and lessen leakages** in government, by building digital rails in some of the hardest to reach and poorest areas of India.

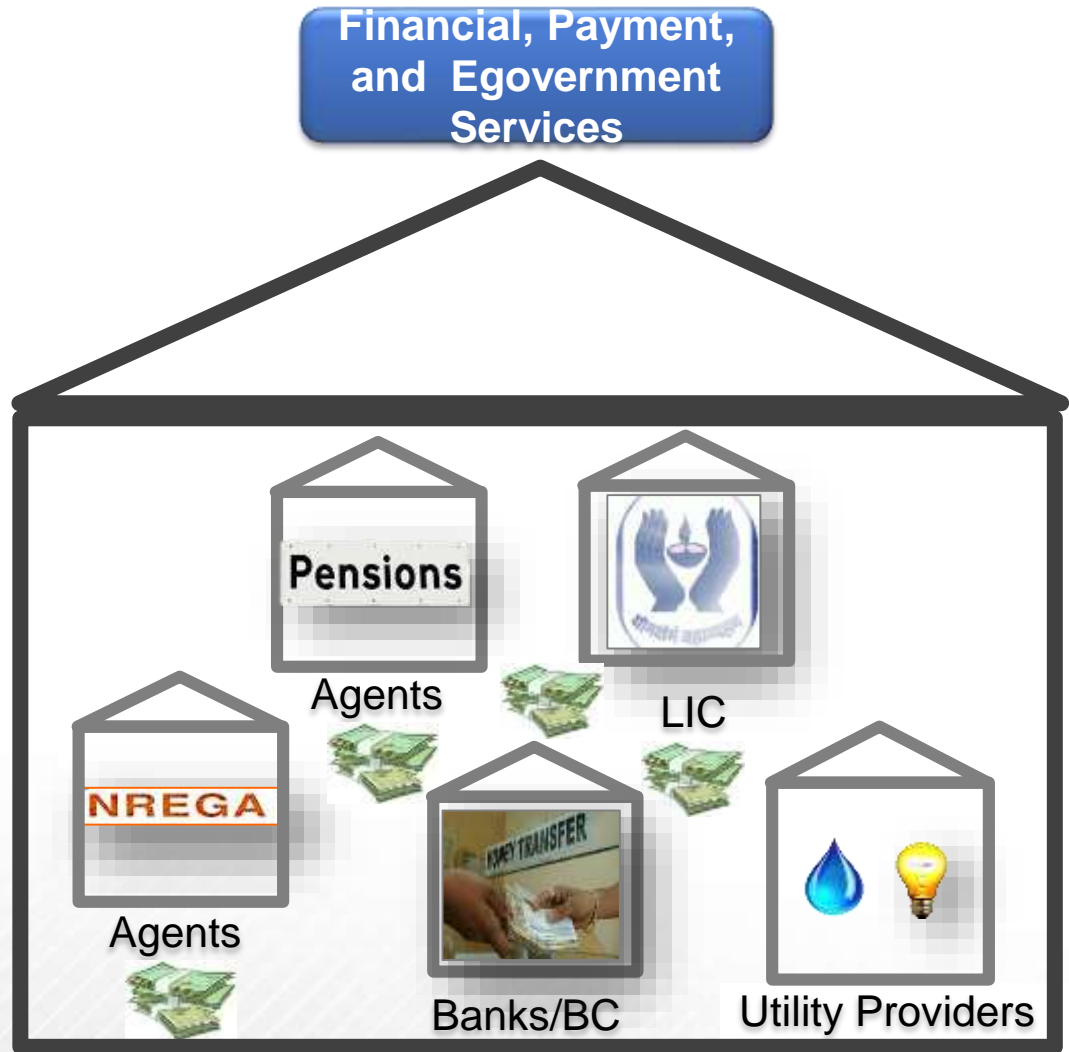
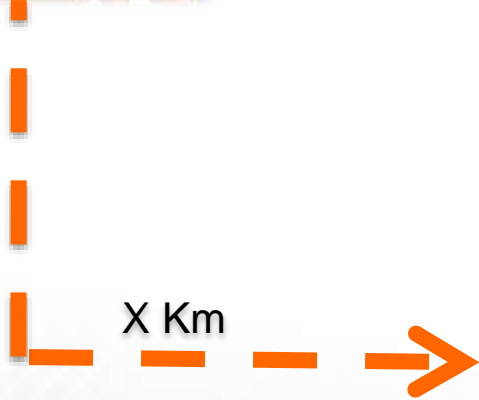
Save India **\$20 billion a year**, or 1% of its GDP: World Bank Development Report 2012.

Achieve **financial inclusion** for millions of beneficiaries who can receive payments on time, access basic financial services, and use technology to provide feedback to government on those services.




Current Situation From the User Perspective



How do we get to: One Stop Shop



Digital Cash Transfers: Key Elements of One Stop Shop

	Function	Purpose	Main Players
<p>Back End Systems</p>	<p>UID Seeding Integrate beneficiary databases Link to national servers Undertake grievance redressal</p>	<ul style="list-style-type: none"> Real time monitoring Birdseye view of cash transfers per household 	
<p>DBT cell at the state level</p>	<p>Coordinate various departments and stakeholders Manage backend systems and front end roll out</p>	<ul style="list-style-type: none"> Set common service standards for financial providers M&E 	
<p>Payment and Financial Services</p>	<p>Anytime access to payments, financial services, grievance redressal. Convening stakeholders and synergy with national F programs like Jan Dhan</p>	<ul style="list-style-type: none"> On time payments, no leakages, empowered users Choice of financial services to the end user 	

Key Elements of One Stop Shop (Contd)

Links to other Government Services

Function

Synergize with e-panchayat and e-sewa services

Purpose

- Bundle services to increase agent viability
- Increase convergence and efficiency of government services

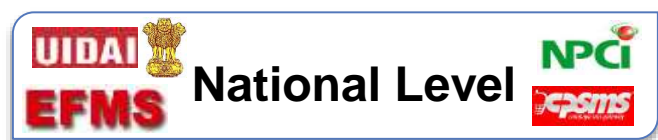
Main Players

Common Service Center

National E Governance Plan

Panchayats and Community Institutions

Back End Systems Need to Perform 7 Essential Functions



Goals

To promote real time monitoring

To gain a birdseye view of cash transfers per household

Function	Status	Owner	Investment Required
Integrate Databases	✓	State Govt	Technical Assistance
Link to UID	✓	State Govt + UIDAI	Demonstration of One Stop Shop Service Centers
Build Common Technology Platforms	✗	State Govt + TSP	Technical Assistance
Set Service Standards	✗	State Govt	Convening of Stakeholders
Grievance Handling & Accountability	✗	State Govt + Providers	Technical Assistance + Design Research
Research & Real Time Monitoring	✗	State Govt	Technical Assistance
Policy Design	⚙️	State + National Level Stakeholders	Convening Knowledge

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CGAP

Donor Support

Donor and Technical Support

Technical Support

Providers

 **AXIS BANK** **Banks**  **State Bank of India**

Goal

To provide efficient reliable payments delivered to beneficiaries

To provide varied choice of basic financial services to the end user

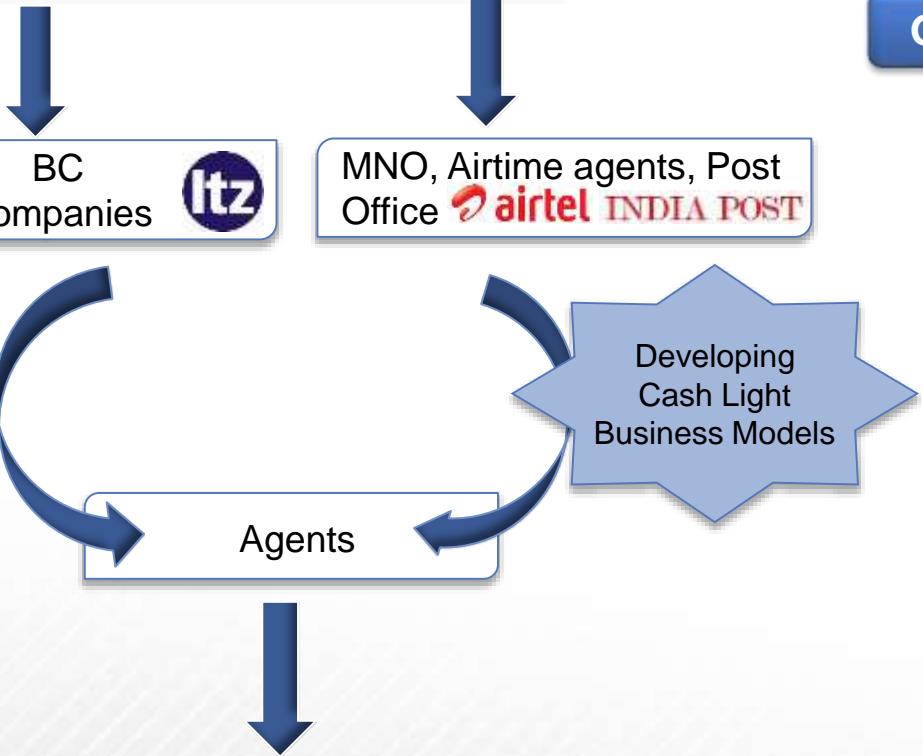
 **BC Companies** 

MNO, Airtime agents, Post Office  **airtel** **INDIA POST**

Developing Cash Light Business Models

Agents

 **End Users**



What Do Providers Need?

Firm Business Case: Research showed that it takes more than 2% of total volume of payment to deliver payments.

Clarity on the amount of commission provided by government, and on the procedure to apply for commission.

Good quality and viable agents that can offer multiple services.

For Financial Inclusion at the Last Mile

Last Mile Ecosystem



Customer Service Point Agent



Village Leader



Branch Post Master



Block Level Coordinator – BC Company



Field Assistant – BC Company



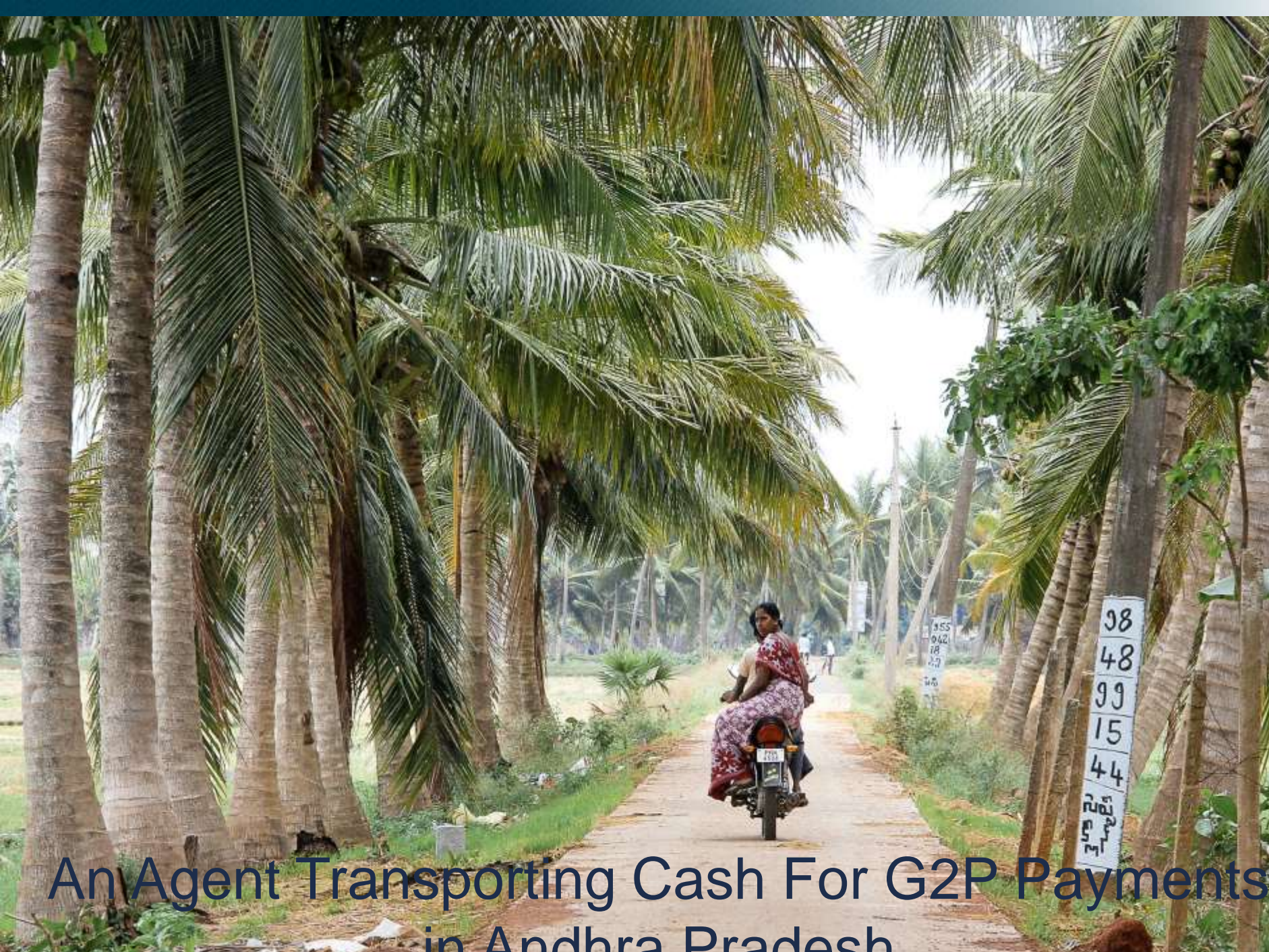
Public Food Distribution Agent

Goal

To ensure anytime access to payments and financial services

To enable on time payments, remove leakages and empower users

Function	Status	Owner	Investment Required
Quality agents	X	Providers, State Govt	Incentives, quality monitoring
Cash light systems that reduce risk	X	Providers, State Govt	Innovation grants
Basic financial services	X	Providers, State Govt	Incentives for providers, consumer protection knowledge
Accessible grievance redressal systems	X	State Govt	Awareness amongst consumers



An Agent Transporting Cash For G2P Payments
in Andhra Pradesh

Agents in India delivering G2P perform better on a number of indicators*

Only **23%** of Customer Service Points (CSPs) offer G2P services:

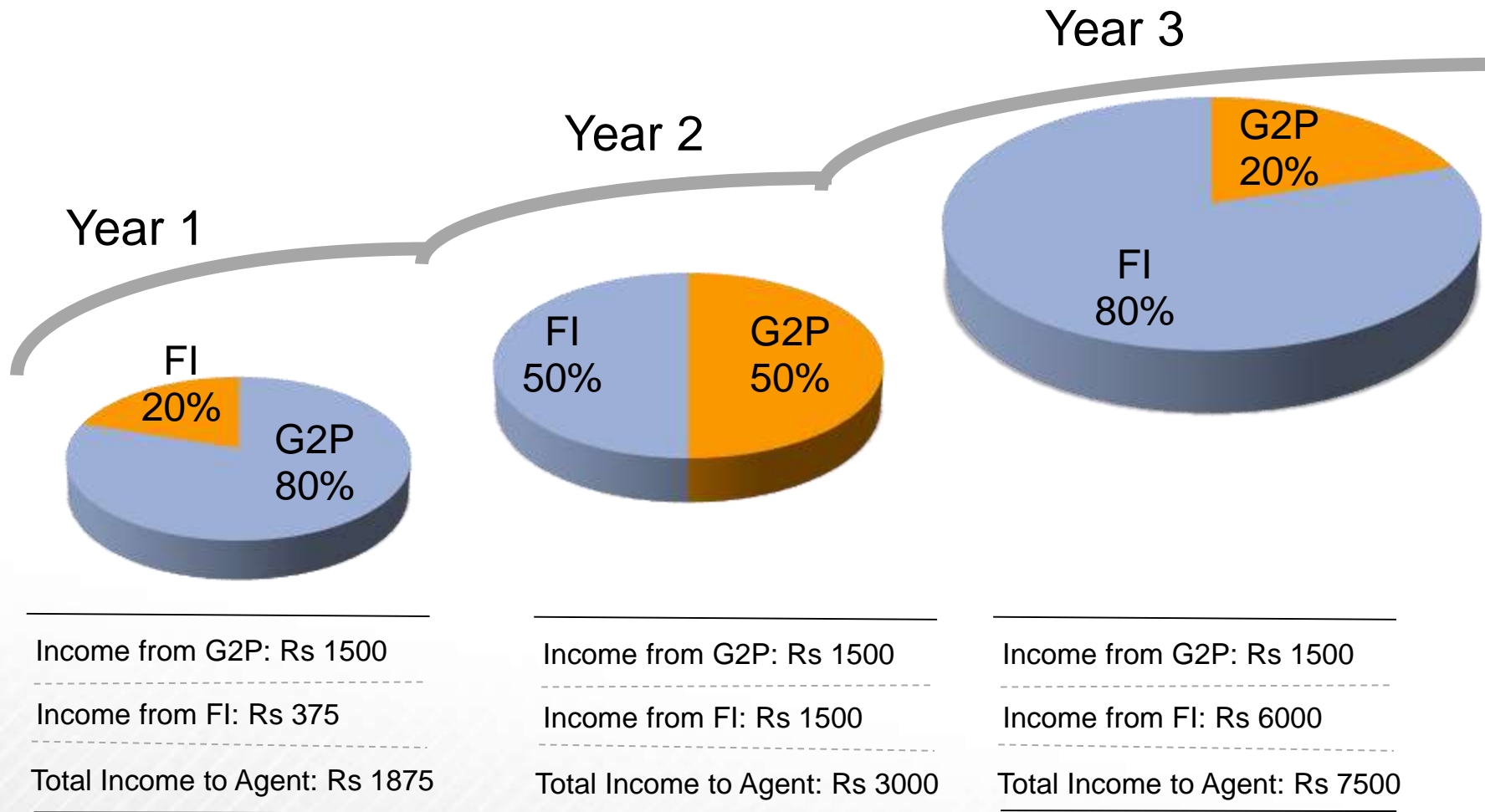
Most CSPs established to meet financial inclusion geographical targets and majority are still not linked to G2P delivery

92% of G2P CSPs work in rural areas; despite greater challenges in rural areas G2P delivery has a number of positive correlations:

	G2P CSPs	Non-G2P CSPs
Median Transactions per Day	15	8
Monthly Earnings – Rural (₹)	2,497	1,865
Readiness to transact	95%	88%
Local Language Forms	50%	38%

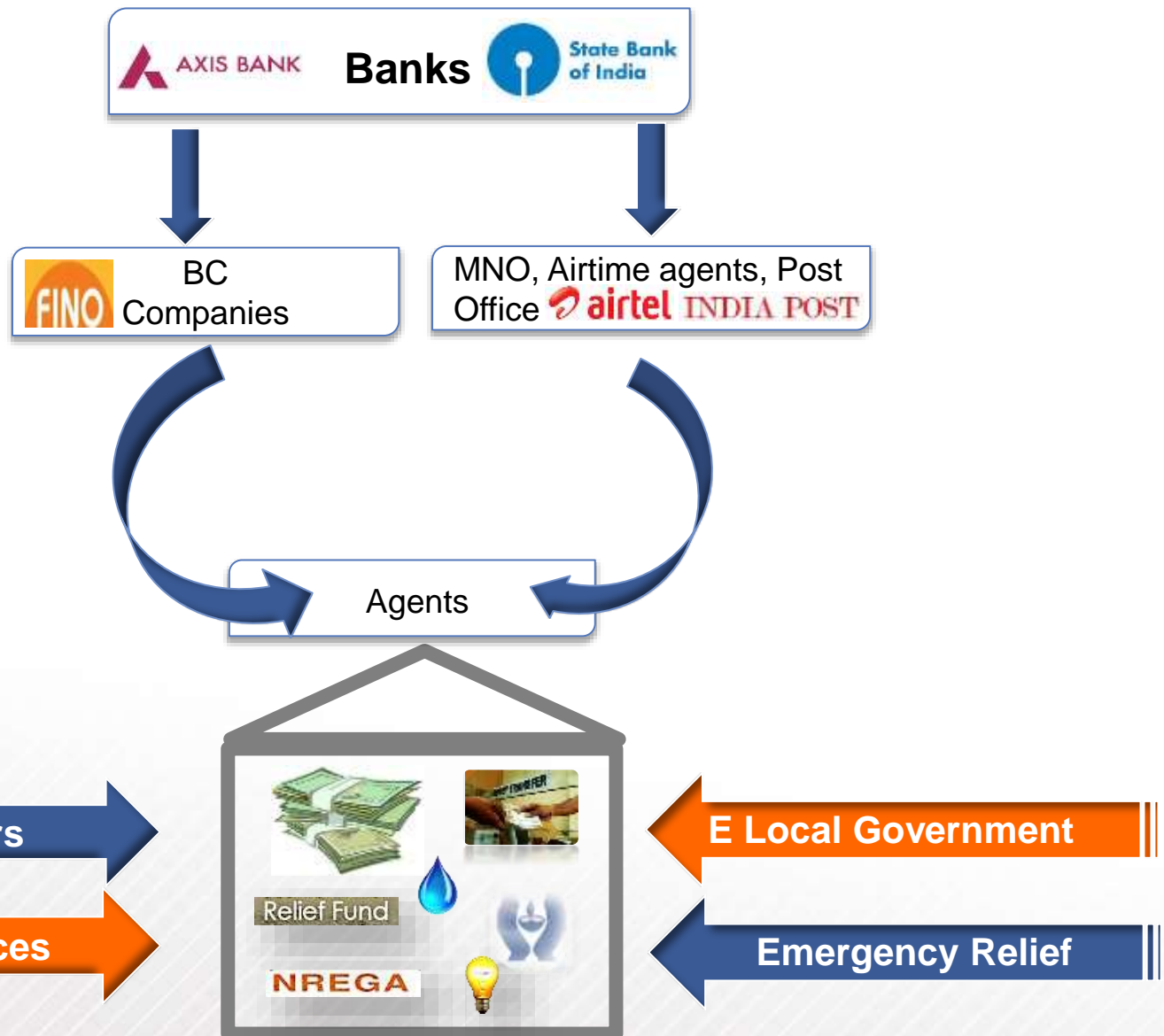
*Source: CGAP Agent Network Survey 2013

Building a Sustainable Business Case for G2P Agents



The pie of an agents income increases with diversification of financial services over time

End Goal: One Stop Shop

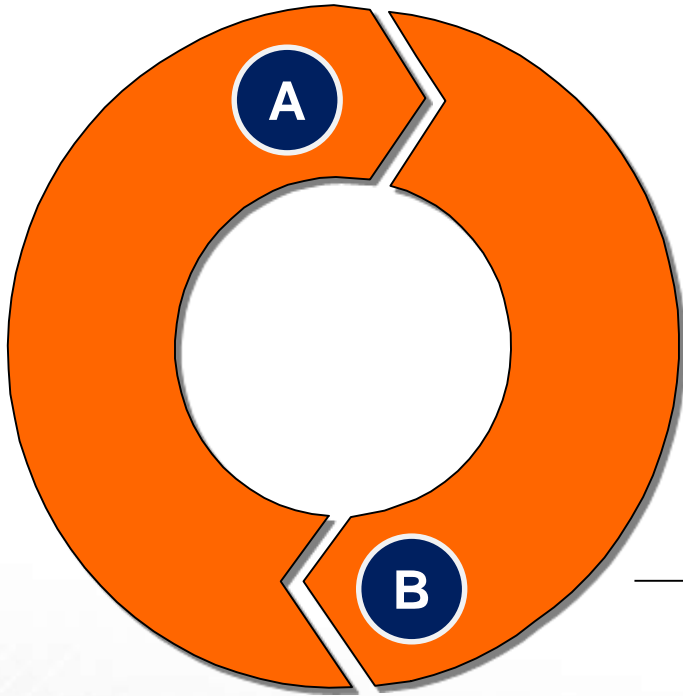


One Stop Shop: Benefits

Government



- **Economies of scale** and reduced costs by integrating services
- **Leveraging technology** across welfare schemes for a range of payments
- Consolidating **multiple stakeholders** on a common platform
- **Saving** 1% of India's GDP, \$20 billion



Users

- Minimal payment delays and leakages
- Better linkages between government, end user and agents through **grievance redressal systems**
- Access to a **wider range of financial services**

Providers

- Increased viability of agents from **bundling services**
- Upfront infrastructure investment in **connectivity** made by Government

Illustrative Example: Telengana One Stop Shop Design

One Stop Shop Housed in the Panchayat (local government)

Managed by a Village Entrepreneur

Investments made by Government:

- Connectivity and physical infrastructure
- Backend IT systems that link to UID, NPCI servers
- Grievance Redressal Unit
- Village Entrepreneur Training
- Convening of Banks and various government departments
- Monitoring, and impact evaluation

SERVICES To the USER

- Government Payments
- Financial Services: Savings, Life Insurance, Credit
- Utility Bill Payments
 - Tax Collection
 - Enrollment into Welfare Programs
- Call or text grievance

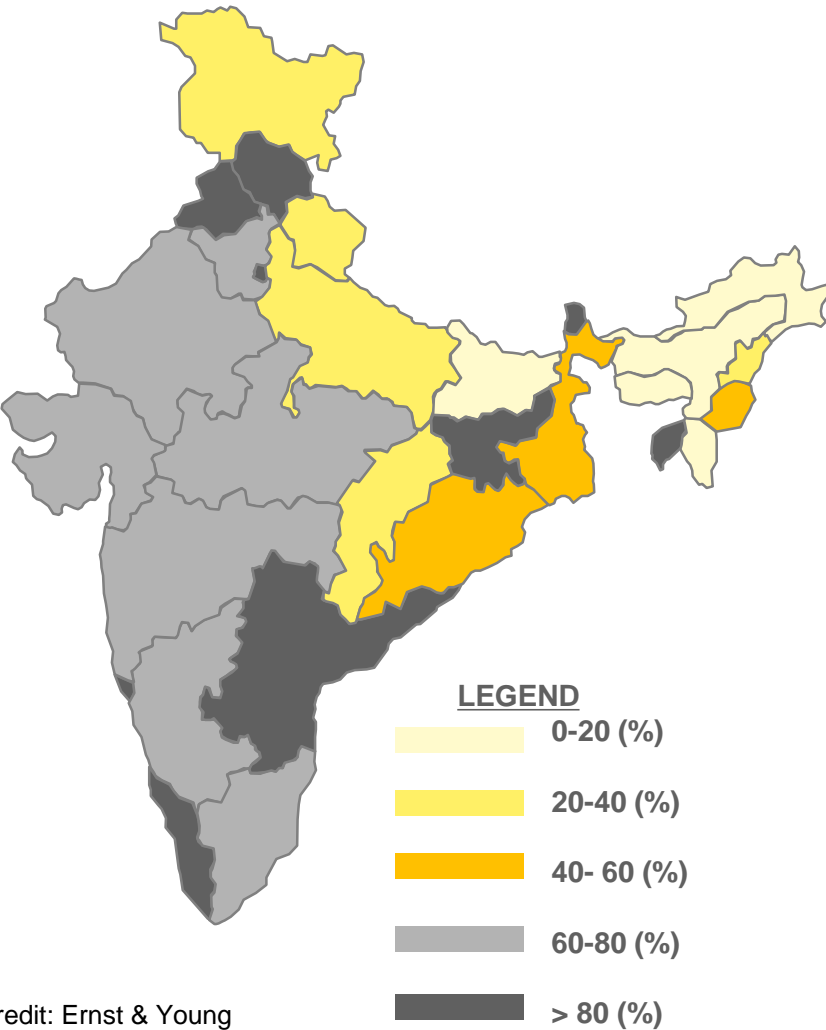
CGAP provided research and design advice to co-create this model with the World Bank and Government of Telengana. One thousand One Stop Shops, in the poorest villages of the state providing services to over two million people, will be rolled out with World Bank funding starting January 2015.

Issues with current DBT implementation and recommendations

Issues	Recommendations
Risk of fraud and leakages in areas with low connectivity	A robust manual alternative , with appropriate checks and balances, as well as monitoring, should accompany the digital rails.
Lack of an interoperable eco system to deliver payments	Setup an interoperable ecosystem to deliver payments, which could be used by both public and private providers in a level playing field. The ecosystem should let the market for payments and financial services develop organically by providing the digital infrastructure, to ensure long term sustainability and viability of providers and bank agents.
Risk of excluding existing agents	Build upon the existing system of private and public financial service providers , integrate across departments to develop an interoperable and fully digitized architecture.
Lack of provider and agent incentives	Bring global and cross state learning on agent network management, agent incentives, and combining financial inclusion with cash transfers
Lack of awareness among users	Invest in consumer awareness and trust building through a range of methods

60% people in India have been issued National ID (Aadhaar)

Key Milestones



- 1** September 2010: First Aadhaar issued
- 2** December 2011: 100 million Aadhaar issued
- 3** February 2012: Launch of authentication services
- 4** May 2013: Launch of permanent enrolment centers, eKYC and authentication services using Iris and OTP
- 5** October 2014: 700 million Aadhaar issued

- ▶ >700 million people have enrolled for UID
- ▶ Daily capacity: ~ 1.5 million residents
- ▶ Target to cover ~1 Billion by December 2015

Payments Cell at the State Level: Rationale

A payments cell would have the following functions:

- Serve as a **coordination and solution-development entity** and a focal point of the digital payments architecture at the state level.
- **Consolidate learning** across welfare schemes and develop and implement customised solutions for each scheme and monitor the implementation.
- Act as a **repository of experiences** in design and implementation of such architectures for different schemes.
- Bring together **multiple stakeholders** on a common platform.

Illustrative Example: Jharkhand Direct Benefit Transfer Cell

Digital Cash Transfers are a complex implementation challenge because of the number and diversity of stakeholders involved

Direct Benefit Transfer Cell

Key Functions: Coordination between departments and banks, bringing in best practices from within the country and globally.

CGAP provided research and design advice to co-create this model with the World Bank and Government of Jharkhand. With support from the World Bank and Gates Foundation, the Direct Benefit Transfer Cell is currently functioning and helping the government digitize its payments to 5 million beneficiaries.

Resources

Direct Benefit Transfer and Inclusion

Indicus Center for Financial Inclusion, July 2014

<http://www.indicus.info/app/webroot/files/policies/201407301606.pdf>

Electronic G2P Payments: Evidence from Four Lower Income Countries

CGAP, May 2014

<http://www.cgap.org/publications/electronic-g2p-payments-evidence-four-lower-income-countries>

Direct Benefit Transfers and Financial Inclusion: Learning from Andhra Pradesh, India

CGAP, December 2013

<http://www.slideshare.net/CGAP/to-link-unique-id-and-electronic-payment-of-benefits-in-india-improving-the-business-case-for-banks-and-agents-is-critical>

Task Force on an Aadhaar Enabled Unified Payment Infrastructure

Unique Identification Authority of India (UIDAI), February 2012

<http://www.slideshare.net/dkman/report-of-the-task-force-on-an-aadhaarenabled-unified-payment-infrastructure?related=1>

An overview of the G2P sector in Pakistan

CGAP, January 2013

<http://www.cgap.org/publications/overview-g2p-payments-sector-pakistan>

G2P Research Project: Colombia Country Report

CGAP, September 2011

<http://www.cgap.org/publications/cgap-g2p-research-project-colombia-country-report>

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Advancing financial inclusion to improve the lives of the poor



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