Case Study

Eko India Financial Services

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Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXECUTIVE SUMMARY</td>
<td>2</td>
</tr>
<tr>
<td>METHODOLOGY</td>
<td>2</td>
</tr>
<tr>
<td>BACKGROUND</td>
<td>3</td>
</tr>
<tr>
<td>OBJECTIVE</td>
<td>6</td>
</tr>
<tr>
<td>PROJECT DESIGN</td>
<td>6</td>
</tr>
<tr>
<td>KEY STAKEHOLDERS</td>
<td>6</td>
</tr>
<tr>
<td>PROCESS FLOW</td>
<td>8</td>
</tr>
<tr>
<td>FINANCIAL RESOURCES</td>
<td>13</td>
</tr>
<tr>
<td>IMPACT AND ACHIEVEMENTS</td>
<td>14</td>
</tr>
<tr>
<td>CHALLENGES IN IMPLEMENTATION</td>
<td>15</td>
</tr>
<tr>
<td>POTENTIAL FOR REPLICATION</td>
<td>15</td>
</tr>
<tr>
<td>SUSTAINABILITY OF THE PROJECT</td>
<td>16</td>
</tr>
<tr>
<td>RECOMMENDATIONS</td>
<td>16</td>
</tr>
<tr>
<td>REFERENCES</td>
<td>17</td>
</tr>
<tr>
<td>APPENDIX A – INTERVIEW QUESTIONNAIRE</td>
<td>18</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

The extent of financial inclusion in India is severely limited. Approximately 35 percent of the country’s population has access to formal banking services. This is compounded by severe disparity that exists between rural and urban areas and between northern and southern regions. The effects of lack of access to formal finance are manifold and well-known: loans from usurious moneylenders, remitting money through the informal and rather uncertain *hawala* network and no insurance, to name a few. The macro economy too suffers as lesser financial access means lesser consumption and lower investment, both of which directly affect growth and development.

It is in this context that the practices used by Eko India Financial Services become relevant and useful. Eko’s model utilises mobile phones as the focal point through which financial transactions are carried out. The bank branch is replaced by a retailer where the customer can go, open a no-frills account with just a passport sized photograph and a proof of identity and carry out financial transactions such as deposits, withdrawals and transfers. Eko also provides other services such as mobile and DTH recharges and salary disbursals. The entire process is coordinated by an online core banking system called SimpliBank. Eko has also developed and patented a technology called a One Time Password (OTP) which acts as a digital chequebook, allowing transactions to be carried out from the mobile itself.

The process involved is analogous to the one used by Mobile Network Operators (MNOs) in mobile recharges and so has been easily adopted by all the relevant stakeholders. The effects have been immense and today Eko has partnerships with ICICI, Yes Bank and the State Bank of India (SBI), a network of 2600 retailers which act as banks and a client base of 1.6 million, 2.5 lakh of which are no-frills account holders. The impacts of the initiative include reduced pressure on government banks, the ability to carry out transactions as long as a retail shop is open and an increased volume and frequency of remittances.

METHODOLOGY

The Governance Knowledge Centre decided to document Eko India Financial Services as a best practice as it provides a low cost, low risk and easily scalable model of financial inclusion. It uses mobile phones as the focal point through which financial transactions are carried out, bringing several benefits to migrant labour, the predominant beneficiaries of the practice. The team used both primary and secondary research methods for the preparation of this document.

- **Primary Research:** Interviews were carried out with the Chief Technology Officer of Eko India and the Eko helpline was consulted for additional information. The Area...
Sales Manager (ASM) for half of South Delhi and Gurgaon and the Customer Service Points (CSP) for Yousuf Serai and Him Nagar, components of Eko’s distribution system, were also interviewed.

- **Secondary research**: Desk-based web-search which consisted of media articles, reports by various organisations, online videos and material provided by Eko on the functioning of their operations.

The prospect of information bias yet exists as only the implementing agency has been interviewed.

**BACKGROUND**

Banking in India is still significantly under-penetrated with only 37% of bank branches of Scheduled Commercial Banks (SCBs) in rural areas. Out of 600,000 habitations in the country, only 30,000 have a commercial bank branch. This reflects in the size of the population that have formal accounts – 35%. However there is unevenness not just between urban and rural areas but between regions as well.

The four southern states and the three northern states of Haryana, Punjab and Himachal Pradesh fall into the high-medium financial inclusion index. Most of the other states in the northern region of the country fall within the low financial index. As Figure 1 shows, Delhi, Punjab and Himachal Pradesh have a lower population per bank office compared to states

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2 *Ibid*


such as Uttar Pradesh and Rajasthan. Areas which have poor access to credit face a host of problems such as borrowing from usurious moneylenders, no protection for financial resources owing to no insurance, difficulties in remittances and savings, to name a few. Migrant workers especially face this problem and are forced to remit money home through informal networks such as hawalas and in the absence of a formal savings network the amount remitted also tends to decrease.

The Reserve Bank of India (RBI) is charged with implementing the goal of financial inclusion set by the Finance Ministry. In a speech given by KC Chakraborthy, deputy governor of the RBI, two powerful insights are offered:

1. The major barriers to serve the poor, apart from socioeconomic factors such as lack of regular income, poverty, illiteracy, etc., are the lack of reach, higher cost of transactions and time taken in providing those services.

2. Expectations of poor people from the financial system is security and safety of deposits, low transaction costs, convenient operating time, minimum paper work, frequent deposits, and quick and easy access to credit and other products, including remittances suitable to their income and consumption.

To address these challenges the RBI has adopted the following strategies:

1. Opening of no frills accounts
2. Relaxation of Know Your Customer (KYC) norms
3. Engaging business correspondents (BCs)
4. Using technology to provide doorstep banking services through the BC model

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5. Adopting Electronic Bank Transfer (EBT) to transfer social benefits electronically to the bank account of the beneficiary

Although there are other methods adopted, these are the strategies relevant to this case study. Now before going any further, it is critical to have a clearer understanding of the BC model. The RBI in a circular dated 25th January 2006 has specified the eligibility and scope of activities of a BC.

Under the 'Business Correspondent’ Model, NGOs/ MFIs set up under Societies/ Trust Acts, Societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States, section 25 companies, registered NBFCs not accepting public deposits and Post Offices may act as Business Correspondents.

In addition to activities listed under the Business Facilitator Model, the scope of activities to be undertaken by the Business Correspondents will include (i) disbursal of small value credit, (ii) recovery of principal / collection of interest (iii) collection of small value deposits (iv) sale of micro insurance/ mutual fund products/ pension products/ other third party products and (v) receipt and delivery of small value remittances/ other payment instruments6.

Eko India Financial Services is a BC with various banks in India. As of this writing, they have partnerships with the State Bank of India, Yes Bank and ICICI. The organisation was started in 2007 with the understanding that a large section of the Indian population did not have access to the formal financial sector. Existing transaction costs were unviable for low income groups and while ATMs provided a good ‘cash-out’ mechanism, a convenient cash-in system for deposits and transfers was missing. Migrant workers who faced difficulties in sending savings home as they did not have access to the formal financial sector were targeted and a pilot project began in Uttam Nagar, New Delhi. The area was selected as it had a large migrant population.

The pilot initially used an online model where the operations were carried out using webcams and laptops. However on the very day of the launch, Uttam Nagar had no electricity for three days. This lack of infrastructure drove home the realisation that another approach had to be adopted. The model used by Mobile Network Operators (MNO) provided inspiration for Eko and was adopted.

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The pilot lasted a year and the organisation's first partnership was with the Centurion bank of Punjab in 2008. The partnership was made easier by the mandate to promote financial inclusion and Eko's idea was appreciated by the senior management at Centurion. However, later on the bank was acquired by HDFC. The partnership was stopped and Eko had to refund all their customers.

Things picked up when the organisation received funding from the Bill and Melinda Gates Foundation. Since then, Eko has come a long way, growing from their Uttam Nagar pilot to having a network of 2600 retail outlets across 11 states in India which service more than 1.6 million customers. As of this writing, the organisation has carried out transactions worth more than $400 million and continues to grow.

**OBJECTIVE**

Eko's primary goal is financial inclusion. The organisation seeks to:

1. Bring to the unbanked population access to the financial sector
2. Provide financial services
3. Make banking a convenient and low-cost process

**PROJECT DESIGN**

**KEY STAKEHOLDERS**

**Customer:** This is the population which seeks to carry out financial transactions.

**Distribution Channel:** The distribution channel is comprised of elements who are not employees of Eko.

**Customer Service Points:** CSPs are the front end of the system which the customer interacts with and where financial transactions are carried out. They are essentially retail shops. CSPs were chosen by Eko to form the point of sales as they have trust and credibility in their localities, a very important factor. These neighbourhood shops are open for much longer than banks, greatly expanding the amount of time a customer has to carry out transactions. The CSP carries out...
transactions for customers using a mobile phone and can also open accounts for customers. As of now, there can only be one bank per CSP.

Super-CSP: The SCSP is in charge of giving electronic money to the CSPs in exchange for real money. His/her role is to ensure that the CSPs demand for electronic money is satisfied.

Field Sales Executive/Feet on Street: The FSE is an employee of the SCSP. S/he assists the CSP in their roles, collects or provides cash based on the net-position of the CSP and provides account opening forms and kits, product communication material and resolves issues that arise for customers that the CSP is unable to address.

Sales Channel:
The sales channel is comprised of elements who are employees of Eko.

Circle Head: The Circle Head is in charge of hiring SCSPs profitability, marketing and customer management.

Zonal Business Manager: Grievance redressal issues that cannot be handled by the Area Sales Manager are passed on to the ZBM. S/he helps with hiring ASMs, is also in charge of profitability, marketing and customer management and helps with back-end issues.

Area Sales Manager: The ASM is an employee of Eko who trains and monitors the FSEs, does the background check on CSPs, interviews them, provides them training, monitors them, takes action against them when necessary and can even blacklist and shut down a CSP. S/he is also in charge of increasing the customer base, network and visibility of Eko, coordinating Below the Line (BTL) and Above the Line (ATL) marketing activities and establishing and managing a network of distributors and retailers in their given territory. Finally, the ASM is also in charge of coordinating the daily Management Information System (MIS) and reporting.

Banks: The banks are the ultimate providers of products and services. The bank defines products and pricing taking in inputs from Eko.

PROCESS FLOW

The process begins with a customer opening an account with the bank at an Eko counter. This requires the customer to have a proof of ID and a passport sized photograph. The CSP opens the account for the customer on behalf of the bank. Different banks charge different rates for opening accounts but no-frills accounts (accounts with no minimum balance) are allowed. This is done to ease the process of financial inclusion. As mobile numbers are globally unique, the customer’s mobile phone becomes the account number and the danger of money being sent to someone else’s account during money transfer does not exist.

The services provided by Eko are deposits, withdrawals, transfers, utility payments, government benefit disbursals and cash collection, in addition to DTH and mobile recharges.

![Prepaid Cash Management Diagram]

**Figure 3: Cash Management System of Eko**

**Source:** Eko India Financial Services Ltd 2012

The cash management system functions on the basis of a pre-funded model. It is comprised of five steps:

1. The SCSP sends money by cheque/DD/Real Time Gross Settlement (a cash transfer system) to Eko’s SBI account.
2. On encashment of the amount, electronic money of an equal amount is sent to the SimpliBank platform, an online core banking system which manages the accounts of SCSPs and CSPs.
3. The electronic money is transferred to the SCSPs account. The transfer typically happens with 15 minutes of deposit.

4. The SCSP now has electronic money. This money is provided to CSPs on demand in exchange for real money. The CSP calls the SCSP who electronically transfers the money to the former and sends a person to collect the cash.

5. The CSPs now have electronic money. This money is deposited into an account decided by the customer in exchange for an equivalent amount of cash and a fee for the service provided. The total money gets sent to the bank. The CSPs are paid by Eko and not by the bank. If it is their own account, it becomes a deposit. If it is in someone else’s account, it becomes a cash transfer. The CSP first verifies whether the account number and the name of the account holder match. If they do, the money is deposited and if they do not, the transaction is cancelled. Once the transaction is complete, both the CSP and the customer receive a confirmation message. If the CSP feels that s/he has excess electronic money, it is sent back to the SCSP and the money is returned.

The system is cyclical and self-sustaining.

Main Components of the program:

Technology

Mobile Phones:
Eko uses a multi-modal approach comprising of Short Messaging Service (SMS), Interactive Voice Response (IVR), Unstructured Supplementary Service Data (USSD) and Java based applications to perform transactions so that they can be done from any mobile phone. Figure 4 shows how transactions are digitised. The illustration uses the USSD technology, one which is widely used by MNOs in carrying out their transactions. The authorisation is done using the One Time Password, the details of which come next.
The OTP is a four digit number that acts as a signature, authenticating the identity of the sender. It can be used only once. Eko customers are provided a passbook called an OkeKey which contains the OTP. The OkeKey performs the same function which a chequebook does. Chequebooks have pieces of paper which contain the name of recipient, the amount to be deposited in their account and a signature/authorisation of the sender. OkeKey booklets have a list of 10 digit codes. The customer is given a four digit pin. Using this pin, the customer selects the numbers from the 10 digit series that fall in the place value of the pin. In figure 5, using the pin 1368 the customer selects the code 1620 from the OkeKey. This four digit code then becomes the OTPs which authorises his/her transaction. When the codes run out, the customer can apply for a new booklet. Each OkeKey booklet is unique to each customer.

**SimpliBank Platform:**

The SimpliBank platform is a hosted and managed, cloud-based, low-cost, abridged Core Banking System with a mobile front-end. A core banking system is one which uses information and communication technology (ICT) to perform core operations of a bank such as recording of transactions, passbook maintenance, etc. The bank’s branches are merged using this technology in such a way that a customer who opens an account in a bank becomes a customer of the bank, not the branch and can carry out transactions from any branch of the bank.

Simplibank has been implemented with the help of Wipro. The platform was developed using an open source product called Mifos which was provided by the Grameen Foundation. SimpliBank has/supports multiple features:

1. A standard double entry accounting system
2. Multiple types of accounts- savings, current, money transfer, loan, etc.
3. Customer and network management modules
4. Definable interest accrual and posting system based on Indian banking guidelines
5. Configurable limits and fees as per RBI’s Anti Money Laundering (AML)/Combating of Financing of Terrorism (CFT) requirements
6. Secure signature using the OkeKey booklet
7. Real-time transactions through a three factor authentication system
8. User/system management and audit trails
9. Integration with multiple interfaces like mobile, internet etc.

**Management Information System (MIS):**
The Eko MIS daily generates the reports on number of customers, inactive customers, CSPs, number and volume of deposits and withdrawals and average customer balance.

**Training and Capacity Building**

**CSPs**
The criteria for selection of a CSP differ from bank to bank but generally the CSP owner must be at least 10th passed, must own the shop which should have been in the locality for the last 2-4 years, must have at least 6 month’s experience with mobile recharge operations. The CSP’s previous 6 month’s bank statement is also checked.

Once the shop is selected, the CSP pays the required amount to Eko via demand draft and the relevant documents are given to Eko. The CSPs are then trained on how to use the technology, about the software involved, the appropriate process and on customer servicing.

**Awareness Generation**

Regarding banks, reaching out to them was relatively easy as public sector banks have a mandate for financial inclusion. The RBI's enabling of BCs also gave Eko a legal foundation on which a well-defined partnership could be built.

The CSPs were provided incentives. Running an Eko counter requires no capital expenditure. The operation just requires a mobile phone and there is not even any software which must be installed by the CSP. There was therefore no significant risk involved. Given that shopkeepers operate with a profit motive, Eko capitalised on the additional income they could gain through this low-investment approach. Also most shopkeepers were familiar with the process of mobile recharging and so they could relate to the concept more. Also, because of the similarity between the two processes, the learning curve was also short and CSPs quickly learned the process.

When Eko started off, they targeted medical shops as these commanded lot of trust from the population they served. They also targeted mobile shops as many of them were formerly STD shops, another type of retailer which commanded a lot of trust from the local population and could more easily identify with the concept.
Customers were reached out to through various strategies.

Strategies used by Eko

Below the line strategies involved nukkad-nataks (street plays), the use of bhopus (announcers), kiosks, comics, people wearing Eko T-shirts and pamphlet distributions.

Strategies used by CSPs

![Image of publicity campaign](source: Eko India Financial Services Ltd)

![Image of promotion comic](source: Eko India Financial Services Ltd 2012)

![Image of awareness signs used by CSPs in Yousuf Serai, New Delhi](source: OneWorld Foundation India 2012)
The CSPs generally put up signs at their shops and next to banks that transactions can be done at Eko counters as well.

**Monitoring and Evaluation:**
Eko is audited by the bank for which they provide services. It also carries out its own internal audits. Customers and CSPs can call and lodge their complaints at 47618600, the Eko 16 X7 call centre.

CSPs are audited both by the bank and by Eko. As the entire process is electronic, their records are maintained online and audited there. The CSPs are provided with an ID and password by Eko through which they access their records.

Whenever any transaction is made, an SMS is sent to the customer giving the number on which complaints can be lodged. The following is the grievance redressal process.

![Grievance Redressal Process Diagram](source: OneWorld Foundation India 2012)

In particularly bad cases the history of offence by the CSP is given to the ASM who blacklists the CSP, shuts his/her counter and opens a new one in the area.

**FINANCIAL RESOURCES**
Eko sustains itself from funding from Creation investments, a Chicago based venture fund. As of this writing, Eko is still not self-sufficient.

Commissions from remittance transactions accounts for 70-80% of Eko’s revenue. The rest of the revenue includes commissions from account opening, deposit and withdrawal transactions. The commissions received vary from bank to bank, although Eko earns a net commission of 10-15% from transactions. Eko pays 70% of what they get from the bank to the distributor and the retailer. The distributor gets 20% and the retailer gets 50%.
The money for a CSP comes from Eko and is about 0.1% of each transaction and comes after the monthly statement.

**IMPACT AND ACHIEVEMENTS**

*Citizen Convenience*
Reduction of pressure on bank branches as customers are diverted towards CSPs. Transactions can now be done over a longer time period. The trust factor also manifests itself in situations such as emergencies where late in the night one can go to the CSP’s house and request a transaction, or give money to the CSP and expect a transaction to be carried out later.

*Partnership with the State*
Eko has also worked with Accredited Social Health Activists in Sheikhpura district in Bihar. The project involved salaries being disbursed into the accounts of ASHAs. After implementation, the time for disbursal of money from a centralised system reduced from 90 days to a couple of seconds. In November 2011, the Bihar Chief Minister visited the district and announced that the model should be scaled up across the State.

Jan 2011 – May 2012

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<th>Particulars</th>
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<tbody>
<tr>
<td>Number of ASHAs enrolled</td>
<td>461</td>
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<tr>
<td>Number of active ASHAs</td>
<td>446</td>
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<tr>
<td>Total value of incentives disbursed (Rs. Lakh)</td>
<td>126</td>
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</tbody>
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**Table 1: ASHA scheme details**

Source: Eko India Financial Services Ltd

*Financial Inclusion*

1. Network of more than 2600 retail outlets (grocers, pharmacies, stationers, cybercafés etc) across 11 states in India.
2. Served more than 1.6 Million customers out of which 1.4 Million have used Eko services to transfer money to SBI and other banks’ accounts. Eko also has close to 250,000 No Frill Account Holders.
3. Processed more than $400 million across 4 million transactions. Handled daily peak of more than $2 Million across 25,000 transactions.
4. Largest mobile based transaction processor in India.
Awards
Eko has been recognized by several national & international forums and has won multiple awards like Tech Award, NASSCOM - Emerge 50, PCQuest - Best IT Implementation, mBillionth Award by Digital Empowerment Foundation, World Summit Award by UNGAID, IAMAI Award, Prema Award, IIM Lucknow and Leap of Faith Award by ET NOW, CXO Awards by UTV Bloomberg.

CHALLENGES IN IMPLEMENTATION
The biggest challenge such an initiative currently faces is lack of customer awareness. Banks are not marketing that Eko is a Business Correspondent (BC) and that they provide services. This lack of publicity results in a lack of trust on the part of the beneficiary.

Banks are not taking it as a business model and are not investing in it. Also the model currently provides incremental income for CSPs but is not a profit-generating venture on its own.

POTENTIAL FOR REPLICATION
What makes Eko India Financial Services a practice worth replicating is that:

1. It rests on an existing well-defined institutional framework that clearly defines eligibility and responsibilities.
2. It uses already existing infrastructure such as shops, mobiles and wireless connectivity. Therefore there is no capital expenditure involved.
3. The process is fairly simple for each agent involved and as it builds on existing practices of MNOs the learning curve is high.
4. The required manpower is low as the main distribution channel are not employees of Eko but their agents.
5. The subject-matter of the area is itself sustainable as there exists a huge population which is out of the formal financial sector and which requires such a service. Further given that the majority of the transactions involve remittance, the probability that demand over time would reduce is low as remittances are generally a process of degree, not kind as they involve dependents. Thus the amount being remitted may vary but the remittance itself may not stop. The stability of remittance flows despite financial crises
and economic downturns make them a reliable financial resource for developing countries.

**SUSTAINABILITY OF THE PROJECT**

Two important factors influencing the financial unsustainability of Eko are losses on opening accounts as the money paid to CSPs is greater than what they receive from the bank and an untapped market owing to a lack of advertising by the banking partners. The first factor would be eliminated if a direct partnership with CSPs were to be done by the government. The second factor however requires much more intensive marketing strategies and a direct incentive to the banks themselves.

However, if one leaves aside the financial aspect, the project is sustainable. The only infrastructure it requires is a well-functioning telecommunications network. Taking all factors into account such as the capital expenditure involved, the learning curve of the process, the demand that exists for the service itself, we can conclude that if a sustainable financial model is devised the model would be a very useful one.

**RECOMMENDATIONS**

Once a transaction is carried out there is no reverse entry or a method to reverse the transaction. A process of reverse entry would improve the initiative. The rationale behind the one CSP/bank strategy is unclear and in the absence of that the volume of transactions and account openings has the potential to increase further.

**CONCLUSION**

Eko requires minimal capital expenditure, does not require very sophisticated technology to run, has an organisation structure that requires low manpower, has a simple transaction process that is virtually identical to that used by MNOs in their operations and also has negative feedback built into it through grievance redressal systems. Barring its financial unsustainability it is otherwise an easily scalable, flexible and robust system. It is also addressing a pressing need of the day, financial inclusion being crucial to growth and

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development and given the huge market for such a service it has potential to increase both in terms of quantity and quality of service provided.

References


**APPENDIX A – INTERVIEW QUESTIONNAIRE**

**Background**

1. What was the need for an initiative like this?

2. Was a pilot conducted prior to the implementation of the project? If yes, please provide details - location, duration, personnel involved, financial costs and sources, impact, challenges faced and lessons learned for improvement of the model.

3. What was the reason for the selection of the project implementation areas? Areas selected as they were where majority migrants lived and it is a densely populated area.

4. Can you describe the process through which you began networking with banks? What went wrong with the Centurion partnership?

**Key stakeholders**

5. Who are the key stakeholders in the project? We know there are Banks, CSPs, Eko, patients, so far. Any others? Roles and responsibilities?

**Work Flow**

6. What is the criterion for selection of a CSP? How did you convince the shops to be part of the initiative?

7. What is the process through which a CSP becomes a part of the Eko network? Are they given any specific training to conduct transactions? If yes, pls give details.

8. How do transfers work?

   1. How do other people such as the user’s wife, children, parents or others interact with the account (check balance, deposit or withdraw)? Does it
operate like a joint account? Are people nominated? If so, what are their powers and functions? Details.
2. How does the other end of the network work? Does the bank inform the CSP or is it a CSP-CSP network? Or is it a demand-led system? If so, then how is information retrieved?
3. How does the other CSP know and verify the identity of the withdrawee?
4. How does the customer get confirmation about the details of the transaction?
5. Who collects the money deposited by users at the CSPs and when? Is it done by the bank?

9. Is there a limit to the amount of money a CSP can transact?
10. What do CSPs do when faced with unmatcheable demand?

11. What is the essential technical infrastructure which is required?
12. Details of how a bank account is registered on the cellphone text system.
13. With regard to the authentication software used in the system, what is the role of Oke-Key and the OTP?

Monitoring and Evaluation
14. Is there a grievance redressal system for checking the CSP?

Financial Model
15. How much commission does ECOg get per transaction? Does it vary from bank to bank? If yes, what is the average? How much do you get from each account opened in a CSP?
16. How much does commission does each CSP get / account and cut / transaction? Who pays him? Are the rates uniform for CSPs or do different banks pay different commissions?
   Eko pays 70% of what they get from the bank to the distributor and the retailer. So the distributor gets 20% and the retailer gets 50%. So Eko retains 30% of what they get. Bank pays Eko who pays the supply chain.
17. Do you still rely on funding or has the project reached a self-sustainable stage? can you please share with the major heads of expenditure in a project like yours?
18. Does the CSP provide the money for withdrawals out of his/her own pocket? If yes, then doesn’t that bring in an element of unevenness and unpredictability to the CSP’s ability
to provide funds? If no, and if it is funded by Eko, then what is the basis on which funds are allocated?

19. Can you explain in detail the funding model (major heads of expenditure, daily operational costs, and costs of development) of the project?

Impact

Achievements

20. How would you evaluate the impact of your programme so far?
21. What has its impact been on: users, CSP’s and for ECO itself?
22. Can you share any data that reflects ECO’s impact over a period of time like:

23. Approximate number of customers right now, has it increased from earlier?
24. Revenue worth of transactions so far? (compare it to earlier)

Challenges in Implementation

25. What were the major challenges you faced when you began the project? What are the current major challenges you face?

Enhancements

26. Has Eco conducted advocacy efforts with the government and/or other key organizations working in the financial inclusion sectors to upscale the eco model (MGNREGA)
27. Do you have any major enhancements planned for the future? If yes, what are they?