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**Internet Kiosks in Rural India: What Influences Success?**

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### Abstract

In this paper we investigate an example of a very widely applied model for the delivery of IT services to rural and poor populations. The model is one where limited intervention to support infrastructure and coordinate resources is combined with market-based delivery of IT services to the end user (what we call here the “sustainable franchise model”). Though this model has been deployed world-wide by governments, NGOs, and development institutions in the past few years, few researchers have studied the determinants of success in such a model. In this paper we examine the example of n-Logue, a franchise of over 1000 locally-owned, internet kiosks in rural villages in India. We seek to assess how this new sustainable franchise model has worked in practice by analyzing data from 74 of n-Logue’s kiosks. Among other things, we find that gender and education do not affect success, while location and other measures of social standing (age and caste) do. We also find that the uses that villagers have for IT services are not so different from those which first world users have. The lessons we draw from this example are that while local customs and practices must be taken into account (e.g. the caste system), it is not a foregone conclusion that social biases (e.g. against women) cannot be mitigated by good program design.

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## **1. Introduction**

There has been a debate in the press and in policy circles (e.g. Hammond 2001, New York Times 2000) over whether advanced communication and information technologies (abbreviated IT or ICT) have a useful place in development policy. There has been a corresponding debate in the academic economic literature as to what effect these technologies have on productivity, and hence growth, in general.<sup>1</sup> For the most part the results of these parallel debates indicate that IT can have a positive effect on productivity and growth, and that it can be a useful tool of development policy<sup>2</sup>. IT and the Internet are never the sole answer, of course; the side of the IT skeptics has been summarized by the pithy observation that “you can’t eat computers” (from Steinberg, 2003). Nevertheless, there are many situations where IT can deliver real benefits and cost savings either as an alternative, or as a complement to physical infrastructure development.

### **Sustainable Franchise Model**

In this paper we take the benefits from IT as a given. Thus, our goal is not to examine the overall case for IT investment. The main question, from our perspective, is how to deliver IT-enabled services cheaply and effectively at the village level? Simultaneously, one must ask which services are the right ones. To sort through these types of issues, many who worry about development have adopted the concept of “sustainability” as a useful benchmark. In essence, the principle of sustainability states

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<sup>1</sup> Much of the debate has focused on the United States, with Jorgenson (2001) and Stiroh (2002) finding positive productivity impacts of IT, while Baily (2004) and Gordon (2004) offer cautionary conclusions. The consensus seems to have shifted toward accepting that IT has had measurable positive effects on productivity. For developed countries more generally, several recent studies have also found positive impacts at the aggregate level (e.g., Daveri, 2000), Jorgenson, 2004). Micro-level studies for developed countries also tend to find positive productivity impacts of IT use, when appropriate organizational changes are introduced as well (e.g., Bresnahan, Brynjolfsson and Hitt, 2002; Brynjolfsson and Hitt, 2003; Black and Lynch, 2004; OECD, 2004). For developing countries, there is little econometric evidence at the micro-level, and aggregate evidence is more mixed (e.g., Dewan and Kraemer, 2000), but overall, positive impacts of IT seem to be emerging from many studies (e.g., Indjikian and Siegal, 2005).

<sup>2</sup> Secretary-General Kofi Annan stated in his Millennium Report, "New technology offers an unprecedented chance for developing countries to 'leapfrog' earlier stages of development. Everything must be done to maximize their peoples' access to new information networks." (United Nations, 2001)

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that development efforts should be economically or commercially self-sustaining *eventually*, and that preferably they should be made sustainable through some kind of market mechanism. Generally, this line of thinking leads to the conclusion that IT should be promoted with as limited an intervention as possible to overcome barriers that were keeping a market from developing on its own. This approach clearly meets some objections of skeptics who would argue that IT investment takes away resources from direct interventions in areas such as health and education.

In this paper we investigate an example of a very widely applied model for the delivery of IT services to rural and poor populations. The model is one where limited intervention to support infrastructure and coordinate resources is combined with market-based delivery of services to the end user. We will call this the “sustainable franchise model” since the case that we study is one of a franchise system in rural India. Though not always conceived of directly as a franchise there have been a large number of similar projects worldwide where village-level entrepreneurs are engaged to deliver IT-enabled services with some potential for them to capture part of the profits. Generally, the model is one of government, NGO, or multilateral intervention at the top to support infrastructure and organizational development, transitioning to greater entrepreneurial activity and market mediation at the point where services are delivered to end users. This model has the nice feature that it will fail (or adapt) relatively quickly if it provides services that end users do not consider valuable enough to pay for. It also has the potential to become fully self-sustaining in the long run as a system of for-profit small businesses.

The broad idea of user charges or user fees has been put forward (e.g., World Bank, 2003) as a way to avoid over-subscription of primary services that are supplied by governments and public entities in developing countries. The concept is controversial and has been criticized for discouraging (on the margin) the poorest from seeking needed medical, educational, and nutritional support (e.g., World Bank 2002). The idea of having self-funding programs that impose some willingness-to-pay requirement on the end user echoes some of the principles of the sustainable franchise model. The two concepts are quite different, however. While a system based on user charges does incorporate some

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price-like features, it is typically discussed in the context of public provision, and hence does not feature the main driving force of efficiency in the market, which is the profit motive. It is often the lack of incentives among public employees actually responsible for delivering services that creates inefficiencies in delivery and wastes resources (e.g., World Bank, 2005, Chapter 2). In some, cases then (though clearly not those where extreme deprivation is the primary concern), the self-sustaining franchise model may be a useful complement or alternative to public provision with user charges.

Though the sustainable franchise model has been deployed in many parts of the world in the past few years, there has been little empirical study of the determinants of its success. In this paper we take a look at the example of n-Logue, a franchise of over 1000 locally-owned, internet kiosks in villages in India. We seek to assess how this new sustainable franchise model has worked in practice, by analyzing data from 74 of n-Logue's kiosks.

We believe that ours is one of the first papers in the economics literature that uses a panel data set of individual firms in a rural village environment to address the topic of what factors drive firm success. The question of what factors affect the success of individual kiosks is very relevant to discussions of the sustainability of efforts by governments and aid organizations when trying to extend similar programs to other parts of India and across the developing world. We can address this question directly with our data. We also discuss the likely effects on the village and on the individuals involved in running the kiosks. As a new economic opportunity and profit making activity, these kiosks have the potential to accelerate development. They can also serve to increase the level of entrepreneurial and technical skill in the local economy, and generally can lower transaction costs for many activities. Additionally, our data indicates that women and individuals with no formal college education suffer no disadvantage when running a kiosk, which leads us to the conclusion that the kiosks may have a positive impact on social and economic equality as well. Finally, we have limited data on the uses that rural village customers have made for the Internet. Among the most common uses are email, chat and other communications, online learning, as well as online match-making,

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horoscopes, and games. Interestingly, these are also some of the major uses that first world consumers have for the internet, an observation that we pass on to the reader without much comment except to note that these revealed preferences may not match what centralized policy makers or humanitarian academics would choose for rural populations.

This paper is structured as follows. In the next section, we provide a limited survey of similar IT delivery programs worldwide and compare them to the n-Logue corporation, in order to give a sense of the range of implementations of these programs. In section 3, we describe the data and the empirical methods we use. The data comes from southern and western India, and provides information on characteristics and performance of individual Internet kiosks supported by n-Logue. In section 4, we describe our results, which suggest that some socio-economic characteristics of kiosk operators matter for performance, while others do not. In addition, some characteristics of the kiosks themselves matter more than others. In the final section we attempt to synthesize conclusions from our results and make them relevant to other IT-based efforts world-wide.

## **2. Franchise Models for IT-Enabled Service Delivery**

n-Logue is a private “quasi-non-profit” corporation which provides telecommunications infrastructure, and a combination of hardware, software and training for turnkey operation of rural internet kiosks. While n-Logue itself is registered as a corporation under the Indian Companies Act, its majority ownership lies with a non-profit corporation (Vishal Bharat Comnet). This corporation, in turn, has ties with a research group at the Indian Institute of Technology (IIT), Madras. The IIT researchers have provided many of the technology tools used in the kiosks. At various times, n-Logue has also collaborated with state and local governments, the MIT Media Lab, and agro-processing and financial corporations to set up and run the kiosks, and to deliver various services. This loose affiliation of government, academic, and private sector to start the project and support it from above is closer to a fully private enterprise than some of the other examples of IT delivery programs from other parts of the world mentioned latter in

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this section. This type of collaboration can work in India due to its well developed academic and technical institutions and its high level of technical sophistication.

Currently, n-Logue is involved in over 1000 rural Internet kiosks, primarily in southern and western India. In managing this network, n-Logue uses a tiered franchise model, in which geographic clusters of kiosks are sometimes assigned under contract to a “local service partner” (LSP), which engages in ongoing management of the kiosks. In some cases, n-Logue plays this role itself. Kiosk operators themselves operate under a franchise arrangement, paying fixed fees for the equipment, maintenance and training required, but keeping all marginal revenues. N-Logue is the largest of several organizations implementing this model in rural India.<sup>3</sup>

The technology used by n-Logue is a combination of off-the-shelf components and hardware and software developed in conjunction with IIT, Madras. The franchisees receive training and equipment from n-Logue and contract with the area LSP in order to have voice and internet connectivity via a wireless base-station. The equipment is typically one computer with microphone and video capabilities along with a receiver to connect to the wireless base-station. Given the unreliability of electric power supplies throughout India, UPS units and battery backups have been essential equipment for all kiosks. Kiosks now also typically include peripherals such as printers, webcams and digital cameras. The wireless base-stations are used in rural regions where laying long cables would be prohibitively expensive. They provide medium-speed upload and download and simultaneous telephone services. They involve tall towers with 25 km line-of-sight range. The technology is, in many respects, not state-of-the-art, but it is adapted to function reasonably well in village India.<sup>4</sup>

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<sup>3</sup> ITC, an India-based agribusiness multinational, has more kiosks, but uses a very different organizational structure. It does not charge its operators, and even gives them commissions on crop procurement through its kiosks, implicitly making money through resulting cost savings in its supply chain. Drishtee has a similar structure to n-Logue, but is somewhat smaller in scope and operations. See Singh (2004) and Dossani *et al* (2005) for more details on various Indian cases.

<sup>4</sup> See Paul (2004), Dossani *et al* (2005) and Singh (2006) for more discussion of and information on the technologies used in n-Logue and similar cases. There is a useful subsidiary point to be made here, that the fall in costs of ICT components has allowed a substantial degree of technological leapfrogging by developing countries. Perhaps the most striking example of this is the common use of mobile phones by developing country populations that have never had fixed-line access.

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A number of sources document programs with similar structures to n-Logue in India and other parts of the world<sup>5</sup>. We briefly describe three of these programs, to give an idea of the geographic range and scope of implementation of entrepreneurial models of IT delivery built on a foundation of social goals.<sup>6</sup>

The Grameen Bank was an early leader in promoting the sustainable franchise model. One very successful program to deliver technology to the rural poor, is the Grameen Village Phone initiative which gives loans to buy cell phones to small-scale entrepreneurs in areas that have limited or no access to ground lines. Here again, the intervention is top down, providing limited training, awareness, commercial partnerships, and – most importantly in this case – financing, while the entrepreneurs at the village level pursue profits. The program is active in a number of countries including Uganda, Cameroon, the Philippines, Bangladesh, and India.

In Peru, the *cabinas públicas* are small no-frills internet cafes that are run as for-profit enterprises delivering no-frills internet and telephone services to local residents. Credit for the *cabinas públicas* phenomenon is often given to José Soriano, a Peruvian journalist. He founded RCP (*Red Científica Peruana* – The Scientific Network of Peru), which then founded the first ISP in Peru. Initially, RCP offered free classes in the start-up and management of a *cabinas públicas* encouraging anyone to start one. This is in contrast to the franchise model employed by n-Logue in that there are no franchise fees or any direct relationship between RCP and the *cabinas públicas*. The model is obviously sustainable as all elements are for-profit except for the initial intervention by RCP to educate and create awareness of the opportunity. While this more free-form model has its advantages there is the drawback that without an organized franchise, the competition has been very stiff as many *cabinas públicas* crowd into smaller and smaller territories.

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<sup>5</sup> See Kovacs (2004), Best and Maday (2002), Intel (2006)

<sup>6</sup> For other examples from around the globe, including non-entrepreneurial models, see Hawkins (2002), McNamara (2003), and Tongia et al (2005).



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In Hungary, the system of *teleház* (telecommunications houses) offer similar services to the previous examples (phone and internet mostly) but are run on a slightly different model. The *teleház* is officially owned by a local non-profit or civic institution and supported by the local government which provides a building. The operator is free to make profits in a variety of ways but is also required to provide some services for the public good. The system of *teleház* features a greater degree of intervention and local government control than many other programs but still retains the important feature that the local entrepreneur receives profit from the kiosk. This example and the Peruvian one show how the level of government involvement can vary greatly depending on the goals of the program and the local situation.

The list of similar programs goes on and on. Though they often differ in the details, the common framework involves some non-market intervention by the government, NGO, or multilateral development institution at an organizational and infrastructure level to “prime the pump” for local entrepreneurs and businesses that deploy services to the end user. The intervention often occurs at a higher level and serves as much to motivate and empower the local entrepreneur as it does to attract larger corporate entities. Often, the private sector has to be educated to the fact that there may be profit-potential from selling equipment and services to the smaller, more fragmented rural IT market. Often no direct subsidies are needed, only impetus and coordination.

While many of these programs are described in glowing terms by those who create and promote ICT based development, some are more successful than others. There is an art to the design of such programs. It is very difficult to know beforehand how much intervention will be necessary and how exactly to design the program to recruit, train, and support the entrepreneurs. We hope this paper will add to the body of knowledge that is relevant for such decision making and program design.

### 3. Data and Methods

We obtained six consecutive months of data on kiosk performance for 74 kiosks, covering the period April 2004 to September 2004. These kiosks were distributed across 4 states in southern and western India, as indicated in Figure 1. As illustrated in the figure, the bulk of the kiosks were in the southernmost state of Tamil Nadu. Basic economic characteristics of the four states are presented in Table 1. All four states are at least somewhat above the nationwide average in income, urbanization and literacy, and have poverty rates lower than the all-India average. Tamil Nadu stands out among the four in being the most densely populated of the four states. Of course, each state is large, and there is considerable within state variation.



Figure 1 Location of Sample Kiosks

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The nature of the data collected is as follows. We have monthly data on total revenue, as well as on the number and types of services offered by each kiosk.<sup>7</sup> The kinds of services offered are summarized in Table 2. Note that several of the services use IT capabilities without requiring the Internet; computer games also feature prominently. Very broadly, the purposes served by the use of IT include information gathering, document preparation, entertainment, and general communication or information exchange. Given the universality of these needs, it is not surprising that the range of services is not that different from what is popular in developed countries at higher income levels – there are no doubt differences in sophistication and intensity of use that come with greater wealth, but even relatively poor and uneducated people find that ICTs are useful.

**Table 1: Economic Characteristics of Sample States**

	Population 2001 (million)		Area 2001 (‘000 sq. km.)	NSDP per capita 2003-04 (INR, 1993-94 prices)	Literacy 2001 (percent)	Rural Poverty 1999-2000 (percent)
	Rural	Urban				
<b>Gujarat</b>	31.7	18.9	196.03	16,780	69.97	13.17
<b>Karnataka</b>	34.9	18.0	191.79	13,141	67.04	17.38
<b>Maharashtra</b>	55.8	41.1	307.72	16,479	77.27	23.72
<b>Tamil Nadu</b>	34.9	27.5	130.06	12,976	73.47	20.55
<b>INDIA</b>	740.7	271.5	3276.28	11,799*	65.38	27.09

Sources: Population, literacy, area – Census of India, 2001; Rural poverty, NSDP – RBI, 2006.

\*All-India figure is for NNP

A key issue here is pricing, and, while we do not have complete price data, fieldwork by the second author indicates that the list prices (which also serve as maximum prices) are typically set according to a schedule created by n-Logue, with “price points” chosen to be affordable and socially acceptable. Thus, many basic services

<sup>7</sup> While we have a rank ordering of services by revenue contribution for each kiosk, we do not have the exact revenue breakdown by service.

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are priced in the range INR 5-20. Internet use pricing is based on time online. The most expensive service is horoscopes, which are detailed documents used for match-making. These are priced at about INR 150, but almost all of that goes to a specialized and centralized provider of horoscopes, and not to the kiosk operators.

Our main avenue of investigation in this paper will be the impact of the number and nature of services provided on monthly kiosk revenue. Since, in most cases, the marginal cost of providing these services is very low relative to the fixed costs of kiosk set-up and operation, the level of revenue is *the* crucial determining factor in the economic success of a kiosk, and the overall economic sustainability of the model. While there is little flexibility in pricing, the kiosk operator has control over which services to provide and emphasize, how to market them, and the general level of customer service he or she provides. We cannot observe operator effort, but can measure operator characteristics that may affect both effort and ability.

**Table 2: Kiosk Services**

<b>Service Category</b>	<b>Frequency*</b>	<b>Category Definition</b>
<b>Education</b>	137	Online learning
<b>Games</b>	124	Online or offline computer games
<b>Browsing</b>	62	Internet browsing, online match-making, horoscopes, etc.
<b>DTP</b>	51	DTP access
<b>Communications</b>	32	Email, videophone, chat
<b>Offline Services</b>	22	Photoshop, printing, word processing, etc.
<b>Results</b>	9	Standardized test and academic results
<b>Other</b>	7	All other

*\* Frequency refers to number of times that a service in this category was listed as the service generating the most revenue in a given month*

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We also have data on various characteristics of the kiosks (e.g., location within the village, closeness to a city and town) and the kiosk operators (e.g., age, experience, gender, education, and social and economic background). Finally, we have data on the financial terms of the kiosk set-up, in particular whether an external loan was obtained for set-up, and, if so, its amount. Table 3 lists all these variables.

The empirical analysis proceeds by running cross-section-time-series regressions on the panel of data. Our goal is to measure how characteristics of operator, village, and kiosk affect the success of the kiosk. Our primary empirical method is the random effects regression. This was the logical choice given that many of the variables of interest do not vary over time. We have also run pooled-OLS and the between effects estimator for comparison.

**Table 3: Kiosk and Operator Variables**

<b>Operator Characteristics</b>	<b>Village/kiosk Characteristics</b>
Age	Province
Gender	State
Education	Population of village
Caste	Distance from district HQ
Household size	Distance from big city/metro
Own building - Y/N	Monthly facility rent
	Services on offer
	Kiosk location w/in village
	Size of initial loan
	Kiosk Investment (self)

## 4. Results

### Salient Features of the Dataset

The dataset shows various similarities and differences across operators, village, and kiosks as summarized below.

**Operators** – As a rule the operators of the kiosks tend to be in their late twenties and early thirties, though the age range extends from 20-45yrs (see Table 4). There are more males than females by a ratio of slightly greater than 2:1 and the males tend to be more educated (see below for more discussion of this point). Only 23% of the sample owns the building in which they operate, a trait that we find correlates with total revenues but which is not significant when other factors are controlled for. The caste composition of the operators is quite heterogeneous, and many of the original caste designations are locally specific. Hence we have aggregated this variable into two salient categories: 1) the backward and scheduled castes (BC/SC)<sup>8</sup> and 2) other castes.

**Table 4: Operator Characteristics Summary Statistics**

Characteristics	Mean or frequency*	Stdev	Min	Max
Age	29.5	5.5	20	46
Gender (male)	0.70*	n.a.	n.a.	n.a.
Education:				
Some High School	0.07*	n.a.	n.a.	n.a.
High School Graduate	0.39*	n.a.	n.a.	n.a.
College/Technical Degr.	0.54*	n.a.	n.a.	n.a.
Caste:				
BC/SC	0.27*	n.a.	n.a.	n.a.
Other	0.73*	n.a.	n.a.	n.a.
Household size	4.6	1.6	2	12
Own building - Y/N	0.23*	n.a.	n.a.	n.a.

<sup>8</sup> Both these terms are specific legal and administrative terms specific to the Indian context. Scheduled castes are essentially former “untouchables, and backward castes are other disadvantaged castes with low social status, though not traditionally untouchable.

### **Gender/education relationship**

One aspect of the operator data is that there are no men in the least educated subgroup. The sample is 70% male and 30% female. We have created three educational categories based on the various responses we found for kiosk operator education level that correspond to *some high school*, *high school graduate*, and *post secondary degree* (the surveys did not show reports of *some college* so we assume anyone with only some college will be categorized as a high school graduate). Of the women, approximately one quarter are in the *some high school* category though there are no men in this category (see Table 5). This may represent some feature of the selection process, or it may simply reflect differences in the educational achievement rates for men and women. In India, rural male and female literacy rates were 71.2% and 46.6% respectively, for the country as a whole in 2001. However, this disparity was greater for adults, the rates being 54.9% for males and 24.9% for females.<sup>9</sup> Given the disparity in the larger population, the fact that no men with only *some high school* were observed in the sample may be a purely random outcome.

**Villages and Kiosks** – Most of the villages are small in absolute size (mean population is just over 5,000), and they are relatively distant from big cities.<sup>10</sup> Though the average distance of 69km to the nearest big city may seem like a quick drive, most of the villagers would not have access to a car and would have to rely on slow or infrequent buses and other modes of transport. The kiosks are somewhat closer to district headquarter towns (28.1 km on average), which simply reflects the administrative geography of India.<sup>11</sup>

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<sup>9</sup> Literacy statistics are from Planning Commission (2002): while these are reported as being based on the census, the latest census figures for overall literacy (Table 1) show some upward revision for Gujarat, though not the other states. There is also evidence that girls are more likely to drop out of high school than boys, especially in rural India (Planning Commission, 2002, Chapter 4).

<sup>10</sup> Both these characteristics are a deliberate consequence of n-Logue's strategy of targeting truly rural populations, as opposed to those in small towns or on the outskirts of cities.

<sup>11</sup> The district is India's main local administrative unit. The mean area of a district is roughly 5400 square kilometers, which would be a circle with radius about 40 km.

**Table 5: Gender and Education (percent)**

Gender	Some HS	High School	Post Sec. Degree	Total
Male	0.00	25.68	44.59	70.27
Female	6.76	13.51	9.46	29.73
<b>Total</b>	6.76	39.19	54.05	100.00

The sample has a large fraction of new kiosks, only a few months old at the start of the observation period. This was due to an effort by n-Logue to sign up new franchisees shortly before the sample period. The nature of the sample may imply that many kiosk owners in this data set are still learning how to operate effectively. This gives an opportunity to examine whether there are learning effects in the data, which would be less likely in a sample of mature kiosks.<sup>12</sup>

**Table 6: Village/Kiosk Variables Summary Statistics**

Characteristic	Mean or frequency*	Std dev	Min	Max
Population of village	5318.3	6103.8	1061	35000
Distance from district HQ (km)	28.1	20.5	1	105
Distance from big city/metro (km)	69.3	35.4	5	133
Monthly facility rent	INR 583	INR 1,383	INR 0	INR 12,000
Kiosk age	6.8	5.4	1	31
Monthly revenue	INR 3,380	INR 2,853	INR 100	INR 23,000
Kiosk location w/in village:				
Bus stop	0.24*	n.a.	n.a.	n.a.
Main road	0.28*	n.a.	n.a.	n.a.
Gov't bldg/commercial center	0.22*	n.a.	n.a.	n.a.
Neighborhood	0.26*	n.a.	n.a.	n.a.
Size of initial loan	INR 42,222	INR 20,281	INR 0	INR 60,000
Kiosk investment (self)	INR 20,757	INR 24,470	INR 0	INR 100,000

*Note: At first month of observation, INR/\$ = 43.8*

<sup>12</sup> Of course, the relative newness of the whole enterprise implies that “maturity” can have a limited scope, i.e., even long-standing kiosks are just a few years old, and potentially subject to learning effects..



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A summary of the village and kiosk-related characteristics is presented in Table 6. As noted, the kiosks are relatively young, being less than seven months old on average. The average revenue may appear to be quite small, at only INR 3,380. This works out to less than US \$3 per day. Since amortized costs of infrastructure and operating costs are in the range INR 1,000-2,000 per month, the net earnings of kiosk operators are in the region of US \$1 per day, which is the well-known basic international poverty line. However, to the extent that kiosks provide employment to otherwise unemployed, educated rural residents, these earnings may be acceptable, aside from the human capital acquisition that is facilitated thereby. From an economy-wide perspective, those services that are new (and not replacements for costlier methods of delivery) represent a potentially significant addition to economic development.<sup>13</sup> The average total investment for the sample, at INR 63,000, is representative of the total costs of kiosk equipment for a variety of such examples, though it does not include the cost of the back-end communication infrastructure.<sup>14</sup> Finally, in the context of revenues, the high figure reported in Table 6 represents a single extreme outlier – we found that our regression results were highly sensitive to including this kiosk, and our main analysis excludes this observation.

### Primary regressions

In our primary regression specification we use both the owner/operator and the village/kiosk characteristics, putting total revenues on the LHS. We have chosen the random effects (GLS) estimator as our primary estimation technique for two primary reasons. First, a large fraction of our variables do not time vary so we have chosen the random effects regression technique as opposed to fixed effects which would net out all non-varying variables. In addition to the *practical* consideration of wanting to incorporate both time varying and non-time-varying variables, random effects is also *theoretically*

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<sup>13</sup> Building on the analysis of Romer (1994), Singh (2004) shows that ICTs, by reducing transaction costs, may enable the production and exchange of new goods and services, thereby raising long run productivity and development.

<sup>14</sup> The cost of towers and central equipment is either subsidized or recovered through monthly fees for access charged to kiosk operators. Dossani *et al* (2005) document kiosk equipment and infrastructure costs, and make a case for public subsidies for access. Jhunjhunwala (2000) argues that high interconnection charges and other entry fees unnecessarily raise the cost of network access well beyond basic hardware costs.

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desirable when conducting out of sample predictions. The coefficients estimated by random effects reflect a prediction of the static unobserved effect associated with each kiosk as well as the direct contribution to revenues from the variable in question. In contrast, coefficients estimated by fixed effects net out the unobserved effect and reflect only the direct contribution. Thus is if the unobserved effect is unknown, as is the case in out of sample prediction, fixed effects estimates will not provide a satisfactory prediction of the expected outcome. We would like our results to be relevant to policy discussions which inherently involve out of sample predictions to different locations and situations than the exact ones represented in our sample. We have chosen random effects for this additional reason (e.g., Green, 2003).

We have confirmed our choice of random effects by performing a Hausman test to see that the random effects parameters on the variables that are time varying are not significantly different from their fixed effects measurements. We find that we cannot reject the null hypothesis that the parameters are the same using both methods, indicating that the random effects estimator is not biased.

In order to control for the likely endogeneity between the numbers of revenue generating services recorded and total revenues, we have instrumented number of revenue services using a two stage procedure. As instruments we use dummies that indicate whether or not a given type of service (games, email, etc.) was the service that generated the most revenue in a given time period. Thus we have eight dummies that cover the broad service categories listed in Table 1 and which have a value of 1 if that service was the highest revenue generator and a value of 0 if they did not. As a check of instrument plausibility, adding these dummies to a regression with total revenues on the LHS gives insignificant estimates whereas in a regression for number of revenue services (the variable they will instrument for) they show up as significant. This rough check confirms that they are plausible instruments; nevertheless, the use of these dummies as instruments reflects the lack of a more theoretically appealing alternative within the data available.

### **Regression Results**

Our primary regression results are presented in Table 7, with the main estimating equation being the first one of Table 7a. As noted earlier in this section, we omitted a single outlier in these base specifications.<sup>15</sup> Looking at the baseline specification, we see that the age variable as well as the dummy for backwards and scheduled castes and the dummy for being located on the main road are all significant.<sup>16</sup>

**Location** - Kiosks which are near to a main road of their village are significantly more profitable than those in other locations within the village (divided into residential, commercial, and government building/other categories). Despite the age-old maxim that the three most important determinants of success in retail are location, location, location, we still find this result surprising. The villages where these kiosks operate are relatively small and the advent of an internet kiosk should be relatively well known whether it appears in a visible central location, or not.

In villages, neighborhoods often segregate by caste. This can cause businesses set up in certain parts of town to be undesirable destinations for some village residents from other areas. A main road location would likely be a caste-neutral spot that would encourage the greatest number of customers to visit the kiosk without fear of being seen on the “wrong side of town.”

Another possible explanation may be that some remote villages are not located along a “main road” at all and that this choice may not have been available to those kiosk owners. Thus the measured effect of “Main Road” may proxy for a more developed

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<sup>15</sup> The full sample results are reported in the third regression in Table 7b, and are quite different in their implications. On the other hand, omitting further outliers, as in the third regression in Table 7a, or just estimating the specification for Tamil Nadu (the second regression in Table 7a) makes little difference to the results, in terms of signs and significance of coefficients.

<sup>16</sup>To get a higher resolution view of the social/cultural effects driving the significance of caste and age we tried interacting the variables age, caste, education, and gender with each other in various specifications but found no statistically significant interaction terms.

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village that is along a main road rather than the effect of relative location within the village.<sup>17</sup>

A final factor that may play a minor role in this result is that many of the kiosks were founded a short time before the beginning of the sample period. The increased local visibility by being on a main road may have driven initial revenues especially to individuals from surrounding areas who enter the village infrequently.

**Social Status** – It seems that social status as measured by greater age and caste plays a significant role in determining the revenues generated by each kiosk. While we can not be sure of the channel through which this effect operates some obvious candidates come to mind. Individuals with higher social standing may have better social networks through which to advertise their services to the village and surrounding areas. They may be more effective in convincing a skeptical population of the value of these services. They may also possess greater human capital, making them more effective business operators in other ways. Interestingly, the caste variable was least significant and of smallest magnitude in Tamil Nadu, which underwent an early social revolution involving the rise of scheduled and backward castes in a “self-respect movement.”<sup>18</sup> Tamil Nadu is also more densely populated, and relatively urbanized, factors which may contribute to greater contemporary social fluidity.

### **Insignificant Factors**

Almost as interesting as the statistically significant factors are those which are not significant. Much attention is paid in development circles to concepts of fairness, income inequality and empowerment of women. We find that while caste is a significant determinant of success, gender and education are not.<sup>19</sup>

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<sup>17</sup> The level of development can obviously affect the demand for IT-enabled services. For example, in remote villages with poor transportation facilities, a higher percentage of the farming activity may be dedicated to subsistence farming rather than commercial farming that would be complementary with internet services for conducting price discovery, orders of farming inputs, and financial transactions.

<sup>18</sup> See, for example, Bêteille (1965) for an early discussion of the sociological impacts of this movement on rural Tamil Nadu.

<sup>19</sup> In addition to the fact that gender and education were not significant, we were also surprised by the fact that ownership of the kiosk was not a significant determinant of success. We investigated this issue further

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**Gender** – While fully one third of the sample is women, the gender dummy is not even close to significant in any specification. We believe this argues in favor of the notion that entrepreneurial opportunities are not significantly biased against women at the village level. There may still be biases in terms of educational attainment and other factors. However, these biases, if they exist, are not measurably affecting the outcome and are probably corrected during the entrepreneur selection process.

**Education** – None of the education dummies are significant. Statistically, having some high school or some college gives no advantage over having never finished high school at all. This result is noteworthy given the technical nature of the tasks that operators must perform. The fact that n-Logue screens and trains individuals on the equipment may help correct for lack of education.

Given that it is often the economically disadvantaged who achieve lower levels of education, we take these results as a hopeful sign that the sustainable franchise model offers opportunities to groups which have been disadvantaged in the past. This feature is a nice one as it indicates benefits of the model that extend beyond the direct economic impact of the services which it delivers.

**Revenue Services** – In Table 7a, the estimated parameter on instrumented number of revenue services is not significant. This most likely reflects the weakness of the instruments and we do not take it as a conclusive finding. In the raw data, these two variables are very highly correlated. We can't differentiate between the conclusion that choosing the number of revenue services to offer causally influences the amount of revenues generated and the alternative that the number of revenue services is codetermined by demand and therefore only correlated with revenue services. Without better instruments, we find it difficult to determine causality with respect to the choice of services offered in the kiosks.

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by estimating a probit regression on the determinants of ownership and found that none of the owner or village variables were significant in affecting whether a kiosk location was owned or rented.

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Table 7a: Regression Results

Total Revenues (LHS)	Random Effects* - Baseline Spec.	z	Random Effects** - Tamil Nadu Only	z	Random Effects*** - Drop Outliers	z	Between Effects* - Baseline Spec.	z
<b>Total Services (instrumented)</b>	105.5287	(0.600)	57.9479	(0.270)	145.7522	(0.750)	167.3125	(0.430)
<b>Population</b>	-0.0154	-(0.460)	-0.0574	-(1.030)	-0.0276	-(0.810)	-0.0164	-(0.480)
<b>Pop*Town(d)</b>	0.0141	(0.420)	0.0578	(1.040)	0.0259	(0.760)	0.0152	(0.440)
<b>Age</b>	<b>78.0707</b>	<b>(2.300)</b>	<b>111.4938</b>	<b>(2.180)</b>	59.7664	(1.590)	<b>76.6946</b>	<b>(2.190)</b>
<b>Female (d)</b>	92.1388	(0.200)	422.5022	(0.550)	156.8094	(0.350)	39.2281	(0.070)
<b>HH Size</b>	181.9684	(1.460)	204.8230	(1.090)	167.2197	(1.330)	167.6269	(1.110)
<b>Kiosk Owner (d)</b>	705.9330	(1.240)	229.4692	(0.180)	1326.0840	(1.610)	650.6948	(0.990)
Education Dummies:								
<b>Some HS (d)</b>	(omitted)		(omitted)		(omitted)		(omitted)	
<b>HS (d)</b>	1036.3960	(1.220)	562.3496	(0.480)	957.7345	(1.120)	964.5861	(1.020)
<b>Some College (d)</b>	570.0329	(0.650)	547.8509	(0.440)	596.1202	(0.690)	501.6694	(0.520)
<b>Low Caste (d)</b>	<b>-1141.4440</b>	<b>-(2.090)</b>	-821.7320	-(0.810)	<b>-1152.0320</b>	<b>-(1.970)</b>	<b>-1129.5430</b>	<b>-(2.030)</b>
<b>Self Invest</b>	-0.0003	-(0.020)	-0.0002	-(0.010)	-0.0254	-(0.930)	0.0016	(0.090)
<b>Loan Size</b>	-0.0110	-(0.890)	-0.0237	-(1.090)	-0.0224	-(1.280)	-0.0113	-(0.910)
<b>Monthly Rent</b>	0.2014	(1.160)	-0.1439	-(0.100)	0.8388	(0.910)	0.1943	(1.070)
<b>Kiosk Age</b>	-33.8890	-(0.970)	-66.7286	-(1.040)	-9.9246	-(0.220)	-38.3848	-(0.940)
Location Dummies:								
<b>Comm Bldg (d)</b>	1028.1950	(1.750)	1340.0150	(1.540)	1158.6890	(1.940)	1010.2620	(1.670)
<b>Bus Stop (d)</b>	537.8644	(0.990)	1569.3670	(1.710)	618.0478	(1.140)	543.3627	(0.990)
<b>Main Road (d)</b>	<b>1556.0190</b>	<b>(2.710)</b>	<b>2365.0270</b>	<b>(2.530)</b>	<b>1509.5830</b>	<b>(2.660)</b>	<b>1537.8230</b>	<b>(2.600)</b>
<b>Residential (d)</b>	(omitted)		(omitted)		(omitted)		(omitted)	
<b>Distance HQ</b>	-7.0618	-(0.510)	4.5399	(0.210)	-11.9967	-(0.760)	-7.9724	-(0.530)
<b>Distance City</b>	2.1556	(0.230)	6.8616	(0.420)	4.2619	(0.400)	1.9732	(0.210)
<b>Karnataka (d)</b>	-1730.7690	-(1.880)	(omitted)		-373.6215	-(0.250)	-1793.5380	-(1.800)
<b>Gujarat (d)</b>	1647.6560	(1.380)	(omitted)		1832.3030	(1.480)	1710.1530	(1.360)
<b>Maharashtra (d)</b>	473.1504	(0.640)	(omitted)		414.6900	(0.540)	500.3742	(0.660)
<b>_cons</b>	-807.1664	-(0.390)	-1635.2680	-(0.490)	-287.6479	-(0.130)	-791.4281	-(0.390)
<b>*(i = 73, t = 6),</b>	N = 438		N = 282		N = 414		N = 438	
<b>** (i = 47, t = 6)</b>	<b>Pseudo - R<sup>2</sup> =</b>		<b>Pseudo - R<sup>2</sup> =</b>		<b>Pseudo - R<sup>2</sup> =</b>		<b>Pseudo - R<sup>2</sup> =</b>	
<b>*** (i = 69, t = 6)</b>	<b>.30</b>		<b>.26</b>		<b>.31</b>		<b>0.32</b>	

Notes: (d) = dummy variable, +Pooled OLS does not use instruments, **Bold are significant at 5%**

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Table 7b: Supplementary Regression Results

Total Revenues (LHS)	2SLS* (pooled) - Baseline Spec.	t (robust)	Pooled OLS* - Baseline Spec.	t (robust)	Random Effects** – All 74 Kiosks	z
<b>Total Services (instrumented)</b>	214.3988	(1.150)	<b>329.7487<sup>+</sup></b>	<b>(4.230)</b>	38.39337	(0.190)
<b>Population</b>	-0.01795	-(1.210)	-0.0208	-(1.400)	-0.0476	-(0.800)
<b>Pop*Town(d)</b>	0.016595	(1.120)	0.0194	(1.310)	0.049765	(0.840)
<b>Age</b>	<b>77.39426</b>	<b>(4.020)</b>	<b>77.0666</b>	<b>(4.070)</b>	29.64316	(0.500)
<b>Female (d)</b>	3.866351	(0.020)	-88.5558	-(0.420)	-357.508	-(0.450)
<b>HH Size</b>	<b>153.2637</b>	<b>(2.320)</b>	<b>122.0865</b>	<b>(2.210)</b>	-4.47615	-(0.020)
<b>Kiosk Owner (d)</b>	586.1329	(1.610)	454.2035	(1.370)	1257.672	(1.320)
Education Dummies:						
<b>Some HS (d)</b>	(omitted)		(omitted)		(omitted)	
<b>HS (d)</b>	<b>940.688</b>	<b>(2.310)</b>	<b>846.1440</b>	<b>(2.220)</b>	-1126.71	-(0.780)
<b>Some College (d)</b>	480.0141	(1.320)	391.4126	(1.170)	-1200.55	-(0.790)
<b>Low Caste (d)</b>	<b>-1122.53</b>	<b>-(4.680)</b>	<b>-1102.9520</b>	<b>-(4.470)</b>	-1615.01	-(1.670)
<b>Self Invest</b>	0.003141	(0.280)	0.0068	(0.640)	-0.01796	-(0.800)
<b>Loan Size</b>	-0.01051	-(1.320)	-0.0098	-(1.230)	<b>-0.04584</b>	<b>-(2.290)</b>
<b>Monthly Rent</b>	0.186788	(1.870)	0.1709	(1.660)	0.358146	(1.170)
<b>Kiosk Age</b>	<b>987.7825</b>	<b>(3.310)</b>	<b>943.0031</b>	<b>(3.320)</b>	-70.3616	-(1.340)
Location Dummies:						
<b>Comm Bldg (d)</b>	540.339	(1.800)	541.3555	(1.800)	894.4946	(0.860)
<b>Bus Stop (d)</b>	<b>1502.278</b>	<b>(3.850)</b>	<b>1440.5160</b>	<b>(3.770)</b>	949.4546	(0.990)
<b>Main Road (d)</b>	-33.6132	-(1.720)	-31.4967	-(1.680)	1404.86	(1.390)
<b>Residential (d)</b>	(omitted)		(omitted)		(omitted)	
<b>Distance HQ</b>	-8.85869	-(1.010)	-10.8053	-(1.400)	<b>47.96777</b>	<b>(2.190)</b>
<b>Distance City</b>	2.22337	(0.410)	2.3818	(0.440)	-12.2495	-(0.750)
<b>Karnataka (d)</b>	<b>-1856.09</b>	<b>-(2.820)</b>	<b>-1992.1430</b>	<b>-(3.090)</b>	382.2107	(0.250)
<b>Gujarat (d)</b>	<b>1768.405</b>	<b>(2.360)</b>	<b>1898.7050</b>	<b>(2.690)</b>	2186.804	(1.040)
<b>Maharashtra (d)</b>	541.6573	(1.390)	618.8115	(1.680)	-573.011	-(0.450)
<b>_cons</b>	-970.635	-(0.870)	-1186.3820	-(1.100)	5270.318	(1.620)
<b>*(i = 73, t = 6), **(i =74, t = 6)</b>	N = 438		N = 438		N = 444	
	<b>R<sup>2</sup> = 0.32</b>		<b>R<sup>2</sup> = 0.33</b>		<b>R<sup>2</sup> = 0.35</b>	

Notes: (d) = dummy variable, +Pooled OLS does not use instruments, **Bold are significant at 5%**

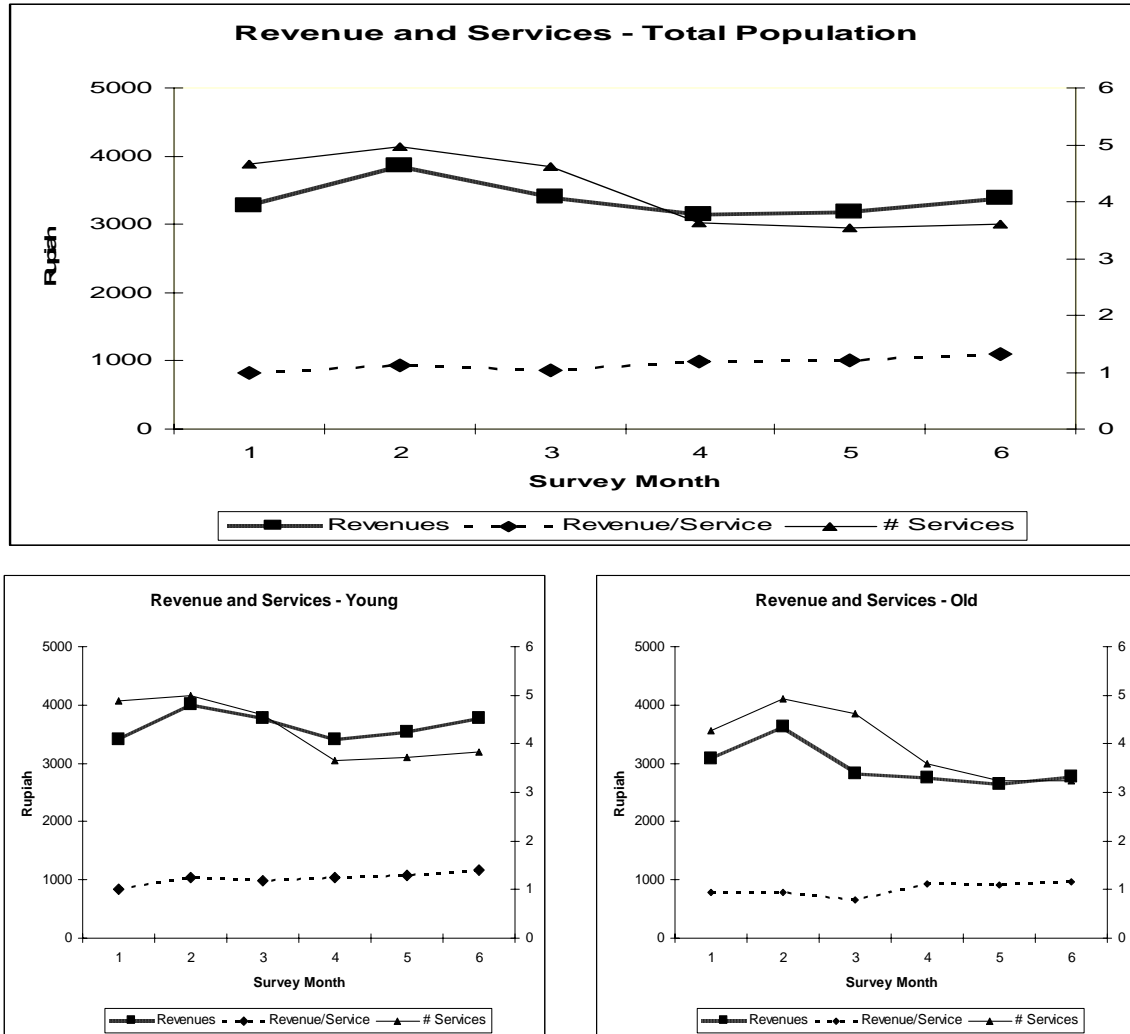
**Pent-up Demand, Learning by Doing, and Seasonality Issues**

The median kiosk age in month one of the survey is only six months and many kiosks are only a month or two old when the survey starts. This allows us to investigate the revenue dynamics in the early stages of the kiosk life. One hypothesis might be that the kiosks should initially see large revenues as they fill pent up demand due to curiosity or one-off tasks which are not soon repeated (emails to overseas relatives, photo-shopping of old wedding photos, etc.) but that the demand would shortly drop off to its steady state level. An alternative hypothesis would be that as kiosk owners learn their business and generate awareness in their local market their revenues should build from an initially low level. Fieldwork by one of the authors (Singh, 2004a) suggests that, depending on the situation, both effects operate in practice.

In Figure 2 we have plotted the average revenue and the number of revenue services reported over time in three different groups, the youngest 50% of kiosks, the oldest 50%, and the total sample. Clearly, seasonal effects seem to be at play given that the older and younger samples both have similar variation over time. To the extent that trends differ in the young kiosks vs. the old we can learn something about how the new kiosks are transitioning to the steady state. We can see that the newer kiosks have growing revenues over time and growing revenues per service as opposed to the older kiosks which exhibit no trend in either. Though the effects are small relative to the seasonal variation, this is consistent with a description allowing for positive learning effects. If there is learning, however, it is impossible to determine whether it is learning by the operator, the village population, or by n-Logue.



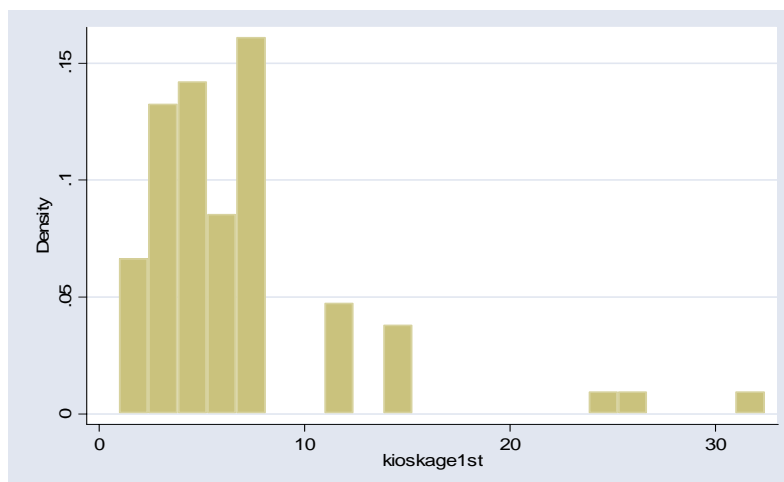
Figure 2: Revenue and Services Dynamics



It is interesting to note that the average revenue of the youngest 50% of kiosks is somewhat higher than in the older sample. As can be seen in Figure 3, the firms fall into two fairly distinct age groups that reflect the initial and recent recruitment campaigns on the part of n-Logue. The higher average revenue of the newer kiosks may reflect a learning curve on the part of n-Logue in their selection process and training regime.<sup>20</sup>

<sup>20</sup> We note that average kiosk ages do not differ significantly across the four states, so that geographic variation at that level cannot be the explanation for the observed pattern as discussed here.

Figure 3: Histogram, Kiosk Age at Start of Survey



In both the new and old kiosks, there seems to be a seasonal component to revenues, evident as the sinusoidal variation in both samples. The sample period starts just before the monsoon season and carries through until September as the monsoons are just beginning to ebb. During this time, farmers will likely have made a large investment in seed, fertilizer, and other agricultural inputs and will not receive pay-off until late September or early October when much of the harvest is sold. This may account for the initially high revenues which drop off during July, August, and September (a pattern we observe in both the young and old kiosk groups). If a seasonal variation in income affects demand or if a main driver of demand is harvest related tasks such as price discovery, government services, banking, purchases etc. then for both these reasons we might expect the seasonal component of demand faced by the kiosks to be low and or declining in this period as it is in the data.

### Uses for Services

We have limited data on the services that were requested by the customers of the internet kiosk. In the development literature, many have speculated as to the many beneficial uses that rural village residents would have for telephones and the internet. Often these speculations have centered on commercial activities and access markets and distant services. Being able to sell local products to first world consumers, accessing medical care via videophone, price discovery for agricultural production, are some of

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cited examples. Our data are not fine grained enough to completely address the usage question directly but we do have a rough indication of what services were being requested. In Table 8, we have listed the top three revenue generating services by state. In general, education and DTP (desk top publishing) services are the highest requested service followed closely by games with games seeming to play a slightly more prominent role in the richer state of Maharashtra, but also in somewhat poorer Tamil Nadu – both states do have high literacy rates, but the determining factors may be more local, in any case.

**Table 8: Highest Revenue Generating Services by State**

<b>Maharashtra</b>	<b>Freq. as highest</b>	<b>Tamil Nadu</b>	<b>Freq. as highest</b>	<b>Gujarat</b>	<b>Freq. as highest</b>	<b>Karnataka</b>	<b>Freq. as highest</b>
Education	0.40	Games	0.37	Education	0.44	Education	0.83
DTP	0.18	Browsing	0.21	Offline	0.28	Games	0.11
Games	0.17	DTP	0.12	DTP	0.11	DTP	0.04
Comm. Svcs.	0.10	Education	0.12	Test Results	0.11	Offline	0.02

Going back to the full list of services in Table 1, we can reiterate the earlier point that the mix of services are not much different that what one might expect from internet users in a developed country (browsing, chat and VOIP, education, games, on-line match making, horoscopes, etc).

We should add here that fieldwork interviews by one of the authors (Singh) with users, kiosk operators, and n-Logue staff suggested that, through a process of social norms and expectations, kiosk operators provide a certain amount of free services that include remote health diagnosis, agricultural techniques and disease information, and basic education.

## 5. Conclusions

Our empirical results point to a number of factors that determine the success of a franchise model in the rural context and a number that do not.

Seasonality and learning effects seem to be significant factors that may pose special challenges for designers of similar programs in other parts of the world. N-Logue has a phased cost approach where the kiosk operators fixed variable costs increase gradually over the course of a year so that the operator has time to learn the business and generate awareness. This approach seems to have worked well in giving operators a necessary grace period.

We find that education and gender do not significantly affect kiosk profits but that the caste designation of the kiosk operator does. It seems that while local social norms and practices can have a negative impact on profits (caste discrimination), stringent entrepreneur selection standards and good training can overcome some barriers (such as gender bias).<sup>21</sup> This leads us to the conclusion that, as program designers choose where to locate their programs, who to recruit, etc., they should carefully take into account the local customs and practices but not be biased by preconceived notions of who will be successful and what modes of operation will work best. Additionally, they may want to look for opportunities to target goals beyond the delivery of IT-services such as developing entrepreneurial and technical skills in the population and empowering women and minorities.

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<sup>21</sup> While our analysis did not bear out anecdotal claims that women entrepreneurs do better than men, the fact that they do no worse in a non-traditional, entrepreneurial occupation is itself a noteworthy finding.

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## Appendix

Table A1 - First Stage Regression Results: N - Logue Internet Kiosks

Total Revenues (LHS)	Random Effects* - Baseline Spec. First Stage results	z
Population	0.0000358	(1.070)
Pop*Town(d)	-0.0000348	-(1.040)
Age	-0.0105292	-(0.310)
Female (d)	0.6738766	(1.500)
HH Size	<b>0.2569407</b>	<b>(2.240)</b>
Kiosk Owner (d)	<b>1.378179</b>	<b>(2.650)</b>
Education Dummies:		
Some HS (d)		
HS (d)	0.7001664	(0.810)
Some College (d)	0.659057	(0.740)
Low Caste (d)	-0.229302	-(0.410)
Self Invest	<b>-0.0000305</b>	<b>-(2.450)</b>
Loan Size	-0.0000184	-(1.520)
Monthly Rent	0.0001574	(0.900)
Kiosk Age	<b>-0.0867934</b>	<b>-(2.960)</b>
Location Dummies:		
Comm Bldg (d)	0.4644386	(0.790)
Bus Stop (d)	0.095259	(0.170)
Main Road (d)	0.8091332	(1.430)
Residential (d)		
Distance HQ	0.0134687	(0.980)
Distance City	-0.0028189	-(0.300)
Karnataka (d)	1.239556	(1.350)
Gujrat (d)	-1.017261	-(0.850)
Maharashtra (d)	-0.7239633	-(0.980)
Instruments:		
Browsing Svcs (d)	<b>-1.184415</b>	<b>-(4.430)</b>
Offline Services (d)	-0.3490263	-(0.890)
Test Results (d)	0.2563924	(0.460)
Education Svcs. (d)	<b>-0.8900884</b>	<b>-(3.640)</b>
DTP (d)	<b>-0.9173647</b>	<b>-(3.300)</b>
_cons	<b>4.090367</b>	<b>(2.100)</b>
* <i>(i = 73, t = 6)</i>	N = 438	

Notes: (d) = dummy variable, bold are significant at 5%, instruments are jointly significant.