

Financial Inclusion in India

A BASIX Sub-K Case Study

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Report prepared by:
Elisha Connell
Mitch Hulse
Hyun Ju Lee
Tinashe Mutsonziwa



Sub-K
SAB KE LIYE SAMRUDDHI LAYE

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01.

Executive Summary

Over the course of eight months, a team of masters students from the University of British Columbia's School of Public Policy and Global Affairs collaborated with Sub-K iTransactions Limited, an Indian social enterprise, to understand, evaluate, and offer insights on the company's operational capacity and mandate to provide financial services to low-income and marginalized communities. The graduate students worked with Sub-K to understand the financial inclusion landscape in India and how Sub-K's employees work with business correspondent sub-agents, or BCAs, to provide financial services to communities across the country.

In tandem with Sub-K, the UBC project team worked to frame the project process and objectives through a clearly-defined two-part problem statement:

- Ensure Sub-K meets financial, social, and environmental objectives to enable lower income households to attain sustainable livelihoods;
- Examine the policy environment affecting Sub-K's operation and India's financial inclusion agenda.

The UBC project team further categorized the problem statement into three thematic areas that directed the research and fieldwork process:

- Theme 1: Empowering Low-Income Households;
- Theme 2: Operational Capacity;
- Theme 3: Organizational Viability and Resilience.

Together, these three themes encompassed the need to understand the financial inclusion sector in India while analyzing the direct implementation efforts of Sub-K, which works with this space to ultimately provide low-income communities with access to basic financial services.

This report first offers analysis and recommendations on Sub-K's attention to low-income households as its primary clientele. Sub-K is a social enterprise and thus, it works to serve communities that do not have access to basic government or financial services. This report profiles successful and critical aspects of Sub-K customers and offers recommendations that can improve Sub-K's strategy in effectively improving the livelihoods of these communities.

Secondly, this report details the Business Correspondent Sub Agent Model. As a Business Correspondent company, Sub-K leverages existing resources and infrastructure to provide financial services to marginalized communities. The project team analyzed the effectiveness and sustainability of this model as it directly relates to Sub-K's field-level operations.

Finally, this report examines the viability of Sub-K's internal operations. The UBC project team interviewed office and field employees of Sub-K to learn and determine strengths and opportunities for Sub-K as it continues to operate in this arena.

Ultimately, Sub-K operates as a social enterprise to enable communities to access government and financial services through business correspondent agents and microfinance services. This report frames that operation through the current financial inclusion system in India and how Sub-K can continue to sustainably operate in the wake of shifting markets, differing government policies, and an ever-changing digital landscape.



02.

Introduction & Background

Introduction

Over the past twenty years, India has witnessed staggering economic growth. Today, the country is home to an estimated 1.3 billion people and is considered as one of the fastest growing developing economies of the world.¹ Improved connectivity, persistent urbanization, collaborative entrepreneurship, and consistent government-led public policies have engendered a national culture of economic empowerment and growth. Outside of information communication technologies and employment security, financial inclusion of marginalized communities stands as a paramount development agenda.

In November of 2016, Prime Minister Modi's administration initiated a nationwide demonetization policy—rescinding the distribution and use of a majority of Indian Rupee cash notes. This rapidly implemented monetary scheme shocked both microfinance operators and government-backed banks across the subcontinent. Practically overnight, the microfinance sector was forced to reform its inclusion agenda and thus rework its business models.

As a flagship provider of financial inclusion services to marginalized urban and rural communities, Sub-K has sought out how best to respond to policy-triggered shocks such as demonetization while maintaining the integrity and capacity of their business model. While demonetization is still considered as a major shock to the financial inclusion ecosystem in India, its residual effects have largely diminished. In the wake of this policy, Sub-K has looked to understand how it can best improve its model, be it through properly leveraging digital technologies, increasing the capacity of its business correspondent model, or embracing a more holistic and inclusive operational culture.

This report will focus on how Sub-K can evolve its operations to meet the changing landscape of economic development and effectively meet its goal of providing financial inclusion solutions to its customers across the country.

Report Structure

These opportunities for Sub-K will be discussed through the framework of project fieldwork conducted by graduate students from the University of British Columbia. Three thematic areas make up the bulk of this framework: empowering low-income households, operational capacity, and viability and organizational resilience. These themes will be examined through insights gained from in-country field interviews and discussions with, Sub-K and the organization's partners and customers. In addition to the project fieldwork, this report examines a case study relevant to

¹ "These are the world's fastest-growing economies in 2017." Alex Gray. World Economic Forum. 9 June 2017. Accessed from: <https://www.weforum.org/agenda/2017/06/these-are-the-world-s-fastest-growing-economies-in-2017-2/>

financial inclusion and women’s empowerment.

The role of digital technology, adoption, and digitization will also be noted as it relates to Sub-K’s own organizational resilience and the capacity of the business correspondent model at-large. Finally, recommendations, opportunities, and future challenges will be identified based on these themes and insights provided in the report.

Before discussing the specific research objectives, themes, analysis, and insights, the remaining sections of the introduction provide further context to the financial inclusion sector, economic sustainability, and the policy environment in India.

Sub-K as a Social Enterprise: Livelihood Triad Framework

This analysis is based on Sub-K’s attention to upholding the triple bottom line throughout its business practices. Maintaining social, financial, and environmental sustainability as Sub-K conducts its financial inclusion operations is a critical aspect to consider in analysing the organization’s effectiveness in providing financial services for low-income or otherwise marginalized communities. The attention to livelihood and social impact is shared by Sub-K’s parent company, BASIX, and has been institutionalized through a three-point livelihood triad framework: institutional development services, livelihood financial services, and business development services.² In effect, the livelihood triad provides a cross-cutting and inclusive approach for organizations such as Sub-K to carry out its activities to benefit rural poor households. With that said, however, the ability for Sub-K to operate as a for-profit business while offering financial services to very poor segments of marginalized communities who do not have financial security stands as a primary challenge in considering the livelihood triad framework.

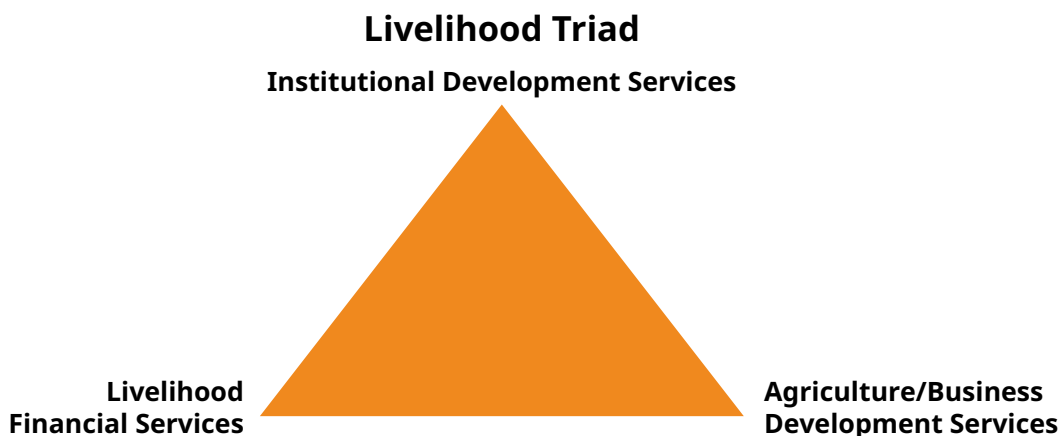


Chart 1: The BASIX Livelihood Triad

² “BASIX Livelihood Services.” BASIX Group. Accessed from: http://www.basixindia.com/index.php?option=com_content&task=view&id=47&Itemid=61

A Focus on Alleviating Poverty

Sub-K focuses its activities on assisting low-income and marginalized communities in both rural and semi-urban settings across India. At large, the country is still one of the poorest in the world, ranking globally at 126 in terms of GDP per capita in relation to other countries.³ In the wake of Prime Minister Modi’s Pradhan Mantri Jan-Dhan Yojana scheme, or PMJDY, that sought to provide nearly eighty million unbanked Indians with bank accounts, India is considered to be on a positive path of long-term economic growth through supporting wide-ranging financial inclusion strategies such as the PMJDY.⁴

Even so, the number of people without sustainable financial security has stagnated at an estimated forty percent of the country’s population. This stagnation also defines the fact that women and impoverished rural households remain excluded from financial services.⁵ The table from ADB research paper on the status of financial inclusion in India 2016 shows that deposits per head in 2013-14 were only Rs 9,244 (about USD \$154) in rural areas, with credit about Rs 6,000 (about USD \$100) per head.⁶

Table 1: Per Capita Deposits and Credit in Rural and Urban India

Fiscal Year	Rural		Urban	
	Deposits	Credit	Deposits	Credit
2007–08	3,735	3,977	85,003	60,405
2008–09	4,441	3,779	100,146	71,437
2009–10	5,088	4,662	113,747	81,313
2010–11	5,924	4,713	131,303	98,772
2011–12	6,830	5,269	144,138	114,185
2012–13	7,923	6,197	162,145	127,854
2013–14	9,244	6,161	178,942	143,718

Source⁷

In terms of financial access, data from India’s 2011 census illustrates that out of 16.78 rural households, only 9.14 crore (54.56%) had access to banking services.⁸

3 “India moves up one notch to 126 in GDP per capita terms.” The Economic Times. 19 November 2017. Accessed via: <https://economictimes.indiatimes.com/news/economy/indicators/india-moves-up-one-notch-to-126-in-gdp-per-capita-terms/articleshow/61711262.cms>

4 “India: Financial Inclusion Insights.” Intermedia. 2018. Accessed from: <http://finclusion.org/country/asia/india.html#overview>

5 “Infographic: Global Findex 2014 - Financial Inclusion.” 2014. The World Bank Group. Accessed via: <http://www.world-bank.org/en/programs/globalindex/infographics/infographic-global-findex-2014-financial-inclusion>

6 “The Status of Financial Inclusion, Regulation, and Education in India.” Abheek Barua, Rajat Kathuria, & Neha Malik. Asia Development Bank. April 2016. Accessed via: <https://www.adb.org/sites/default/files/publication/183034/adbi-wp568.pdf>

7 “The Status of Financial Inclusion, Regulation, and Education in India.” Abheek Barua, Rajat Kathuria, & Neha Malik. Asia Development Bank. April 2016. Accessed via: <https://www.adb.org/sites/default/files/publication/183034/adbi-wp568.pdf>

8 Mundra, S.S. “Financial Exclusion in India: Dimension of the Problem.” <http://ictpost.com/financial-exclusion-in-india-dimension-of-the-problem/>

There remains a critical need to expand financial services to marginalized segments of society within India. Indeed, Sub-K has identified this challenge and the UBC team explores the context and options for addressing the issue in this report.

Policy Environment

Government-driven policies that were targeted to resolve financial exclusion in India significantly affect Sub-K's operation. Some examples of public policies that address the poor, MSMEs (Micro, Small, and Medium Enterprise), and the underserved areas of the country include nationalization of banks, priority sector lending requirements, launching of a Lead Bank Scheme, establishment of Regional Rural Banks (RRBs), a Service Area Approach, and Self-Help Group (SHG) - Bank Linkage Programme.⁹ The more recent national inclusion policy of PMJDY (Pradhan Mantri Jan-Dhan Yojana), along with supporting features including Aadhaar (biometric ID) and mobile access, aims to provide universal access to banking facilities as well as to enable the transfer of subsidies in a leakage-proof, targeted, and cashless manner. Over 260 million accounts were opened under PMJDY scheme by January 4 in 2017, though many accounts remain inactive after they have been opened. In addition, the MUDRA (Micro Units Development and Refinance Agency) loan scheme offers loans at a low rate to microfinance institutions and non banking financial institutions, in which they can provide this product to MSMEs.

Various government measures via private partnerships and the use of a decentralized system have helped to bring a large section of the unbanked population under the formal financial credit system and supported the businesses of MSMEs. Sub-K also has supported the implementation of government policies through public-private partnerships, for example, the roll-out of the Bhamashah scheme in Rajasthan. The company has additionally internalized national policy in their service provision through delivering government to client (G2C) e-services, and access to PMJDY and MUDRA in their operation. Still, a significant portion of India's population remains devoid of access to basic financial services¹⁰ and an organization like Sub-K and other non-banking financial companies in the financial inclusion ecosystem have gaps to fill.

9 Mundra, S.S. "Financial Exclusion in India: Dimension of the Problem." <http://ictpost.com/financial-exclusion-in-india-dimension-of-the-problem/>

10 Evolving Landscape of Microfinance Institutions in India. Report. July 2016. Accessed March 29, 2018. [http://www.ey.com/Publication/vwLUAssets/ey-evolving-landscape-of-microfinance-institutions-in-india/\\$FILE/ey-evolving-landscape-of-microfinance-institutions-in-india.pdf](http://www.ey.com/Publication/vwLUAssets/ey-evolving-landscape-of-microfinance-institutions-in-india/$FILE/ey-evolving-landscape-of-microfinance-institutions-in-india.pdf).

Table 2: Reference of Key Policies & Terms

Key Term	Description
PMJDY	Pradhan Mantri Jan-Dhan Yojana—PMJDY is the government-led financial inclusion mission with a primary goal of enabling rural communities and informal people to open bank accounts and maintain an access to credit and insurance services.
MUDRA	Micro Units Development and Refinance Agency—MUDRA is a government agency responsible for implementing the Pradhan Mantri MUDRA Yojana policy, which is mandated to provide loans to MSME operations from the formal banking sector in India.
RRBs	Regional Rural Banks—RRBs are government-led banks that operate at a rural community level across India. Their primary mandate is to serve rural communities with basic financial services.
G2C Services	Government to Client Services—G2C is a set of public services that citizens can access through e-governance mechanisms in certain parts of India. G2C describes the functionality driving Aadhaar, e-commerce, and other e-governance services. Usually, G2C services are provided at CSCs, or customer service centers.
E-MITRA	E-MITRA is the e-governance infrastructure being implemented at the BCSA level. Rajasthan state is a primary leader in providing this service to its constituents and BC companies are integrating the E-MITRA framework into their operations.
MFI	Microfinance Institution—An MFI, sometimes referred to as a Non Banking Financial Company, or NBFC, is a company that issues loans and other financial products directly to customers.
BCSA	Business Correspondent Sub Agent—A BCSA is the driving force of the financial inclusion story in India. A business correspondent works with a BC company, such as Sub-K, to provide basic financial services to immediate members of their community.
VLE	Village Level Entrepreneur—VLEs were mainly formed out of the customer service center deployment schema. VLEs are targeted members of communities that are trained by the government on e-commerce, ICT, and sustainable business skills.
JLG	Joint Liability Group—The JLG system was established out of the National Bank for Agriculture and Rural Development government agency. A JLG allows members of the same community to form a group for the purposes of taking out a loan without providing major collateral to do so. It is used primarily among rural communities.
SBI	State Bank of India—The State Bank of India is a large government-sponsored financial service institution that is a primary partner of certain BC companies, including Sub-K.
Aadhaar ID system	Aadhaar is a government-led national biometric identification system issued to all Indian residents. Aadhaar is an ongoing policy implementation that is being linked to state-backed banking systems and other e-governance services.

Literature review:

Financial Inclusion and the Microfinance Sector in India

Since independence, the Indian government has emphasized the link between improving access to finance and reducing poverty, making several concentrated efforts to promote financial inclusion. These have included launching co-operative banks and regional rural banks, introduction of mandated priority sector lending targets, formation of self-help groups and appointment of business correspondents by banks to provide doorstep delivery of banking services.¹¹ Despite these efforts there remains a need to improve financial access for India's poor, the majority of whom are concentrated in rural areas.¹² Currently, India's financial services sector lags in terms of physical infrastructure and the country still has 233 million people (more than 19 percent of the population) who are unbanked or financially excluded.¹³

While financial inclusion remains a challenge for India, the 1990s saw a shift in the banking industry that attempted to improve the sector through the entry of microfinance institutions (MFIs). These institutions were composed of a set of stakeholders with largely non-profit origins, acting as an extension to existing development programs. The entry of MFIs to the sector followed an international trend where similar approaches had been taken in Bangladesh, Indonesia and in Latin America.¹⁴ However, over the last 15 years the microfinance sector in India has experienced a challenging period that encompassed the commercialisation of the sector in which it grew exponentially, expanding to be the largest, most concentrated microfinance sector in the world. Thereafter, it encountered a major crisis that almost destroyed the sector, following a series of suicides in the state of Andhra Pradesh that were linked to over indebtedness as the result of microloans. Over the last few years though it has slowly made a strong come back.¹⁵ Initially, Indian microfinance operations were funded primarily by the state or charitable donations, but were faced with a "perceived inability" to expand their operations due to funding availability.¹⁶ The exponential growth in the sector was

11 Priya Basu, *Improving Access to Finance for India's Rural Poor* (Washington DC: The World Bank, 2006) <https://siteresources.worldbank.org/INTTOPCONF3/Resources/364480PAPER0IN101OFFICIAL0USE0ONLY1.pdf>; *Evolving Landscape of Microfinance Institutions in India* (Kolkata: Ernst and Young, 2016) [http://www.ey.com/Publication/vwLUAssets/ey-evolving-landscape-of-microfinance-institutions-in-india/\\$FILE/ey-evolving-landscape-of-microfinance-institutions-in-india.pdf](http://www.ey.com/Publication/vwLUAssets/ey-evolving-landscape-of-microfinance-institutions-in-india/$FILE/ey-evolving-landscape-of-microfinance-institutions-in-india.pdf)

12 Ibid (Basu)

13 Ibid (Ernst and Young)

14 "Microfinance in India: An Overview." *The Consultative Group to Assist the Poor*. <https://www.microfinancegateway.org/sites/default/files/mfg-en-paper-microfinance-in-india-an-overview-2009.pdf> (accessed March 29, 2018).

15 *Evolving Landscape of Microfinance Institutions in India* (Kolkata: Ernst and Young, 2016) [http://www.ey.com/Publication/vwLUAssets/ey-evolving-landscape-of-microfinance-institutions-in-india/\\$FILE/ey-evolving-landscape-of-microfinance-institutions-in-india.pdf](http://www.ey.com/Publication/vwLUAssets/ey-evolving-landscape-of-microfinance-institutions-in-india/$FILE/ey-evolving-landscape-of-microfinance-institutions-in-india.pdf)

16 Antara Haldar, and Joseph Stiglitz, "Taking stock of Microfinance," *World Economics* 16, no. 2 (2015), <https://www.worldeconomics.com/Journal/Papers/Taking%20Stock%20of%20Microfinance.details?ID=608>

consequently driven by a shift toward commercialization of operations as MFIs sought to raise private equity investment to overcome a lack of funding. The resulting success of this new approach drove further MFIs to enter the market, thus creating a growth cycle that switched from a model that focused solely on social outcomes, to one that embraced a double bottom line, incorporating both social and financial returns.¹⁷ As microfinance gained prominence in India, and shifted to a profit driven model, respect for trust became compromised, removing a key feature that had accounted for earlier success of this model.

Such breaches of trust occurred in Andhra Pradesh as microfinance institutions set excessive interest rates and employed predatory collection practices toward borrowers.¹⁸ However, while a breakdown in trust was a major issue in the sector, ultimately the crisis that arose pointed to a failure in suitable government regulation. Riled by the success of MFIs in taking away market share from its own state operated model, the state level government employed stricter controls over the interest MFIs could charge and on their loan recovery practices. The MFIs accordingly experienced a sharp drop, first in loan recovery, and then in disbursement, leading to a virtual market collapse. The Indian government responded by setting up a task force to address the issue, and in turn proposed stronger regulatory measures for the sector. While a regulatory framework holds promise for the future of the sector, it is indicative that the Andhra Pradesh crisis could have been avoided if a comprehensive regulatory framework had been implemented from the outset.¹⁹

As the Indian microfinance sector makes a solid comeback from its 2010 crisis period, there is concern that the sector is once again growing too fast and that another crisis could be imminent. However, with stronger customer protection in place and heightened awareness of key factors that may cause the sector to unravel, the industry is on stronger footing and better equipped to prevent a repeat of 2010 events.²⁰

With background and context having been presented, the research objectives, questions, and themes will be introduced before moving into full analysis of each thematic area.

17 Ibid; Ashley Becker, "“Micro-Management”: Constitutional and Policy Concerns Arising from India’s Microfinance Institutions (Development and Regulation) Bill,” *Northwestern Journal of International Law and Business* 33, no. 3 (2013), <https://scholarlycommons.law.northwestern.edu/cgi/viewcontent.cgi?article=1740&context=njilb>;

18 Ibid (Becker)

19 James Copestake et al. 2015. “Towards a plural history of microfinance.” *Bath Papers in International Development and Wellbeing*, Working Paper No. 40. <http://www.bath.ac.uk/cds/publications/bpd40.pdf>

20 MS Sriram, “Microfinance in India Growing Fast Again: Should We Be Concerned?” *The Consultative Group to Assist the Poor Blog*. <http://www.cgap.org/blog/microfinance-india-growing-fast-again-should-we-be-concerned> (accessed March 29, 2018).

EMITRA SERVICE

MHA generates awareness & provides livelihoods.

Jaipur: Idea for our project: On which a Policy Comparison of e-mitra & loan operation in Rajasthan is Telangana.

Jaipur BCSAs have more roles compared to other BCSAs we met in HYD
 1) E-mitra (G2D)
 2) FI
 3) Credit services
 More legitimate? and earns more income?

CONNECTIVITY - DIGITAL SERVICES

PUBLIC NEEDS TO GO TO PHYSICAL PLACE TO PAY BILLS!

Integration of services with other skills development services

Systems that work with minimum connectivity

ARKIL / IF EGOT IS BASED ON PPL BEING SERVED, WHY IS THERE SO MUCH ATTN ON TECH ITSELF, NOT ENABLEMENT....

Outlet 2 Lakshanshima with the Cybercafe. He will be providing PINKVY - skill development program for youth, another G2C service.

Advanced usage of technology such as Video conferencing to train VLEs.

Broadband & Video Conferencing rooms set up across the state. (Gad infrastructure)

Sustenance of e-governance is the ppl. Thus, ppl training is crucial.

TRUST AND SECURITY AND PRIVACY

FINANCIAL PRIVACY CONCERNS U/ DEMON E-PORTAL.

Gov't feels the need to monitor all activities (ex: G2C services utility payments) - Transparency & corruption is a big issue with the country

Gov't monitors to see if any fraudulent activities occur in G2C service transactions. It's easy to monitor VLEs through account.

Before demon, people didn't want to use e-wallet because their income will be reflected on the portal. (being monitored? shameful? what if it?)

People pay the utility bills through E-Mitra. Gov't access gov't portal site and pay for it themselves unlike in the west.

- Gov't needs to monitor
- Customers doesn't like income being accessed
- Transparency & Cor

BCSA SERVICES

Jaipur: Improved/renewed training for VLEs

Knowledge for BCSAs of the advantages of digitization e.g. Sheila wants an ATM

Jaipur: Sheila's passion and drive.

Jaipur: Idea -> In a community of BCSAs is a 'hub-bub' to increase ability of women VLEs

Sheila passionately teaches and convinces her customers about Bharosa, DBT, and helps them to use FI services.

Sheila wants to do things to help her customer ex. wishes to have ATM at her office & possess printing machine.

03.

Research Methodology

3-1. Research Objectives

As an organization, Sub-K is seeking to improve its financial services portfolio and overall engagement with rural low-income households. Sub-K is facing challenges in deploying its technology-backed operations while leveraging its workforce to effectively provide sustainable triple-bottom-line solutions for its customers.

In light of this situation, this project aims to address the following three themes and research objectives developed by the UBC team in consultation with the client organisation Sub-K. The themes and objectives were formulated from a brief assigned by Sub-K outlining key issue areas related to Sub-K's mission, operation and viability.

Overarching Objective

The overarching objective of this project has two parts. It firstly aims to examine conditions and recommend policy corrections and improved practices to ensure that Sub-K service provision meets financial, social, and environmental requirements to enable low-income households to attain sustainable livelihoods. It secondly aims to examine the policy environment and its enabling conditions that affect Sub-K's operation and India's agenda to move towards national financial inclusion.

Theme 1: Empowering Low-income Households

Objective: Increase the viability of Sub-K's business operations and meet its ultimate social mission by identifying barriers and addressing challenges encountered by lower-income households in accessing and using the financial services offered.

Research Questions:

1. How can Sub-K reconcile business viability mandate with its pro-poor mandate?
2. What challenges currently exist for customers in using the suite of financial services offered by Sub-K?
3. How can financial inclusion challenges in an area that has gender barriers be addressed?

Theme 2: Operational Capacity

Objective: Understand the BCSA ecosystem and operating landscape and identify characteristics that are needed to maintain and improve the operational capacity of the BCSA model while meeting rapidly changing market conditions based on political or other external factors.

Research Questions:

1. What is a holistic BCSA model?
 - a. Which specific characteristics define it?
 - b. What makes each actor in the system “successful”;
 - c. What are the skills needed by the BCSAs?
 - d. What are the operational challenges that BCSAs have to deal with?
2. What are the external trends that can affect the relevance and viability of the BCSA model? Which specific trends will impact the BCSA model?
 - a. What is Sub-K’s strategy for growing the BCSA model in the future, given the current context and challenges?

Theme 3: Viability and Organizational Resilience

Objective: Improve Sub-K’s internal capacity and responsiveness to externalities that limit its viability and resilience.

Research Questions:

1. What is Sub-K’s operating landscape?
 - a. Identify strengths, weaknesses, opportunities, and threats through thematic SWOT analysis.
 - b. How can the opportunities in those thematic areas be achieved?
2. How are Sub-K’s operations affected by the social and environmental components in their triple bottom line?

- a. In what way do these components adversely impact Sub-K's objectives in this space?
 - b. What is the role of the public sector in supporting social enterprises to achieve the social and environmental components of their objectives?
 3. Sub-K's operation is constrained to meet the requirements of their business partners (banks) and other external factors such as government policies. How does Sub-K react to and manage externalities (such as shifting government policies and changing market conditions)?
 - a. What management strategy/ies are used to mitigate these issues?
 - b. How effective have these strategies been?
-

***Cross-cutting theme:
Digital Inclusion***

Objective: Identify actionable strategies that Sub-K can use to break down access barriers to devices and services and thus improve digital literacy and inclusion.

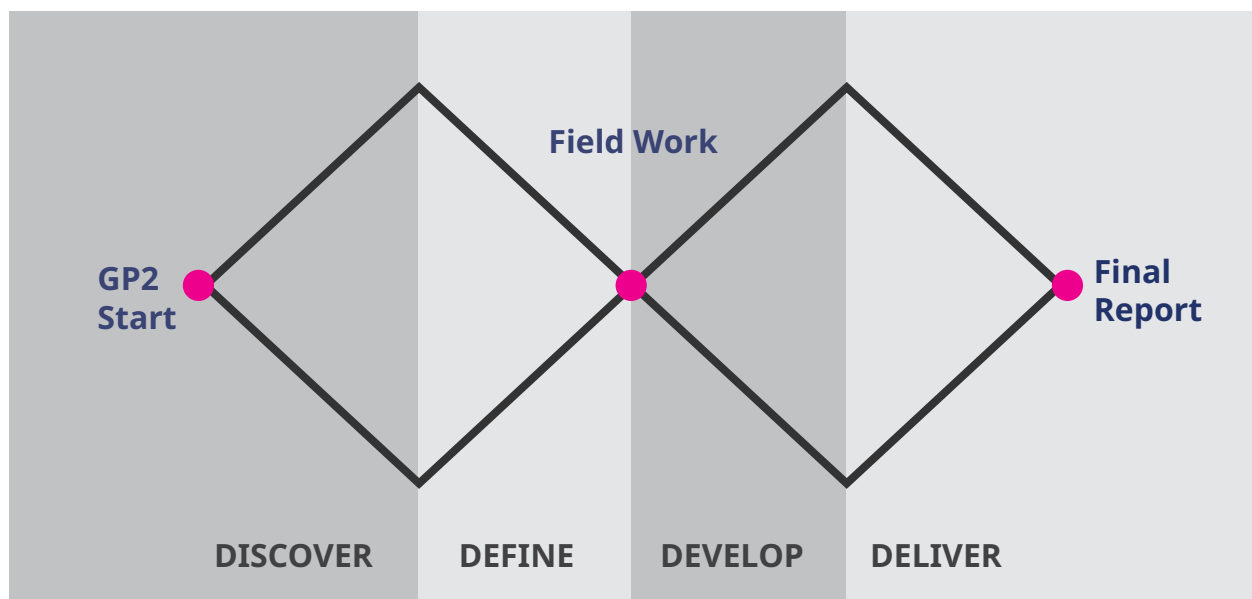
3-2. Research Methodology

Strategic Design

Strategic design is a method for practical, creative problem solving. It takes a solution-focused approach, looking for opportunities, as opposed to restrictions, and encourages broad thinking to enable innovative results. Strategic design is used for tackling complex problems, and often those that are ill defined and owned by many. The method is particularly effective for creating opportunities and clarity when an obvious strategy to address an issue may not be apparent.²¹ The term 'design thinking' emerged in the 1980s in the design research literature to describe methods and approaches used by architects and urban planners. From here, Rolf Faste of Stanford University, expanded its use to form a method of creative action that was later adapted for business purposes, and more broadly as a method for addressing systemic challenges.²²

The UBC team used a strategic design approach to conduct the project using a multi-stage problem-solving process outlined in the double diamond diagram below.

Chart 2: Strategic Design Process



21 Hasso Plattner, Christoph Meinel and Larry Leifer, eds., *Design Thinking Research: Making Design Thinking Foundational* (Switzerland: Springer International Publishing, 2016), <https://link-springer-com.ezproxy.library.ubc.ca/content/pdf/10.1007%2F978-3-319-19641-1.pdf> (accessed March 29, 2018); "Strategic Design." University of British Columbia. <http://dstudio.ubc.ca/research/strategic-design/> (accessed March 29, 2018).

22 "Design Thinking," Wikipedia, last modified March 14, 2018, https://en.wikipedia.org/wiki/Design_thinking

The following steps outline the strategic design process:

- **Diverging:** Expanding, collecting, and understanding information to form insights
- **Converging:** Eliminating, connecting, and analyzing insights to design solutions

The team transitioned between these stages during the cycle of the project (visualised in the double diamond diagram).

- **Discover:** The first quarter of the double diamond model marks the start of the project. This began with the issues outlined in the project brief.
- **Define:** The second quarter outlines where the team interpreted and aligned needs with objectives.
- **Develop:** The third quarter is where the team developed and adjusted recommendations and solutions.
- **Deliver:** The fourth quarter is where the resulting recommendations and solutions were finalised.

Prior to in-country research

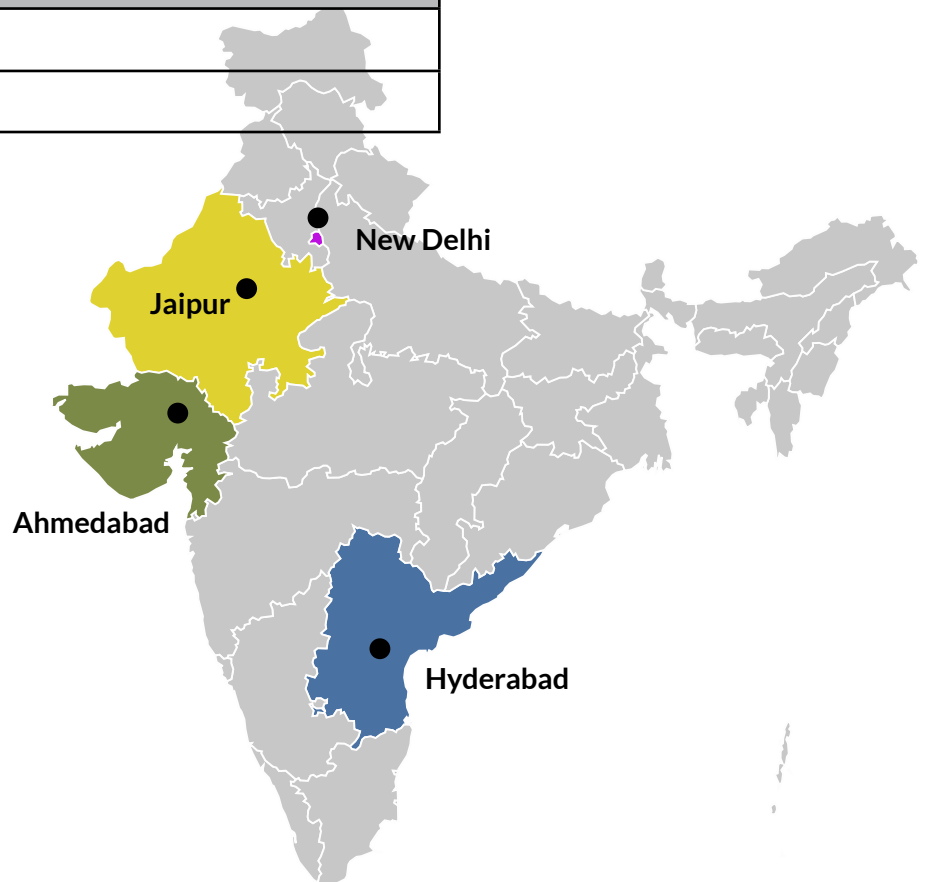
The team conducted desk research and connected with the client through email and Skype meetings to gather information that assisted in informing the project design and fieldwork. The desk research was focused on understanding the Indian financial service sector, government structure, relevant policies, reports, and following media channels.

In-country research

For two weeks in December 2017, the UBC team conducted fieldwork in India in which the group interviewed stakeholders in India's financial inclusion sector. Stakeholders included Sub-K head office and field office representatives, former Sub-K employees, Indian Business School academic staff, BCSA and VLE agents, CSR agents, JLG loan group members, bank representatives and state-level government officials. The UBC team travelled to three states to conduct the fieldwork: Hyderabad, Telangana; Ahmedabad, Gujarat; and Jaipur, Rajasthan.

Table 3: Interview Method Data

Hyderabad	
BCSA	3 different BCSA outlets
Sub-K office, BASIX Consulting, ILRT	
Bank representatives - SBI (2), Syndicate (2)	
Indian School of Business (2)	
Jaipur	
VLE	3 different VLE outlets
Akhil Arora - Government of Rajasthan	
Ahmedabad	
JLG	3 different villages: Nadiad, Andej, Kambali
Sub-K Credit Branch: Customer Service Representatives (CSR)	
New Delhi	
BCFI	
BASIX	



Interview candidate selection process

The three locations the UBC team travelled to were selected by Sub-K to offer a snapshot of the company's three business 'verticals' – BCSA operations, credit operations and VLE and e-mitra operations. Sub-K selected the interview candidates in accordance with a stakeholder mapping exercise completed by the UBC team. The BCSA, VLE agents and JLG loan group member interview candidates were selected on a basis of their proximity to the Sub-K offices and to offer a comparison between urban and semi-urban settings. Bank representatives, academic staff, government officials and former Sub-K employees were selected on a basis of their knowledge of the financial inclusion sector and business relationship with Sub-K.

Interview format

The UBC team conducted interviews in a variety of settings including at the interview candidate's place of business (BCSA and VLE agents), home (JLG group members), and Sub-K offices (bank representatives and Sub-K employees).

Each interview was attended by the UBC team and one or more Sub-K staff members who acted either as translators or to coordinate and facilitate proceedings.

To conduct the interviews the UBC team developed semi-structured interview questions in line with the objectives of the research brief. While the questions provided guidance to shaping the interviews, the team adjusted the questions as necessary to suit the individual context and setting, and to accommodate themes that arose from the conversations.

To address the research objective associated with theme one, the UBC team also conducted a one-day knowledge sharing - SWOT analysis workshop with teams across Sub-K's business areas in its Hyderabad head office.

Data collection

The UBC team collected data from the interviews in note format and recorded it in Google documents for further analysis.

Ethical Considerations

The UBC team briefed stakeholder interview participants about the project prior to conducting interviews and were open to accommodating participants if they did not wish to partake in the project. Further, care was taken to limit the dissemination of

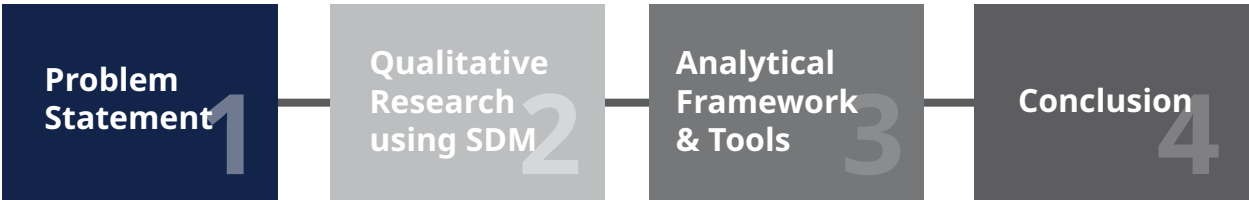
data identifying interview participants (including photos and video footage).

Limitations

- **Limited field time:** The short fieldwork period of this project limits both the data sample size as well as the data collected to qualitative data. The short fieldwork period also limited the UBC team’s depth of on-the-ground contextual understanding of issues. It additionally restricted the level of flexibility to which interview candidates could be selected.
- **Translation:** Translators who assisted with the fieldwork were Sub-K employees, and while this offered a familiarity and understanding of the subject matter, it limited the ability for interview candidates to express themselves critically or candidly.
- **Data collection:** Sub-K coordinated the sampling process and most of the samples were gathered via convenience sampling. The findings and insights are not representative of the entire population.
- **Intercultural dynamics:** The intention of interview questions could have been misinterpreted or ‘lost in translation’ due to the language barrier and lack of cultural understanding.

Project Process Overview

Chart 3: Project Process Diagram



- 1. Problem statement:**

Problem statement developed in consultation with the client Sub-K.

 - Ensure Sub-K meets financial, social, and environmental objectives to enable lower income households to attain sustainable livelihoods.
 - Examine the policy environment affecting Sub-K’s operation and India’s financial inclusion agenda.
- 2. Project methodology:**

Applied strategic design methodology (SDM) to address research objectives through an iterative four-stage process encompassing ‘discover,’ ‘define,’

'develop' and 'deliver' phases. Desk research and field research are included in the stages.

3. Analytical framework

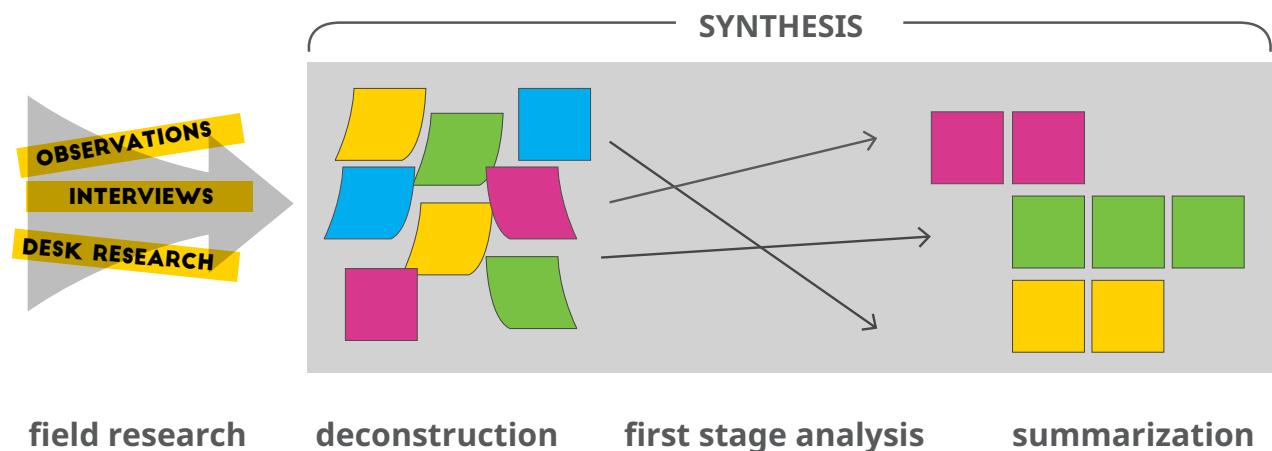
Applied analytical framework tools to support data collection and synthesis. Listed below are methods and tools used for analysis.

- **SWOT:** A strengths, weaknesses, opportunities and threats (SWOT) framework was used to identify internal and external factors influencing Sub-K's operations.
- **VSM:** Beer's Viable System Model (VSM) was used to assess the findings of the SWOT analysis of Sub-K's operations.
- **Strategic Design Methodology (SDM) Synthesis:** Multistage synthesis process was applied to analyse fieldwork findings.

Data Synthesis and Analysis

The UBC team analysed the qualitative data according to a multistage synthesis process by sorting and categorizing the project's findings into patterns and themes. This allowed the team to summarize the data into a more succinct format that better encapsulated the raw data from which further insights could be derived.

Chart 4: Data Synthesis Diagram



4. Recommendations & Conclusion:

Key findings and analysis produced valid recommendations and additional desk research was done to support the findings. Feedback from project mentor and client are incorporated in the report. Final report is delivered to the client.



04.

**Empowering
Low-income
Households**

Theme 1: Empowering Low-income Households

Introduction & Problem statement

Sub-K is a social enterprise with a vision for financial inclusion where every Indian can carry out day-to-day transactions with ease, facilitating his/her participation in the mainstream economy, leading to inclusive growth. Their social mission is to enable a large number of low-income households to undertake micro-transactions in an accessible, affordable, authenticated and authorized manner, while assisting banks, insurance companies, and other financial service providers to enhance their outreach sustainably.²³ Despite being pioneers and a leader in providing microfinance services and driving financial inclusion, there are still many challenges Sub-K faces in delivering its mandate. Bottom of the economic pyramid (BoP) clients' lack of financial capability combined with systemic socio-cultural issues, including gender discrimination, are major impediments. Also, the business nature of Sub-K as a social enterprise that reconciles business viability with its social objective of serving the high-risk profile customers, stymies the company from achieving maximum social impact to a certain extent.

Background context

Why Financial Exclusion?

The BoP population are often excluded from participating in formal financial services due to their high-risk profile, poor creditworthiness, low or no asset holdings, no appropriate identification, and the remoteness of their physical location. The expansion of traditional brick-and-mortar bank branches into BoP market regions is unfavorable as the transaction costs are high and the return on investment is low. According to Sub-K's analysis, the unmet microfinance demand in India is estimated to be USD 7 billion, while the micro-enterprise credit gap is estimated to be close to USD 100 billion.²⁴

The Supply Side

The Government of India's national agenda to achieve financial inclusion has produced some tangible results that lowered the barriers for BoP clients to access

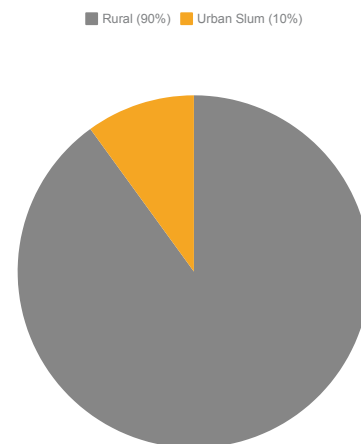
²³ "Vision and Mission," Sub-K, <https://www.subk.co.in/our-work.php> (accessed March 29, 2018).

²⁴ BASIX Sub-K PowerPoint Oct 2017

formal financial services. These include establishing biometric-based, digitally verifiable national identification system (Aadar), introducing the Pradhan Mantri Jan Dhan Yojana (PMJDY) scheme that offers a no-frills universal account which BoP customers can access direct benefit transfers (DBT) in a 'leakage-proof' fashion.

Non-banking financial companies' (NBFC) role is critical in the financial ecosystem. They are able to penetrate a BoP market and provide microfinance services to the unbanked in an unconventional distribution system. As a NBFC Sub-K, has had many achievements in bridging the financial inclusion gap in India and supported the country's development within the BoP sector. Sub-K's customers are 90% rural poor households and 10% urban slum dwellers - mostly farmers in rural areas, small artisans, daily wage earners, and micro entrepreneurs.

Sub-K's Core Customers



Sub-K acts as an intermediary between banks (supply) and low-income households (demand), which brings the unbanked population under the formal financial credit system and supports the businesses of micro, small, and medium enterprises (MSME). Their core business is based on the "business correspondent (BC)" model in which they train and equip local entrepreneurs as business correspondent sub-agents (BCSA) who serve as human ATMs at the last mile of connectivity between banks and the end consumer. Additionally, the mobile/kiosk based technology that enables transactions to occur simultaneously in different locations, is the backbone of their business operation. BCSAs are an important asset to Sub-K as they are the frontline operators who have the leverage to empower low-income households.

Sub-K has three dominant business verticals: financial inclusion (FI), credit facilitation, and e-Mitra payment services. Also, Sub-K delivers government programs via public-private partnerships (PPP). Government policies such as Pradhan Mantri Jan Dhan Yojana (PMJDY), MUDRA loan scheme, and Government-to-Citizen (G2C) payment through the e-Mitra service have been internalized in Sub-K's business operation.

Still, Sub-K faces many challenges to meet its social objectives. The business nature of a social enterprise and its high-risk business model is itself a challenge for Sub-K to remain viable and innovative. In addition, the BoP client's low level of financial capability and social & gender issues have a significant bearing on inclusive growth.

4-1. Key findings & Analysis

1. Sub-K operates on a thin profit margin with high-risk profile customers. It is imperative for Sub-K to strike a balance between achieving their social objectives and meeting the commercial side of making a profit that can become their capital base.

As Stuart Hart and C.K. Prahalad have stated, BoP markets present a prodigious opportunity for companies to seek their fortunes and bring prosperity to the aspiring poor.²⁵ However, resource limitations and ability to secure funding are key constraints for Sub-K to advance its social mission and remain sustainable. Balancing its operating costs, thereby operating in areas where there are higher monetary returns than social returns, is one example where Sub-K may face a tradeoff in their business planning. In addition, the business nature of a social enterprise can also make the company more risk averse. For long-term business viability, businesses need to invest in innovative technology and research and development (R&D). Risk averse companies are likely to invest less in these areas and lose their competitiveness in the long run. Indeed, there's much room for growth and innovation for BoP markets as the microfinance sector is evolving with advanced technology, improved connectivity, and India's push for financial inclusion and digital India strategy. The magnitude of the impact to empower BoP clients through Sub-K's mission can be greater with funding support from governments.

Recommendations

- Design a suitable viability gap funding (VGF) model for Sub-K and other NBFCs. Current VGF is a state policy to provide financial support to public private partnerships in infrastructure projects. However there should be a new VGF category for achieving financial inclusion projects. This will be a significant boost for organizations like Sub-K as it secures funds to promote its social performance.
- Design an incentive system for commercial banks to be more proactive in their priority sector lending activities and extend their outreach to BoP customers (for example, implement a points based system for ranking Indian banks on a social responsibility scale. Banks with a high social responsibility ranking could be given tax rebates or deferment, and/or access to capital at subsidized cost).
- Implement better risk mitigation measures.

²⁵ Prahalad, C.K., and Stuart L. Hart. "The Fortune at the Bottom of the Pyramid." *Strategy Business*. January 10, 2002. Accessed March 29, 2018. <https://www.strategy-business.com/article/11518?gko=9a4ba>.

2. BCSAs are influential frontline operators who are capable of financial inclusion outreach and making the existing customers more viable.

BCSAs have the leverage to make BoP clients more viable. As a member of the same community, a BCSA has significant personal networks and is a valuable resource for outreach at the last mile. Currently, BCSAs are remunerated via two options, either receiving a fixed monthly fee ranging from Rs 3,000 to 5,000 or from variable fees based on transaction volume. The revenue structure drives BCSAs to provide financial services to the poor. However, once they have regular customers and generate a stable income, it is likely that they will experience diminishing returns for their work output and make less effort to reach the vulnerable members of the community who are not yet utilizing their services or to make their current clients more viable.

Box Item 1: BCSA service charge revenue model.

Depending on the partner bank and the location of the outlet, BCSAs provide different financial products and services on behalf of banks and other payment partners. For example, BCSAs that the UBC research team interviewed in Hyderabad provided Financial Inclusion (FI) services. In Jaipur, village level entrepreneurs (VLE is similar to BCSA concept) provided FI, G2C, and credit service (figure 1).

Financial Inclusion (FI)	Government-to-Client (G2C)	Microcredit Referral & Collection
<p>Banking services: Opening bank accounts (including savings, recurring deposit and fixed deposit accounts), withdrawals, fund transfer, balance enquiry, loan collections, insurance and pension distribution.</p>	<p>Payment services: Government electronic benefit transfers (DBT), e-governance services, including cash distribution to the beneficiaries under various schemes for example - MGNREGA, utility bills, birth & death certificates, land records, and others.</p>	<p>The company enables banks to originate, disburse and recover loans to/from new and existing customers, beyond bank's branch network.</p> <p>BCSAs scope for a potential credit client. They receive a commission for a successful lead.</p>

BCSA's influence on financial inclusion

Sub-K should utilize its greatest resource and an asset (BCSA) to advance its social mission to the next level. Below is an analysis of two BCSAs and their influence on

Figure 1: Persona Diagrams

BCSA since 2014.
Head of a dairy cooperative.
Runs own milk collection centre.



Name

Raju

BCSA location

Hyderabad, India

Services provided

FI

Partner Bank

Syndicate Bank

TOWN CHARACTERISTICS:

- Rural area with population of 2,000.
- Agriculture and dairy are their livelihoods.

BACKGROUND:

Raju is known as a trustworthy man in his village. He is the head of a dairy cooperative and runs his own milk collection centre. Everyone can easily access the centre which was an ideal CSP site for Sub-K.

BUSINESS CORRESPONDENT SUB-AGENT (BCSA):

Raju educates his villagers about financial products & services and helps them change their financial behavior. He contributed to building savings culture among the villagers. Parents who use Raju's service would educate their children.

"Trust" was the biggest impediment to getting people to use financial services. It took a while to build trust, but Raju's trustworthy character helped people to uptake the FI services. Raju enjoys that he can do something good for his community.

"Being a BCSA is like doing social work" -Raju

Average transaction/day
50,000 rupees (\$1000 US)

About 25-30 FI
transactions/day

VLE since 2015.
Female entrepreneur.
Owns a small shop that sells jewelry & beauty care products.



Name

Shila

VLE location

Jaipur, India

Services provided

e-Mitra | FI | Credit

Partner Bank

UBI (microcredit)

TOWN CHARACTERISTICS:

- Urban slum area with population of 2 lakhs.
- General income level 8,000-10,000 per month.
- Low-income population doesn't have basic utility sources.
- Literacy and knowledge level is generally low in the area.

BACKGROUND:

Shila and her husband have been running the shop for 11 years. Shila's husband used to run the shop, but because he was losing his eyesight, she took over the business. In order to do this, she had to convince her family members and overcome cultural barriers.

Shila has a postgraduate degree in business administration. She is one of the two female VLEs out of 110 in Jaipur. She is an inspiration to many other women.

VILLAGE LEVEL ENTREPRENEUR (VLE):

Shila understands the triple bottom line mission. She passionately advertises and educates customers about financial services and products such as Bhamashah and other DBTs so that they could benefit from it. Her service is marketed through a word-of-mouth and more customers approach to use Shila's service. Shila interacts with many female customers because she is able to connect with them and they also feel comfortable around her.

About 200 e-Mitra
transactions/month

About 56 FI
transactions/month

About 2-8
credit lead/month

financial inclusion (Figure 2). Raju who is a BCSA in the rural village in Hyderabad sees his work as a 'social work.' Shila, a VLE in Jaipur, understand Sub-K's social mission and passionately educates her customers about various financial services that they can benefit from.

Savings behavior

BCSAs influence the savings behavior of people in their rural villages. Before Sub-K's service was available in Raju's village, a BCSA near Hyderabad, the number of people using savings accounts was very low. Raju said during the interview that people saved by storing cash in the house or giving it to a friend who would keep it for them. Expenditures were high relative to savings because people often had cash in their pockets and they could easily spend it. Ever since the formalized bank services were introduced through the BCSA, people's savings behavior gradually changed over time. Their confidence in the service is not developed from the delivery of information on a single occasion, but through ongoing engagement with Raju over time.

Many people in Raju's village are now saving in their savings account. Safeguard savings can help households manage cash flow spikes, smooth consumption and build working capital. Further, it can mitigate shocks such as assisting in managing expenses related to unexpected events, including medical emergencies.²⁶

Financial inclusion mandate

BCSAs located in rural or urban slum areas play a significant role in financially including the poor. Their role is particularly important when compared to BCSAs serving in urban areas where people tend to be relatively well-off and have easier access to financial institutions. For example, Shila is a critical VLE and an entrepreneur who empowers women in her area with financial services that she provides. As a female VLE, she is able to empathize more with female customers than male VLEs. She passionately explains the benefits of financial products and services to her customers and has them come on board. She also diligently scopes out ideal loan candidates who can benefit from microcredit.

The virtuous feeling of doing a "social work" or the income from transactions are motivations for BCSAs to serve BoP clients. As illustrated above, BCSAs like Raju and Shila are mission-driven BCSAs who are influential in making BoP clients viable. However, not all BCSAs are like them. Some BCSAs are not as mission-minded and do not go above and beyond what is required. The avenue of behavioral economics should be explored to make BCSAs more mission-minded and increase their level of participation in improving the livelihood of BoP clients.

²⁶ "What Is Financial Inclusion and Why Is It Important?" CGAP. April 22, 2015. Accessed March 30, 2018. <http://www.cgap.org/about/faq/what-financial-inclusion-and-why-it-important>.

Recommendation

- Implement a differentiated incentive structure. Similar to earning from credit leads, BCSAs can earn a separate commission when they are able to bring unbanked customers under the formal financial system. Commission or incentive for bringing first-time customers should be higher than what is paid for transactions for repeat customers. A higher incentive will be consistent with the extra effort that is required to build trust and improve financial literacy of the excluded.

With a compelling incentive structure, BCSAs like Shila and Raju can be encouraged even more to reach out to the unbanked, and other BCSAs will be incentivized to do so as well. This will be mutually beneficial for both Sub-K and BCSAs as Sub-K increases its social performance and BCSAs have an additional revenue channel.

3. Having access to financial services does not necessarily mean that customers are “financially included.” There is need for increased financial capability.

The World Bank defines financial capacity as the internal capacity to act in one's best financial interest, given socioeconomic and environmental conditions. It encompasses the knowledge and awareness of financial concepts and products, as well as the attitudes, skills, and behaviours in managing their resources. Also, the term 'financial literacy' refers to one aspect of financial capability.²⁷ The 'real' financial inclusion and the 'inclusive growth' vision can be achieved when one is capable of making optimal financial decisions and able to make use of the services that fit his/her needs.

Lack of practical financial product and service knowledge as well as the benefits, risks, and costs associated with using financial products and services.

Out of three joint liability groups (JLG) that the UBC research team interviewed in Ahmedabad, the majority of the JLG members, with an exception of one or two, did not have a comprehensive understanding of the financial products and services offered by Sub-K. When they were asked if they had an insurance product, they were unsure about the insurance policy.

JLG members had bank accounts as it was required for them to open one in order to receive microloans from Sub-K. Though they have the access to financial services, they are only using the service to access loans and receive government welfare payments. The use of financial services is often basic and not diversified.

To increase financial capability of BoP clients, an incremental approach should be taken to educate them about available financial services, how the products

²⁷ Making Sense of Financial Capability Surveys around the World. Report. 2013. Accessed March 29, 2018. <http://responsiblefinance.worldbank.org/~media/GIAWB/FL/Documents/Misc/Financial-Capability-Review.pdf>.

can be customized for each client, and how they can best use the services that fit their individual needs. Clients should understand the benefits, risks, and costs associated with financial products. Informed customers will in turn be able to improve their financial planning and decisions for consumption smoothing. Sub-K is in a good position to empower BoP clients by increasing the level of awareness and use of products the clients have access to.

Information disconnect: Lack of understanding of the functions of financial service providers.

There is a disconnect between customer knowledge of financial services and BCSA knowledge of these services. Information asymmetry can be a problem which can cause lower uptake of financial services and short-sighted decision-making. Even though a customer may have been able to access financial services through a BC outlet, the customer may not know how their money is being stored. That is to say, their knowledge of the relationship between Sub-K and a regional bank may be limited. While not a core part of financial inclusion, customer-based knowledge of where their money is located and how their money is being transferred is still part of providing financial inclusion services. Knowledgeable customers are an important part of any financial ecosystem and Sub-K can help BCSA customers improve their understanding of the financial system by making sure that BCSAs remain transparent and personable as they interact with customers.

Recommendations

- Sub-K should have a code of conduct outlining that BCSAs must disclose information about their financial services and products when a customer first opens an account.
- Increase BCSAs' capacity to educate their customers and offer financial planning advice. It is important to ensure that the BCSAs who are the frontline functionaires are well equipped and trained to be able to effectively advise their clients so they can improve their financial behavior and understanding. Additionally, it is important to know when and how to provide knowledge that is needed to improve Sub-K's financial inclusion mandate.

As part of improving customer service and increasing their accountability to customers, Sub-K should popularize the use of a helpline and grievance redress system. For example, it could be made mandatory that each customer be asked to call the helpline and take a survey whenever they use a service for the first time.

Sub-K can involve BCSAs to co-design the training sessions, identify what kind of or how much information their clients should know to increase their financial capability. What are current barriers faced by their clients? What trainings are needed for BCSAs to increase their capacity in dealing with their customers

and doing more to increase their business viability? After identifying common issues and gaps, Sub-K can design structured BCSA training sessions to empower them further, for example hypothetical scenario training, site-specific trainings, customer care training, and advanced financial knowledge information sessions could be rolled out. Advanced training sessions will help BCSAs to stay up-to-date and empower their customers.

4. Paucity of credible data about customer's financial behavior is impeding Sub-K from accurately assessing their effectiveness in serving BoP clients and making them more viable.

Sub-K's credit MIS team commented during the interview that their data analytics need to be improved further to capture customers' financial behaviours. Currently, they utilize credit bureau data for analysis, and this data alone is not enough to understand the customers' needs.

Recommendation

- MIS team can take advantage of BCSA's operational presence on the ground and train them with skills for collecting data regarding their client's financial behaviour, motivation, and attitudes. The MOU with partner banks hinder Sub-K from obtaining such data, but Sub-K should renegotiate the terms and help them understand how essential this is to capture the BoP market and improve current services based on such data.

5. Barriers in access to services. Services could be better tailored to meet the needs of local areas.

A lack of awareness of BCSA services was apparent in the BoP population in Jaipur. A VLE in Jaipur whom we interviewed, said that this BoP population does not have basic utilities. Since they do not have to pay for utility bills at the customer service centers (CSC), they also miss out on an opportunity to access financial services provided at the CSC that might benefit them (for example opening an account and receiving government welfare).

Recommendations

- Provide site-specific and demand-driven BCSA services. Sub-K should consider the unique characteristics of the location and the demographic that BCSAs serve. The service should be tailored to address the needs of the people. For example, if the demographic in the area is mostly farmers, BCSAs in that region can offer services that promote their livelihood and their specific needs which could be quite different from the needs identified in urban slum areas. The demand-driven services can generate more income for BCSAs and it will be mutually beneficial for all stakeholders. In order to implement this idea, Sub-K should examine and

assess the needs of the area, as well as understand the demographic profile of individuals including financial behaviour, characteristics, motivations, and perceptions of financial services.

4-2. Gender and financial inclusion

Cultural and gender dynamics influence financial inclusion

Discrimination against women and girls is a pervasive and long-running phenomenon that characterises Indian society at every level, including in the microfinance arena. This is evidenced in the 7 percent gender gap in bank account ownership²⁸, and 14 percent gap in account usage according to Omidyar Network.²⁹

Barriers to financial inclusion for women

Financial inclusion products such as microfinance not only enable women to invest beyond food security, but to also become economically independent through income generating projects that enhance their decision-making capacity and increase their ability to stand against gender-based violence. Nevertheless, the table below illustrates barriers to gaining such benefits.

Table 4: Barriers to financial inclusion for women

Demand Side Barriers	Supply Side Barriers	Legal & Regulatory Barriers
<ul style="list-style-type: none"> • Lack of bargaining power within the household • Concentration in lower-paying economic activities • Competing demands on women’s time related to unpaid domestic work • Lack of assets for collateral • Lack of formal identification • Reduced mobility due to time constraints or social norms • Lower rates of cell phone ownership among women, needed to access many digital products 	<ul style="list-style-type: none"> • Inappropriate product offerings • Lack of gender-specific policies and practices for product design and marketing • Inappropriate distribution channels 	<ul style="list-style-type: none"> • Account opening requirements that disadvantage women • Barriers to obtaining formal identification • Legal barriers to owning and inheriting property and other collateral • Lack of gender-inclusive credit reporting systems

28 Global Findex Database 2014 <http://documents.worldbank.org/curated/en/187761468179367706/pdf/WPS7255.pdf#page=3>

29 “A World of Positive Returns.” Omidyar Network RSS. Accessed March 30, 2018. <https://www.omidyar.com/>.

Improving women's access to financial services

Sub-K has put in place mechanisms to ease women's access to microfinance products. Sub-K's credit operation in Ahmedabad has prioritized giving loans to women because they are "more responsible." The three joint liability groups (JLG) in the three villages visited by the UBC team, that is, Nadiad, Andej, and Kambali, expressed their appreciation to Sub-K for the microloans that they have managed to access. Sub-K's service builds women's confidence to use and engage with financial services. The women have started income generating projects that are helping them to become financially independent and contribute to the household income. Another empowering factor of Sub-K's service is that the JLG members have a bank account separate from their husband's, which gives more female autonomy.

Sub-K also aims to have at least one female customer service representative (CSR) per branch and more female BCSAs. An interview with Shila, a VLE in Jaipur, revealed that having more women work as VLEs encourages women to uptake financial services. Shila also had to overcome cultural barriers for her to be able to work as a VLE. By sharing her experiences with other women, it gives them courage to undertake sustainable livelihood projects.

The state of Rajasthan is home to the largest share of direct benefit transfers (DBTs) accounting for one fifth (1/5) of all DBTs in India. The government of Rajasthan launched the Bhamashah women's empowerment scheme whose main objective is to improve access to both financial and non-financial transfers offered by the government.³⁰ This scheme is discussed further in the following section.

The Government of India, state governments, Sub-K and various stakeholders are working hard to ensure that gender equality is also achieved by availing financial services to all women regardless of location. However, the field visits to Ahmedabad, Jaipur and within Hyderabad highlighted that much more still needs to be done to ensure meaningful inclusion of women in accessing financial services. **One problem the UBC team identified is that there is an entrenched male-centric focus toward Sub-K's frontline operation.**

The branch manager of Sub-K's credit operation in Ahmedabad expressed that achieving gender equity in their workforce is a work in progress. Though Sub-K aims to employ more women, the low numbers have been attributed to safety and mobility challenges, especially in rural areas. For example, the role of the CSR requires frequent travelling to rural villages for loan appraisal, loan collection, and village center meetings. Mobility issues represent a significant barrier for women because they are often unable to travel and it may be culturally inappropriate to drive or unsafe to travel alone.

30 <http://pmjandhanyojana.co.in/bhamashah-yojana-card-rajasthan/>

The head of Basix consulting said, “gender integration in microfinance means designing products relevant for women and involving women in product design.” Similarly, a women-centered design approach should be taken to revamp the current recruitment process and make the work conditions more favourable for women.

By recruiting more women on the team, Sub-K will not only contribute toward raising female autonomy within society, but will also make a positive step forward in bringing unbanked women under formal financial services. Also, as Shila’s performance has shown in the above analysis, empowered women employees are likely to project greater influence in advancing financial inclusion.

Recommendation

- Sub-K should explore the possibility of using a compelling incentive system such as extra salary, logistics support, or similar, to encourage more women to function as CSR and BCSAs. The additional cost burden should be met through development grants rather than business revenue. The Government of India’s Ministry of Women and Child Development may offer funding support for this initiative to balance gender inequity in the workforce.

4-3. Bhamashah Case Study

Bhamashah: Insights from Rajasthan’s financial inclusion program

In 2008 the Rajasthan government conceptualised a digital governance initiative that both shifted cash payments to bank transfers and integrated multiple programs into a single ‘Bhamashah’ program.³¹ Created as the first household level identity program in India, the scheme aims to improve financial inclusion, women’s empowerment and government service delivery via a unified state-wide registry of households and their members. Around 15 million households or (83 percent of Rajasthan’s total households) have enrolled under the program as at October 2017.³²

The Bhamashah program is an example of a ‘mission-led’ policy designed to encourage widespread social change and state-level government coordination. As a statewide program its effective delivery requires adequate infrastructure, and the Rajasthan government has used a public-private partnership model with working with Sub-K to achieve this. Through this partnership e-mitras act as a mechanism to mitigate the challenges of financial inclusion delivery associated with traditional bank branches.

³¹ The party that conceptualized Bhamashah lost the election in 2013 and was not in power from 2008 to 2013. Implementation began when they came back to power in 2014.

³² “Household Perception: Impact of Digital Governance Reforms in Rajasthan.” Version 1.1. MicroSave and Center for Global Development, December 2017. http://www.microsave.net/files/pdf/171212_Household_Perception_Impact_of_Bhamashah_Digital_Governance_Reforms_in_Rajasthan.pdf

How does the Bhamashah program work?

Known as ‘the land of the kings,’ and with a history of warfare and chivalry, Rajasthan has been a traditionally patriarchal society in which discrimination against women has always been a part of life.³³ Consequently, one of the key aims of the Bhamashah program has been to empower women. To meet this objective every household that enrolls in the program receives a Bhamashah card that is allocated to the female head of the household or Mukhiya. If the family does not have a female above 21 years of age, the eldest male family member is appointed as the Mukhiya. The Bhamashah card is linked to the aadhaar identity system and displays details of all family members. The program aims to make the female head of the household the decision maker with respect to the use of all benefits under various government welfare programs. The Bhamashah system connects to the bank accounts of beneficiaries via a unique ID, and banking services are provided through business correspondents, known as e-mitras, and micro ATMs that are being established in all Panchayats (village councils).

As part of the Bhamashah program, the government of Rajasthan has begun integrating the beneficiary data of various central and state government programs into a unified Bhamashah database. The program thus hopes to streamline the current system in which various departments use different, and often conflicting databases for different programs.

Financial Inclusion and the Role of e-Mitras

As a result of the Bhamashah program and the Indian government’s Pradhan Mantri Jan-Dhan Yojana (PMJDY) scheme, universal financial inclusion in Rajasthan is close to being achieved. A December 2017 study published by the Centre for Global Development in conjunction with financial inclusion consultancy MicroSave, found that almost every household surveyed (633) in the study examining the impact of the Bhamashah program, had at least one bank account.³⁴

E-mitras assist the implementation of the program by offering another way of delivering traditional banking services and other government to citizen services. BASIX Sub-K won the mandate from the Rajasthan government in 2014 to take on the role of e-mitra service delivery.³⁵ As of March 2017, data reported by the Rajasthan government notes there are more than 40,000 e-mitras across the state, of which

33 “Gender Inequality in Rajasthan,” Vikalp Santhan, <http://vikalpindia.org/gender-equality-in-rajasthan/> (accessed March 29, 2018).

34 “Household Perception: Impact of Digital Governance Reforms in Rajasthan.” Version 1.1. MicroSave and Center for Global Development, December 2017. http://www.microsave.net/files/pdf/171212_Household_Perception_Impact_of_Bhamashah_Digital_Governance_Reforms_in_Rajasthan.pdf

35 “Our work,” Sub-K, <https://www.subk.co.in/our-work.php> (accessed March 29, 2018).

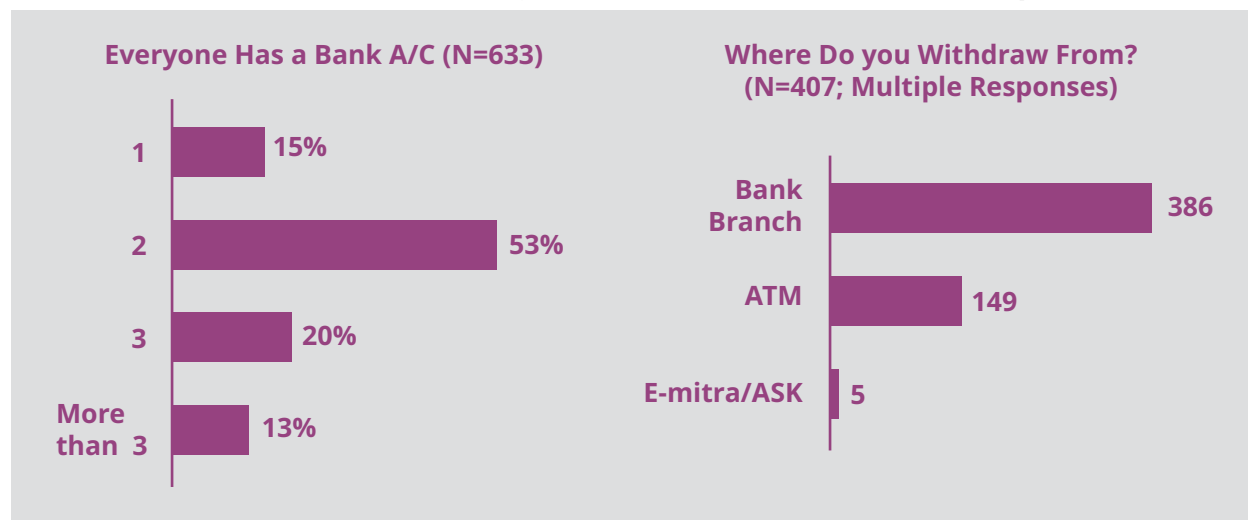
39,000 were activated between 2014 – 2017.³⁶ Additionally, Vijay Mahajan, founder and former CEO of BASIX Social Enterprise Group, acted as a key technical adviser to the Rajasthan government during the conceptualisation and initial implementation phase of the program.

Challenges to Program Delivery

The ambitious, innovative approach taken by the Rajasthan government to employ the use of e-mitras has resulted in some challenges to its effectiveness. Despite e-mitras leading the effort to open bank accounts for financially excluded families, the 2017 study conducted by the Centre for Global Development and MicroSave notes overcharging, denial of banking services and long waiting periods as issues.³⁷

As a result, although e-mitras and ATMs are present, the study found that bank branches were the preferred option for conducting financial transactions. Of the 633 households surveyed, 95 per cent were found to prefer conducting financial transactions at a bank branch. The study identified that respondents preferred bank branches as e-mitras face liquidity issues and customers cannot withdraw cash when they need it. Respondents also reported that in some cases e-mitras only accept customers of the bank with which the e-mitra is registered.

Chart 5.1: Financial inclusion survey results, Center for Global Development



Source³⁸

With respect to the roll-out of the Bhamashah program, household enrolment is supposed to be free, and while 81 percent (633) of households surveyed reported

³⁶ “Household Perception: Impact of Digital Governance Reforms in Rajasthan.” Version 1.1. MicroSave and Center for Global Development, December 2017. http://www.microsave.net/files/pdf/171212_Household_Perception_Impact_of_Bhamashah_Digital_Governance_Reforms_in_Rajasthan.pdf

³⁷ Ibid.

³⁸ Ibid.

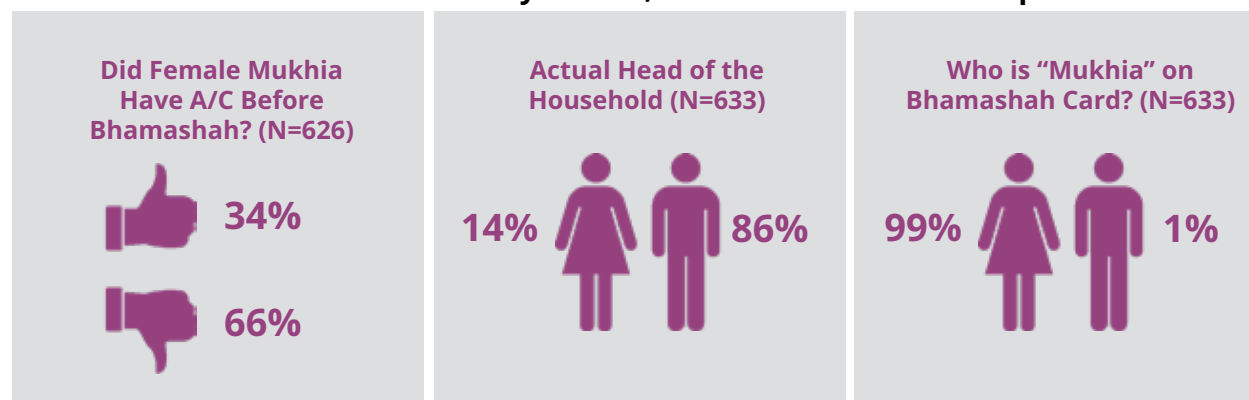
that they did not pay to become enrolled, approximately 19 percent reported paying e-mitras for enrolment in the program. E-mitras with whom the researchers spoke with cited the high cost of aadhaar enrolment machines and the low commission structure as the reason for charging customers. Further, the e-mitras noted that the commission is often credited on average six months late, creating a cash-flow issue. These issues indicate that distrust of e-mitras presents a barrier to further uptake of their services. From the UBC team’s visit to Jaipur however, it was clear that Sub-K was working to ensure that e-mitras charged appropriately for their services as pricing lists were clearly displayed in the three e-mitra centres visited.

Impact on women’s empowerment

The Bhamashah program aims to promote the decision making power of the female heads of households with respect to government welfare benefits. According to the 2017 study conducted by the Centre for Global Development and MicroSave, this objective has been met on paper, as almost all (99%) households surveyed (633) have females designated as Mukhiya on the Bhamashah card.³⁹ In practice however, survey respondents were not aware of the intentions of the program or contended that designating females as Mukhiya would have little effect on altering household dynamics. This trend was illustrated by the 86 percent of surveyed households responding that male family members make major decisions in the family.

Although the Bhamashah program may not have directly changed cultural habits, the program has been successful in promoting women’s financial inclusion. Before the Bhamashah program was implemented, 66 percent of the total female Mukhiya had never had a bank account and opened their first account through the program. However, with respect to which family member withdraws cash, 46 percent of respondents expressed that the male member of the family conducts this task.

Chart 5.2: Financial inclusion survey results, Center for Global Development



Source⁴⁰

39 Ibid.
40 Ibid.

Lessons learned and next steps

The Bhamashah program offers an example of a state driven 'mission' oriented policy implemented at a statewide scale. The advantages to such a policy approach are shown in its ability to be rapidly implemented at scale, given adequate infrastructure. While the policy has not substantially affected deep-set cultural norms, its design and scale has been effective in encouraging women's empowerment to some degree.

The 2017 study conducted by the Centre for Global Development and MicroSave highlighted that e-mitras "are an important, but weak link between financial inclusion and gender empowerment" (p. 42) in the Bhamashah program. The study underscored the importance of public private partnerships in the delivery of government services in Rajasthan, but highlighted that attention is needed to address current issues associated with the system.

Recommendation

- To increase the level of trust between e-mitras and beneficiaries, and to ensure the future effectiveness of the public-private partnership, an assessment of the challenges associated with the functioning and incentive structure of e-mitras could be beneficial. (Specifically, an assessment of the following areas could enable improved service delivery: cost of aadhaar enrolment machines relative to commission structure; speed with which commission is credited to the e-mitra; liquidity issues faced by customers wishing to withdraw cash; and e-mitra understanding of which bank customers they may accept).



05.

**Operational
Capacity**

Theme 2: Operational Capacity

Introduction

The business correspondent sub-agent (BCSA) model is used by Sub-K and other microfinance entities in India as a primary method to empower communities through financial inclusion and social sustainability. The model ultimately aids Sub-K's customer communities to achieve social, environmental, and financially sustainable livelihoods and imperatively, the BC model leverages the trust and local capacity of communities to achieve the triple-bottom line goal of holistically maintaining financial, social, and environmental sustainability within financial inclusion programs. The operational capacity of Sub-K is largely driven, but also dependent, on the framework of the BCSA model.

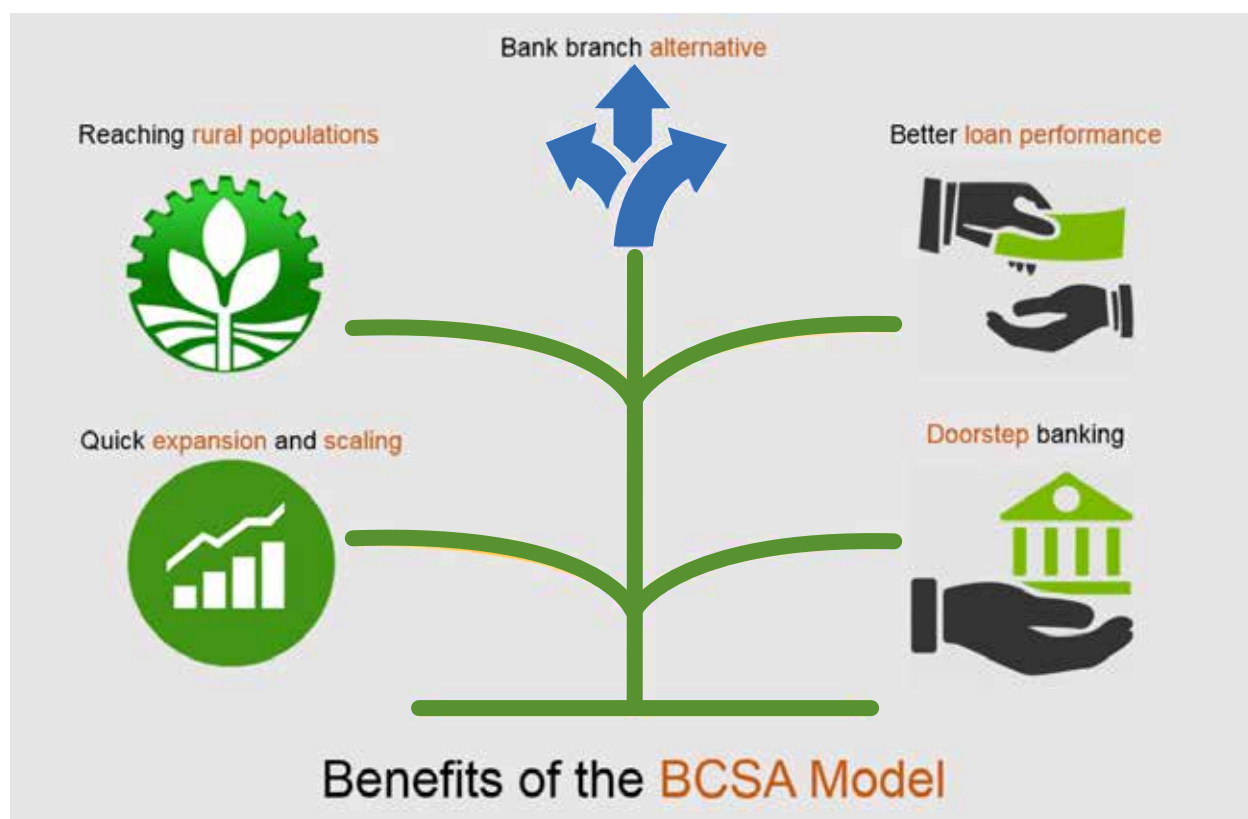
Given this context, the UBC team examined the operational capacity and impact effectiveness of Sub-K as it directly relates to the BCSA model in providing financial inclusion services to its customers in rural and urban environments. Key characteristics driving cross-cutting sustainability of the BCSA model were identified in an effort to detail how Sub-K can adjust and evolve its own financial inclusion activities to:

- a. Improve its own adaptive capacity to respond to future social or political developments that may be outside of its immediate control;
- b. To prevent or reduce the possibility of shocks or;
- c. Be ready to neutralize and mitigate the adverse impacts of a shock.

The UBC team framed two research questions that seek to address inclusion and the overall trends with the BCSA model at-large. The BCSA model provides a strong foundation for microfinance institutions to use in meeting their objectives, yet systemic challenges remain on the horizon---including lack of connectivity infrastructure, cultural diversity gaps, and insufficient digital and financial capability. If implemented appropriately, the BCSA model can serve as an effective alternative to setting up physical bank branches in rural or otherwise marginalized communities by improving basic financial services in a focused manner.⁴¹

41 "Financial Inclusion in India – The Rise of Business Correspondent Model." Sesame India. 13 September 2017. Accessed from: <https://www.sesameindia.com/blog/financial-inclusion-business-correspondents/>

Chart 6: Benefits of the BCSA Model ⁴²



Box Item 2: What is a Business Correspondent Sub Agent (BCSA)?

A BCSA is an individual who provides banking or social services to their immediate community, based on the specific services the community or local government has identified as needed in the community. The Agent usually has access to technology provided by Sub-K that enables him or her to aid members of their community to access financial or other government services.

Importantly, a BCSA is a known and trustworthy member of their community and thus serves those members that do not have banking infrastructure or are otherwise far removed from accessing such financial or social services. In this way, the business correspondent agent provides ample foundation for meeting critical last-mile enablement needs for financial and social inclusion agendas.

⁴² Adapted from: Sesame India: Financial Inclusion in India – The Rise of Business Correspondent Model via: <https://www.sesameindia.com/blog/financial-inclusion-business-correspondents/>

Table 5: Key Characteristics & Traits of a Business Correspondent

Trait	Description
Trust from Community	Long-term presence, the BC may view their work as “social work” or as “community engagement”.
Sustainable Business Operation	Provider of different services or goods so that the BCSA can grow their own business, and not only provide financial services. i.e. with e-mitra or cyber cafe spaces.
Proximity to Community	Ostensibly, BCSAs need to be located directly within the communities that they serve. This leverages existing resources and builds trust because the BCSA comes from within their own rural community, not from an urban area that is far away and removed.
Understanding of Sub-K Role	A BCSA views Sub K as a business partner—not as a non-profit organization or government agency providing a service. In time, this builds a more positive relationship with the BC company.
Understanding of social enterprise mission	A BCSA needs to view their partnership with Sub-K as a larger social mission within their community—not simply as a businessperson providing basic financial services.
Connectivity & Access	As ICT is the primary method that enables financial service and business transactions to occur, internet access and telecom infrastructure need to be secured for the BCSA outlet.
Knowledge to Train Community	BCSAs can participate in a unique knowledge transfer system to their immediate community members, educating them on the general financial system and the use of technology to access government or banking services.
Knowledge about other BCSAs operating in the nearby area	BCSAs have a unique opportunity to attend workshops or training sessions conducted by BC company or meeting with other BCSAs.

In all, the BCSA model can be leveraged by an organization such as Sub-K to ensure that external shocks to the financial environment are mitigated while operationally, financial inclusion organizations can provide financial services in a holistic manner throughout rural communities in a trustworthy and transparent fashion.

Key Findings

Currently, Sub-K is effectively using the BCSA model to facilitate financial inclusion and social access policies in marginalized and rural locales. Crucially, the relationships that BCSAs are able to build directly with customers greatly improve the trust, transparency, and capacity of the financial inclusion framework. This has resulted in effective, cross-cutting financial inclusion programs being implemented by Sub-K and its organizational partners. That is to say, BCSAs are truly meeting the financial inclusion needs within their communities because their operational model reinforces a sense of positive social feedback between themselves and their customer-base. Further areas in which the model may be strengthened are discussed in the Bhamashah case study in section 4.3 of this report.

Even though BCSAs build up a culture of trust and social cohesion among their communities, specific connectivity barriers and gender issues still exist. Ultimately, these challenges must be addressed if the sustainability of the BCSA model is to be maintained if not improved.

A significant driver of BCSA operation is internet and telecom connectivity and the quality—or even presence—of such connectivity is highly dependent on where BCSAs operate.

The Future of the BCSA Model: Digitization & Regulation

Even though the BCSA model can allow a BC company such as Sub-K to be better resilient to external shocks, there are still major risks to consider for the BCSA model going forward—primarily, digitization. As more people gain access to secure telecommunications and internet networks, the need for a personable banking agent like a BCSA may wane. Ravi Shankar Prasad, Union Minister for the the Ministry of Electronics and Information Technology for India has said that “digital inclusion is the foundation for financial inclusion,” citing that integrated digital platforms that are being deployed in tandem with financial inclusion policies such as PMJDY are becoming the norm.⁴³ Sub-K will need to continue to prioritize digitization as a part of their business strategy because mobile-based financial solutions will continue to permeate throughout civil society. This is especially true following demonetisation policy in November 2016—when large portions of civil society, especially in urban

⁴³ “Digital inclusion is the foundation of financial inclusion.” Ravi Shankar Prasad. Press Information Bureau Government of India. Ministry of Electronics & IT. 13 September 2017. Accessed from: <http://pib.nic.in/newsite/PrintRelease.aspx?relid=170756>

areas, were forced to use digital payment systems.⁴⁴ Digitization and digital inclusion are further discussed in the organization SWOT analysis and in section 06 of this report.

Aside from digitization, the current BCSA model in India does not host a full-fledged regulatory framework, however, such a framework is slowly being constructed and deployed. The Business Correspondent Federation of India, or BCFI, is working to deploy five programs for the business correspondent sector in India over the next three years:

1. Training, certification and BC registry;
2. Operating standards;
3. Code of conduct;
4. Grievance redressal mechanism;
5. Technology platforms.

The five programs are set to provide a medium, both in terms of regulation and advocacy, for BCSAs to have a unified, respected, and trusted voice in the eyes of the microfinance and Indian banking sector. The BCFI has been facilitating the adoption of these five programs by forming an official BC registry as well as a training and certification database for use by BC companies.⁴⁵ This BCFI initiative can stand to mitigate some of the unknown costs borne out of digitization and external political shocks, such as demonetisation. BC companies, such as Sub-K, need to continue to be involved in implementing the BCFI programs. Sub-K's attention to training and deploying digital technologies currently in use by BCSAs in the field is a strong example of positive engagement between a BC company and a BCSA advocate entity, such as the BCFI. This type of engagement needs to continue if BCSA field operations are to remain sustainable in the near-term.

Recommendations

- **Prioritize a community-led and bottom-up approach to appropriately scale alongside the BCSA model**
 - a. Sub-K needs to collaborate with the policy and regulatory environment, namely the BCFI, to create a more inclusive environment for BCs across the financial inclusion sector in India.
 - b. Specifically, Sub-K can work with the BCFI to build out its registration system. As a flagship BC company, Sub-K is familiar with the contexts and experiences that BCs continually face on the ground. Sub-K can use this context expertise to assist the BCFI in forming the national BC registry system and thus ensure

⁴⁴ "Mobile Money in India: Does Digitalization Follow Demonetization?" Jagadeesh Nellore. University of Pennsylvania. 30 May 2017. Accessed from: <http://knowledge.wharton.upenn.edu/article/mobile-money-india-digitalization-follow-demonetization/>

⁴⁵ "Vision, Mission, Objectives." Business Correspondent Federation of India. 2017. Accessed from: <http://bcfi.org.in/vision-mission-objectives/>

that BCSAs have more formal representation as financial service providers from the perspective of the banking sector and government entities.

- c. In turn, this work can improve the resilience and sustainability of the overall BCSA model, and lead to a more effective deployment of the business correspondent code of conduct and grievance redressal mechanism, which will better institutionalize trust and transparency between BCSAs and the communities they serve.

- **Location-centric BCSA training**

- a. Sub-K needs to consider the unique characteristics of the demographics that BCSAs serve. Sub-K should design a targeted communication strategy to increase awareness and improve financial capabilities of both BCSAs and their customers.
- b. In turn, such capacity building will mitigate information asymmetry. Facilitating structured BCSA workshops between Sub-K field employees and low-to-medium performing BCSAs will improve the operating capacity of BCSAs that are continually facing challenges.
- c. More specifics around the benefits of training BCSAs and its important effects on end-customers are further discussed in Section 7.0.

- **Improve digital inclusion and ICT training**

- a. The UBC team witnessed a technology system failure take place in the field. When this failure occurred, not one customer was able to access financial services from their community BCSA.
- b. To prepare for failures in the future, Sub-K needs to make sure BCSAs are properly trained on informing customers as to the nature of the technology problem at their outlet. Importantly, Sub-K needs to make sure that BCSAs are knowledgeable enough about the technological systems so that they can appropriately inform their customers about the problem, while updating them on the status of the problem as to when it will be resolved. This will secure trust between the BCSA and their immediate customers. Additionally, such transparency will improve knowledge transfer about the ICT tools that BCSAs rely on to provide financial services to low-income households.
- c. Further, Sub-K needs to ensure that they keep their own internal technology solutions up to date so that they as an organization can better respond to system-wide failures. This is further discussed in Section 06.
- d. Access and connectivity are crucial factors to the success of the BCSA model. Because of this core characteristic, Sub-K must be an active partner alongside BCSAs as they continue to use ICT tools and address future challenges associated with the ICT system. This is especially true as more customers gain access to cellular and internet-enabled banking solutions. A landscape of the digital development sector in India is provided in Section 07 and this section outlines how Sub-K can act to make sure that they do not get left behind in

the ICT arena as it relates to the financial inclusion ecosystem.

As a flagship BC company, Sub-K is poised to effectively leverage the BCSA model in providing financial services and meeting financial inclusion mandates for its customers, be they located in rural or urban areas. There has been a certain degree of sustainability achieved by Sub-K in working with the BCSA model.

This sustainability must be ensured and this can be done so by making sure that BCSAs gain formal representation in India's financial inclusion ecosystem. Collaborating with the BCFI to build out a BCSA registration system is an excellent initial step for Sub-K to take in ensuring an improved operational capacity of leveraging the BCSA model. Additionally, Sub-K needs to make sure that BCSAs are learning from the challenges faced by other BCSAs. Simply put, BCSAs stand to gain a lot of knowledge from their peers and this knowledge will increase awareness around the financial inclusion system at the community level—especially awareness around digital inclusion practices and use of ICT tools at the field level for both BCSAs and customers.



06.

Viability & Organizational Resilience

Theme 3: Viability & Organizational Resilience

Introduction

Why focus on viability?

Viability and sustainability is the core of most operational businesses. In the 21st century survival of businesses heavily relies on innovation to meet market needs and internal strategic goals. Organisational viability means achieving the mission outcomes through project activities and service.⁴⁶ Viability is also determined by internal factors as well as external. The operating environment, that is, government regulatory frameworks, stakeholder demands, competition, technological and international business trends have a great impact on local businesses.

Limitations

Although the viability assessment was not absolute due to the short timeframe in which the in-country fieldwork was conducted, it gives a reasonable indication of the internal status of Sub-K. Due to scheduling constraints the UBC team also did not have the opportunity to meet with the Chief Finance Officer to gain a clear understanding of how Sub-K realises its profit margins from its operations. However, the viability and sustainability of an organisation does not only hinge on its financial operations, but also on other critical operations that range from recruiting the right personnel, managing stakeholder relations and expectations, to maintaining market relevance.

Sub-K SWOT Analysis

The UBC team held a SWOT analysis workshop with the different units within Sub-K that aimed to understand the functions of the units. One of the advantages of undertaking a SWOT analysis is that it provides the organisation with an opportunity to brainstorm and identify internal and external factors that influence its operations.⁴⁷ It also gives external parties an appreciation of the internal

⁴⁶ Organisational Viability Toolkit A Practical Approach towards Organisational Development or Environmental Civil Society Organisations, 2009. <http://documents.rec.org/publications/OVToolkitEnglishFinal.pdf>

⁴⁷ The Advantages of SWOT Analysis in a Strategic Plan by Neil Kokemuller. An online publication targeted at small businesses. <http://smallbusiness.chron.com/advantages-swot-analysis-strategic-plan-25672.html>

operations of the organisation. The process also allowed Sub-K to take ownership of the inclusive process. The departments that took part in the exercise are:

1. Finance and Accounting
2. IT Help Desk
3. IT Team
4. Human Resources
5. Credit Management and information Systems
6. Management and Information Systems
7. Audit and Risk

Interviews conducted with Basix CEO, Sub-K CEO, ILRT and various field personnel based in Hyderabad, Jaipur and Ahmedabad also helped in developing a reasonably clear understanding of Sub-K's short to medium projections of its place in the microfinance sector. Below are the responses that were generated during the SWOT analysis from the various units.

Table 6: Sub-K SWOT Analysis responses ⁴⁸

Strengths	Weaknesses
<ul style="list-style-type: none"> • Highly qualified and experienced management and staff with a wealth of experience in the microfinance industry and institutional memory of Sub-K operations. • BASIX group has been operating for over 20 years and has built a reputation as a formidable force in the microfinance sector in India. It is well placed to engage with policy makers at state and national level. • BASIX is also a founding member of many trade associations (BCFI, MFIN, SADHAN etc) and therefore can leverage its membership for advocacy efforts. • Sub-K is part of the Basix group consisting of 13 subsidiary companies which can offer synergies and operational efficiencies. Also, Sub-K can be bailed out by its sister companies when in financial difficulties e.g. overcoming financial challenges after Sub-K's portfolio was negatively affected by demonetisation in 2016 and earnings diminished 50 Crore. • The IT Help desk team has tactical skills in handling stakeholders. • Efficient Human resources team. • Competent Credit and Financial Inclusion MIS teams that have reliable data backup systems and an effective BC model. • Strong IT capabilities unlike any other MFI. 	<ul style="list-style-type: none"> • MIS is limited to business monitoring. It does not include advanced data analysis. • Software technology does not allow for advanced data analysis. Current data analytics do not cover financial behaviour of customers which is an important area in the microfinance sector. • Communication gap between teams (Field team, Head Office, and Partner banks). • More manpower needed as the Sub-K human resources division is currently under-staffed, and it limits its efficiency. • Current data analytics do not cover financial behaviour of customers which is an important area in the microfinance sector. • Data dependence on a few banks, SBI/BOB/ HDFC, and bank driven products. • Sub-K being an intermediary (business correspondent) is limited by its ability to customise products as it is heavily dependent on banks which might not be sensitive to needs of BoP customers.
Opportunities	Threats
<ul style="list-style-type: none"> • Serving the low-income households in areas that do not have banking services and providing affordable loans for customers to have sustainable livelihoods. • Keeping up-to-date with technology and training employees on latest products. • Building trust with BCSAs through interaction, understanding their behaviors and emotional attachment. • Automation system calling: opportunity for skill-building. • Digitization of loan application/collection process (online). • Currently piloting Zing HR software and it has helped streamline HR processes. Most banks use this program internally as well. • Investing in data analysis capabilities can improve business operation and decision making. • Holistic packaged, increased business products, customer specific products for small loans etc. 	<ul style="list-style-type: none"> • Risk associated with transporting cash recoveries. • System down (Infrequent. internet had gone down 2-3 times in the last three months). Team has a process to deal with these types of occurrences. • Failure to keep up-to-date with changing technologies will slow down Sub-K's operational capacity. • Political issues and unpredictable government policy changes towards business.

⁴⁸ The SWOT analysis responses were compiled from the responses provided by various Sub-K units during the Knowledge and experience sharing workshop.

Analysis of Responses

Viability System Model (VSM)

In assessing Sub-K's viability, research focused mostly on its internal structure and capacity as well as other external factors that continuously test the organisation's ability to adapt to the ever-changing microfinance operating environment. The SWOT analysis findings will be evaluated using Beer's Viability System Model (VSM), a framework for creating flexible and adaptable organizations. The VSM is more ideal because it is based on management principles that focus on creating an organisation that capitalises on its internal structure to adapt and thrive in unpredictable business landscapes.⁴⁹ This internal assessment enables an organisation like Sub-K to measure where it stands in terms of meeting stakeholder expectations in the short to long term. VSM also emphasises knowledge management and awareness among employees of how the organisation operates at all levels.

Chart 7: Beer's Viability System Model



Source: Viability System Model⁵⁰

Demonetisation

The demonetisation policy passed by the Indian government in late 2016 is an example of the unpredictable policy environment Sub-K is operating in, given that

49 Hoverstadt P & Bowling D (2005) Organisational Viability as a factor in Sustainable Development of Technology in International Journal of Technology Management and Sustainable Development Vol 4 issue 2 https://www.researchgate.net/publication/233655298_OrganisationalViabilityasafactorinSustainableDevelopmentofTechnology.pdf

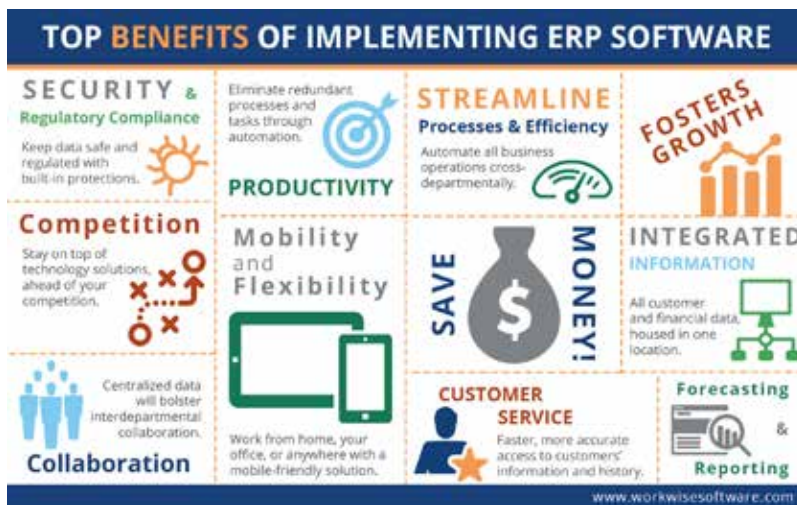
50 Box diagram by Sofia Miltiadou <https://creately.com/diagram>. Edited by Hyun-Ju Lee.

government and politicians can issue declarations without consultation with the non-banking financial companies (NBFCs) and MFIs. To be prepared for similar eventualities Sub-K has managed to ensure that all its approved loan disbursements are insured as an adaptive strategy to the demonetisation effects. As another adaptive strategy Sub-K must constantly review its organisational goals to suit the changing operating environment.

One of Sub-K’s major strengths is being part of a group of companies under BASIX. The SWOT findings also revealed that this helped Sub-K in overcoming major financial challenges after the portfolio was severely affected by demonetisation in 2016. Moving forward, it means that Sub-K also needs to focus on building its capital base. Capital protects from shocks both internally and externally. This requires constantly evaluating the effectiveness of the current Sub-K business model and its ability to survive if another similar shock like demonetisation policy is passed by government.

Technology

“Sub-K was the first MFI to integrate banks with their own technology” - Basix CEO



Data analysis and management is important to any business. It enables organisations to make correlations, discover patterns, and forecast trends. The MIS departments highlighted that Sub-K does not have the capacity to carry out advanced data analytics because the software they are currently using does not support these features.

According to the VSM, information systems are at the heart of any organisation’s viability. Investing in data analytics software will enable Sub-K to determine consumer behaviour trends. “Big data” analytics also enable businesses to make informed decisions at a faster pace. With improved data analytics, Sub-K will be able to cater to specific customer needs and undertake product development that addresses market deficiencies.

Information communication technology is rapidly changing and keeping up is a challenge. Sub-K must keep these technological developments in mind when assessing its viability. Sub-K must also invest in operating systems, which will ensure that its internal performance measures up to or even surpasses other market players.

For example, adopting modern software systems like the Enterprise Resource Planning (ERP) software ensure that all business departments are integrated and allows the sharing of real time data for quick and informed decision making, which is what the VSM is all about. There are numerous ERP software packages for small-to large-scale businesses. Therefore, Sub-K can select an ERP software package that is reasonably priced to suit its business needs. With the adoption of ERP software, all departments can maintain their already existing software and become integrated on one platform that facilitates quick and easy information sharing. In all, ERP saves time and time is a valuable resource in business. However given that implementing the ERP can be expensive, with price ranging from CAD\$100,000 to CAD\$750,000. Another option is for Sub-k to purchase software packages for the MIS department that are cheaper. Prices for the software packages range from CAD\$10,000 to CAD\$50,000. Investing in business intelligence solutions is a worthwhile investment for Sub-K.

The major technology challenge that Sub-K needs to keep up with is connectivity and access—especially in rural communities where BCSAs operate with Sub-K customers. To a large degree, Sub-K's operational viability is based on the ability for BCSAs and Sub-K field officers to use digital solutions to provide financial inclusion services for customers, such as linking Aadhaar identification with customer bank accounts or providing e-mitra government services. As best as it is able, Sub-K needs to advocate for further digital inclusion and technology training programs for field officers, BCSAs, and end customers. In tandem with this advocacy, Sub-K can leverage its place within the BASIX consortium to improve digital inclusion and technology training for its BCSAs and its customer base. Sub-K's recent partnership with B-ABLE exemplifies how the BASIX consortium can be an effective resource for sustainable technological deployment. Forming a partnership with B-ABLE to design and host technology training sessions around basic computer literacy and information technology systems is a clear entry point for positively engaging in field-level digitization, ICT implementation, and better understanding the need to keep up with changing connectivity and digital landscapes.

Partnerships and networks

Representatives of Sub-K's partner banks, including the State Bank of India and Syndicate Bank, that the UBC team interviewed, indicated their satisfaction in working with Sub-K. State Bank of India highlighted Sub-K's competence as one of the reasons they chose to engage Sub-K in the bank's operations. The selection criteria is based on a points scheme. The only challenge raised during the SWOT workshop was that Sub-K is heavily dependant on data provided by banks and this limits its ability to verify information provided. However, Sub-K has also built a good reputation in the MFI market, given that it has been around for at least two decades it has been a major player in providing advice for various government policies and

schemes. Former Basix CEO Mr Vijay Mahajan was instrumental in working with the Indian government in developing the Bhamashah direct benefit transfer (DBT) scheme. Sub-K through its customer service personnel played a vital role in the roll out of the scheme to women/ households and in recruiting agents on behalf of the government to accelerate the enrolment process.

The challenge that Sub-K faces in compiling and analysing data is that it depends on banks to provide data. Data verification can be compromised, and it can also cause delays in producing reports and making decisions. Data is a commodity few firms are willing to part with, however with respect to this issue, Sub-K may wish to consider evaluating the Memorandum of Understanding (MOU) it signs with partner banks. The MOUs must emphasize that Sub-K is a capable intermediary that should have access to data. Both parties can derive mutual benefit from this arrangement because it allows for a joint product design process, thorough data analysis and cuts out delays in producing reports. For improved coordination of business operations, the VSM promotes open communication and shared resources to achieve greater results.

The business correspondent model (BC) has been identified by partners as strategic and economically viable. Banks prefer to engage Sub-K as a partner because it saves time and money in terms of infrastructure development and deploying personnel. BCs are from the community and they know the market terrain better than banks. The BC model has proved to be a major strength for Sub-K. For a more in-depth analysis of the model please refer to section 05: Theme 2 of this report.

Human Resources

According to the SWOT analysis responses, Sub-K has a team with a wealth of knowledge of the microfinance sector in India. The team and BCSAs participate in regular training and opportunities for growth are first given to internal candidates before they are opened to the public. This is a sign of confidence in its employees. The VSM encourages regular training and performance evaluations to ensure that the organisation operates on the same page to achieve goals.

Recommendations

The Viability Systems Model (VSM) emphasises knowledge management and capitalising on the strengths of different units within an organisation to achieve set goals and objectives. As an analytical framework the VSM reveals four areas for Sub-K to address and be viable in its current operating environment.

- Sub-K plays a critical role in sourcing customers for banks through its BC model. BCs are the interface between the banks and the clients. The Basix CEO emphasised that Sub-K could work with banks and convince them to have a joint product

design process. Negotiating data sharing terms in MOUs with partners will ensure a process which allows Sub-K to be more involved in creating financial products that cater to the needs of the low-income households. Product development that incorporates product differentiation is key to meeting customer needs and attracting business partners and investors. Such a process provides mutual benefit to both Sub-K and the bank.

- Encourage communication between departments. Creating a reporting template and building the capacity of BCs to capture data on customer queries and market changes.
- Invest in data management systems for enhanced data analysis and operational capacity. This requires adoption of advanced internal technology systems and continuous human capacity development.
- Put in place informed organisational policies for effective risk management. Among other factors, the sustainability of Sub-K operations will also depend on effective risk management strategies and striking a balance between commercially viable strategies and meeting the triple bottom line. Beyond insuring loans, this might include having an internal policy that focuses on building capital reserves for Sub-K, without compromising its mission of providing loans to low income households.

Conclusion

Assessing viability and resilience is an on-going process that includes making outside-in and inside-out evaluations as an organisation. Using Beer's Viability System Model to assess viability ensures that the mechanisms for adopting change are incorporated within the organisational structure. Sub-K has a strong and experienced human resource base which is capable of steering the organisation in a more viable path. One of the major challenges Sub-K faces is adopting data management and analytical software. Addressing this will help ensure that Sub-K gains the most from its analysis to influence product development and meet stakeholder and market needs. In making these changes it is also important to note that they will be expensive to implement, and will require training for the entire organisation, and also the willingness of partners to comply with the requests.



07. Digital Inclusion

Cross-cutting theme: Digital Inclusion

As Sub-K continues to operate in the financial services sector, the organization will need to keep informed of digitization and information communication technology policy in India. By 2020, the Indian government is planning to implement a wide-ranging internet connectivity initiative—aimed at finally bringing connectivity to nearly 240,000 gram panchayats, or village-level administrative municipalities.⁵¹

While initially slow-starting, the government’s attention to catalyzing rural connectivity is quickly becoming a paramount policy. This attention is also fueled by the government’s Digital India strategy, which is a country-wide scheme to enable households to access government services through electronic means.⁵² Importantly, Digital India plans to integrate citizen services, including basic banking services, with digital platforms.

Specifically, Digital India has identified the PMJDY, PayGov India, and the Aadhaar Enabled Payment System as primary schemes where digitization stands to play a pivotal role in redefining the financial inclusion landscape. Indeed, India’s Ministry of Information Technology has noted that increased use of digital technology by communities and customers is crucial to realizing more effective financial inclusion solutions.⁵³

The impact of ICT accessibility on certain rural communities has yet to realized.⁵⁴ However, Digital India’s priority of providing citizens with government services through use of mobile phones or internet access is of sure note to a BC company such as Sub-K. Sub-K’s partnerships with BCSAs who provide e-government services—including those in Rajasthan state—are an excellent entry point for positively engaging in ICT implementation and financial service provision at the field-level.

51 “India’s plan to connect thousands of its villages to the internet is finally moving up a gear.” Manu Balachandran. Quartz India. 14 November 2017. Accessed via: <https://qz.com/1127650/bharatnet-indias-plan-to-connect-thousands-of-its-villages-to-the-internet-is-finally-moving-up-a-gear/>

52 Digital India: Rural Empowerment Schemes. 28 March 2018. Accessed via: <http://digitalindia.gov.in/rural>

53 “Digital inclusion necessary for financial inclusion, says IT Minister Ravi Shankar Prasad.” First Post. 14 September 2017. Accessed via: <https://www.firstpost.com/tech/news-analysis/digital-inclusion-necessary-for-financial-inclusion-says-it-minister-ravi-shankar-prasad-4041291.html>

54 “ICTs for the broader development of India: An analysis of the literature. Geoff Walsham. Cambridge University. 2010. Accessed via: <http://www.indiagovernance.gov.in/files/ICT-for-broader-dev-in-India.pdf>

A principled and inclusive approach to digitization

Sub-K can leverage its partnership with the state government of Rajasthan and operating BCSAs to advocate for a more inclusive and robust digital system. As BCSAs continue to operate as the frontline providers of government services—financial or otherwise—they can provide something to their customers that technology never can: a more human element. Increased digitization will only help improve the BCSA model.

At the same time, however, BCSAs and Sub-K need to realize that technology can only do so much. Ultimately, a full-fledged digital model will hinder the strongest elements of BCSA operations, which are based on trust and community engagement. Thus, Sub-K needs to understand the shifting digital landscape in India to the point that it affects the financial capacity of BCSAs and low-income households. As Sub-K continues to improve its own digital infrastructure, it needs to keep the direct beneficiary—the person—at the center of its digital agenda.

Sub-K can ensure that this level of personal inclusion remains steadfast by first being aware of the digitization policy landscape and second by adopting digital policies that include BCSAs as a stakeholder throughout field operations. As an ICT user, Sub-K can explore different guidelines and principles that can help ensure inclusion and sustainability within a shifting digital market.

The Principles for Digital Development are a set of nine organization-centric guidelines that denote how implementers can uphold different aspects of digital inclusion.⁵⁵ Examples such as these provide a good entry framework for how socially-minded organizations can approach the use of technology in their programs, while prioritizing holistic and inclusive practice over the long-term. Additionally, these frameworks address a core consideration of digital inclusion going forward: the role of data analytics, personal data, and security across ICT systems.

Future considerations

As more rural and semi-urban areas come online in the near future, Sub-K will have to consider how mobile payment systems interact with more clients. The transition away from paper, cash-based systems is becoming more apparent and as the 2016 demonetisation policy revealed, such radical shifts in doing business greatly disrupts informal economies and marginalized communities. Sub-K needs to pay attention to the Indian government's policies that promote cashless payment systems.

⁵⁵ "The Principles for Digital Development". Digital Impact Alliance. January 2018. Accessed via: <https://digitalprinciples.org/>

Box Item 3: India's path to a cashless economy

Many emerging economies, including China, have started to transition toward becoming digitally-driven cashless economies. This trend is backed by the incentive that electronic payments are proven to boost economic growth while advancing financial inclusion. India still has a long way to go to before it can truly become a major cashless economy. However, it still stands among those countries exploring this trend. Although more than half of India's population resides in rural areas where mobile coverage is still lacking, the country is the largest market for smartphones behind China and the number of internet users continues to rise.

Even though digitization is set to define a large part of India's development story over the next decade, it is important to realize that many rural communities remain disconnected from both internet access and electric grids.⁵⁶ To a certain extent, Sub-K's interaction with BCSAs operating in the field will be limited until municipal governments can provide basic electric and internet access services to their communities. This reality should be seen as a critical limitation as Sub-K seeks to expand its customer-base in the coming years. Even so, the digital inclusion narrative remains positive and at this point, Sub-K can clearly act on its strengths with BCSAs and its flagship position in the microfinance sector to advocate for digital inclusion policy as it directly relates to financial inclusion and social impact.

⁵⁶ "Connect India: Boosting last mile connectivity." K.T.P. Radhika. Deccan Chronicle. 10 November 2015. Accessed from: <https://www.deccanchronicle.com/151110/business-latest/article/connect-india-boosting-last-mile-connectivity>

08.

Conclusion

The objective of this project focused on three core themes that examined the client side of Sub-K's business, its service delivery model and its organisational capacity and resilience, with an overarching goal of enabling low-income households to attain sustainable livelihoods.

Through examining these themes and the surrounding policy ecosystem, it was clear Sub-K has made a strong return from the detrimental effect of demonetization policy implemented in 2016. Despite its resilience in addressing this challenge, achieving its social objective while balancing financial viability remains an ongoing challenge for the company. While Sub-K offers effective services and maintains a positive relationship with partner banks, there is scope to increase its social impact through attention to training business correspondents and improving their incentive structures. Additionally, Sub-K needs to prioritize avenues for women's empowerment as it continues to leverage the business correspondent framework.

At the systems level, there is opportunity to strengthen the BC model through collaboration with the Business Correspondent Federation of India. Ongoing attention to digital viability is similarly important. In order to ensure Sub-K delivers its services effectively while potentially withstanding further external shocks to its business, its internal capacity and resilience is also critical. Sub-K's strength in human capital offers the company a strong foundation from which to further grow its technological and analytic capabilities.

Overall, Sub-K demonstrates itself as a company with sound ability and ambition to grow. With continued attention to its social and financial objectives Sub-K will continue to foster improved financial inclusion for those at the bottom of the economic pyramid.

09.

List of Tables, Figures & Box Items

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Sub-K
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