Experimenting with cash transfers in food subsidies

Lessons from the pilot in Nagri

August, 2019

MicroSave Consulting

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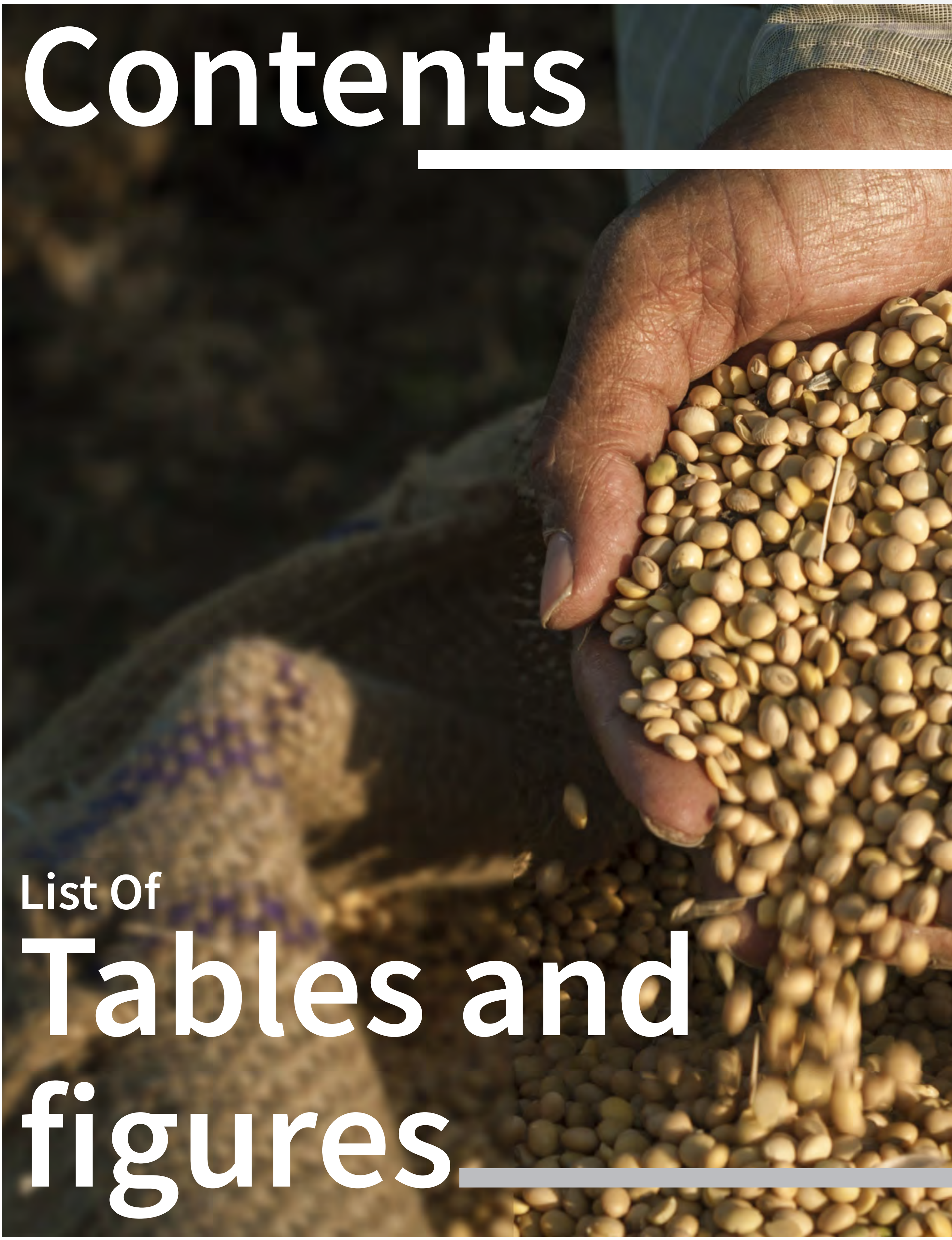

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Executive summary

This case study focuses on a cash transfer pilot in the Nagri district of Jharkhand, India. The government experimented with an innovative delivery model in the hope to reduce leakages in the system. Within the delivery model, the government transferred cash to scheme[1] beneficiaries who previously received subsidized rice each month. MSC conducted a study on this delivery model and found that at both the institutional and ecosystem levels, a lack of sufficient infrastructure precluded successful implementation, following which, the scheme was withdrawn.

The primary reason behind the rejection of the new model was that the Nagri pilot created significant operational challenges—both for beneficiaries and for fair price shop (FPS) dealers who distributed the food grains. The pilot failed to provide incentives to beneficiaries or the dealers and was not scalable because of issues related to banking infrastructure and complex back-end procedures. A significant lack of preparedness and insufficient outreach before the launch compounded issues for the beneficiaries. FPS dealers had to shoulder additional administrative reporting requirements while working on reduced monthly commissions, which resulted in dissatisfaction and ultimately led to outright rejection of the cash delivery model.

Key lessons from the pilot implementation in Nagri:

01

The Nagri pilot revealed discrepancies in the beneficiary database. Manual errors in the reporting and entry of beneficiary data during the digitization drive led to incorrect demographic and financial information and resulted in problems with payments. In this regard, a robust scheme database if implemented in the future can result from two processes:

[1] The ministries of the Government of India have developed government programs that are widely known as "schemes". These schemes are implemented by the central government, state governments, or in joint collaboration between the central and state governments.

i By automating customer enrolment through technical checks and balances to reduce the chances of human error;

ii By subsequently implementing a simplified system to maintain a dynamic beneficiary database, which would account for changing the details of beneficiaries.

02

It is critical to avoid rushed implementation of innovations in the delivery channel for government subsidy transfers. The target population of government social transfer programs should be given ample time to comprehend the systemic changes and recognize the benefits and reasons for the change in the delivery process.

03

A prompt and efficient mechanism to resolve grievances is essential for the successful delivery of government schemes. The mechanism is effective if it is accessible at the local level and if, through it, the program can be improved continuously while also facilitating iterative design improvements.

04

The lack of devoted communication and change management protocols contributed significantly to the failure of the Nagri pilot. The department followed a "short-burst communication campaign" instead of a consistent and thorough long-term approach to handhold the beneficiaries and FPS retailers to ensure that they understood the new systems and processes.

05

A sustainable incentive and commission structure for stakeholders along the length of the entire value chain is essential. Certain factors can help overcome the reluctance to change and facilitate the smooth implementation of the scheme. These include financial incentives in the form of better commission structures for the FPS dealers, non-financial incentives in the form of improved scheme features for beneficiaries, and efficient processes for the government officials.

06

Food security needs to transition to nutritional security. Currently, the government has ensured that the eligible households are food-secure and are able to receive food grains mostly in the form of rice or wheat or both. However, this is not sufficient to address the nutritional content of meals in beneficiary households.

1. Government reforms in the Targeted Public Distribution System (TPDS)

The Targeted Public Distribution System (TPDS) implements the National Food Security Act (NFSA). This makes essential commodities—rice, wheat, coarse grains, and sugar—available to about two-thirds, or approximately 850 million people of the Indian population.[2] A total subsidy budget of INR 1,69,323 crore (USD 24 billion)[3] of the Food Subsidy Bill (2018-19) ensures that food grains are provided at a highly subsidized price—INR 3 (USD 0.05) per kg for rice, INR 2 (USD 0.03) per kg for wheat, and INR 1 (USD 0.014) per kg for coarse grains. The central and state governments jointly orchestrate the entire operation of grain procurement and distribution to ration cardholders, who are the beneficiaries of the scheme.[4]

The success of the NFSA, however, rests on effective management of TPDS to deliver the benefits of food subsidy with minimum leakages and wastage. To facilitate this, the Government of India (GoI) set up a high-level committee in August, 2014 to improve the operational efficiency and financial management of TPDS.[5] The committee observed that leakages in TPDS range from 40% to 50%, and therefore, recommended measures to empower consumers, plug high leakages in TPDS, and conserve resources.

A key measure suggested by the committee was the gradual introduction of direct cash transfers in PDS to make it cost-effective. The committee, elaborating on this recommendation, further suggested that the cash transfer programs in PDS should initially be introduced in cities with populations of more than 1 million, and then extended to grain-surplus states.[6] The committee also recommended that grain-deficit states should be given the option to either opt for cash transfers or physical grain distribution.

Since making such recommendations, the Department of Food and Public Distribution (DFPD) of the GoI, along with state governments and union territories (UTs), have experimented

[2] The Act provides for coverage of up to 75% of the rural population and up to 50% of the urban population that receive subsidized food grains under TPDS, thus covering about two-thirds of the population.
[3] Exchange rate used: INR 1 = USD 0.014
[4] http://pdsportal.nic.in/Default.aspx?lid=4
[5] The GoI set up a High Level Committee (HLC) in August, 2014 with Shri Shanta Kumar as the Chairman, and six members and a special invitee. The HLC came together to suggest measures for (i) overall improvement in management of food grains by the Food Corporation of India (FCI), an agency that procures and transports food grains for the TPDS, (ii) cost-effective models for storage, (iii) distribution, and movement of grains, and (iv) integration of food grain supply chains in the country. In addition, the HLC helped to enhance the country's food security systems and reorient the role and functions of FCI to set minimum support prices for purchasing from farmers.
[6] Grain-surplus states are those that produce more grain than they consume.

with innovative models to distribute food subsidy with precise targeting, improved accounting, and enhanced monitoring. Some of the models piloted more recently are direct cash transfers, food coupons, cash coupons, and the biometrically authenticated physical uptake (BAPU) model, as elaborated in the following section.

1.1-Cash transfer of food subsidy:

Under this model, the government transfers cash to the bank accounts of entitled households, which allows them to purchase food grains from the open market. This model was implemented in Chandigarh and Puducherry in September, 2015 and in urban areas of Dadra and Nagar Haveli in March, 2016, covering 0.9 million beneficiaries. Under the Direct Benefit Transfer (DBT) model, the customer's access and choice have improved considerably. It gave way to open market competition and provided beneficiaries with the flexibility to select better quality food grains and diversify their food basket. However, chances of the cash subsidy being diverted elsewhere are high unless a mechanism is put in place to curb this.

1.2-Food coupons

Under this model, local government bodies (the *Panchayat*) issue coupons to beneficiaries each month. An individual household receives 12 coupons annually for wheat, rice, and kerosene, which they redeem each month at the FPS. Later, the FPS dealer submits the coupons to FCI (Food Corporation of India) officials to reconcile and replenish their stock.[7] These coupons are valid only for the month that the local bodies issue them. This model of distributing food coupons has been in place since 2007 in Bihar, where it was introduced to curb corruption at the last mile.

1.3-Cash coupons

Under this system, a female member of the household who is entitled to food subsidies visits a government-approved private grocery retailer and authenticates her identity using *Aadhaar*. These retail shops are equipped with fingerprint readers. After they have identified and authenticated the beneficiary, the retailer generates a redeemable coupon, which specifies the cash value of her food entitlement.

The beneficiary then purchases the registered food grains of her choice at the store. Once the beneficiary verifies her purchase as printed on the cash memo, the shopkeeper completes the sale through a biometric confirmation to ensure that the beneficiary signs off on the exact purchase. This system was piloted in one city—Bengaluru—in July, 2016.[8]

1.4-Biometric Authentication for Physical Uptake (BAPU)

Under the BAPU model (also called *Aadhaar*-enabled Publics Distribution System (AePDS)), rations are distributed at the FPS using electronic point of sale (e-PoS) machines or devices that are capable of *Aadhaar*-based biometric authentication. Thus far, more than 50% of the 531,389 FPSs were automated across the country.[9]

Each of these delivery models has scope to reduce leakages and improve targeting. Yet, unfortunately, each is also bound by functional limits and faces unique challenges. Please refer to MSC's focus note, "Setting Public Distribution System Right: Touchstone Case for Direct Benefit Transfers - Part II" to compare these models of food subsidy distribution. We should note that the government has not yet addressed perhaps the most important issue—FPS dealers delivering less food than entitled to the beneficiaries—a phenomenon known as "quantity fraud".

[7] Assessing Bihar's Coupon-Based PDS
[8] Cash coupons – A viable alternative?
[9] A total of 531,389 of 2,76,444 FPS are digital or PoS-enabled

2. The public distribution system in Jharkhand and the pilot in Nagri

In October 2017, the Ministry of Consumer Affairs Food and Public distribution (MoCAF&PD), India and the Jharkhand government launched an alternative model of food subsidy distribution in the Nagri block of Ranchi district in Jharkhand. Under this model, an advance of the total subsidy amount that the eligible household is entitled to was credited to the bank account of the head of the household. The advance was at the rate of INR 31.60 (USD 0.5) per kg of rice. The beneficiary then withdrew the amount from the nearest bank branch or bank agent and visited the FPS to biometrically authenticate and receive the rice entitlement.

The objective of this model was to increase the transparency and accountability in PDS, as well as to tackle the twin problem of quantity fraud and "transportation loss"—leakage and diversion during transportation of food from the food warehouse to FPS dealers.

2.1 The existing process of distributing food subsidy in Jharkhand

The state of Jharkhand currently has 5.7 million ration cardholders under the TPDS. The monthly entitlements in the state are five kilograms of a combination of rice and wheat per person for priority households (PHH) and 35 kilograms of a combination of rice and wheat for Antyodaya Anna Yojana households (AAY).

Currently, Jharkhand follows the BAPU model of food subsidy distribution, under which beneficiaries must visit the FPS once a month to collect their entitled ration. The state government procures the rice at approximately INR 31.60 (USD 0.45). The beneficiary pays a subsidized amount of INR 1 (USD 0.014) for a kilogram of rice and INR 2 (USD 0.03) for a kilogram of wheat. The FPS owners keep the subsidized amount as commission.

Figure 1: The existing TPDS in Jharkhand

Beneficiary

Ration cards have been digitized by using the beneficiary's *Aadhaar* number and bank account details. Beneficiaries visit the FPS with their ration cards.

FPS retailer

Equipped with a PoS device for biometric authentication of beneficiaries

State Food Corporation

Grains are allocated and transported monthly to FPSs based on the number of ration cards linked

Step 1

The beneficiary is authenticated using fingerprint

Step 2

The beneficiary pays INR 1 per kg of rice

Step 3

The beneficiary then collects the food grains. They can collect the ration for the current and the previous month

Step 4

FPS keeps the INR 1 collected as commission

Successful attempt
The process moves to step 2

Failed attempt
Alternative authentication is conducted using a one-time password (OTP) to the beneficiary's *Aadhaar*-seeded mobile number. Then the process moves to step 2

Exception management

If a beneficiary's ration card is not digitized, the dealer gives them the entitlement after recording the transaction in *Apvaad Pushtika* (a book to record manual transactions)

2.2 The rationale for the Nagri pilot

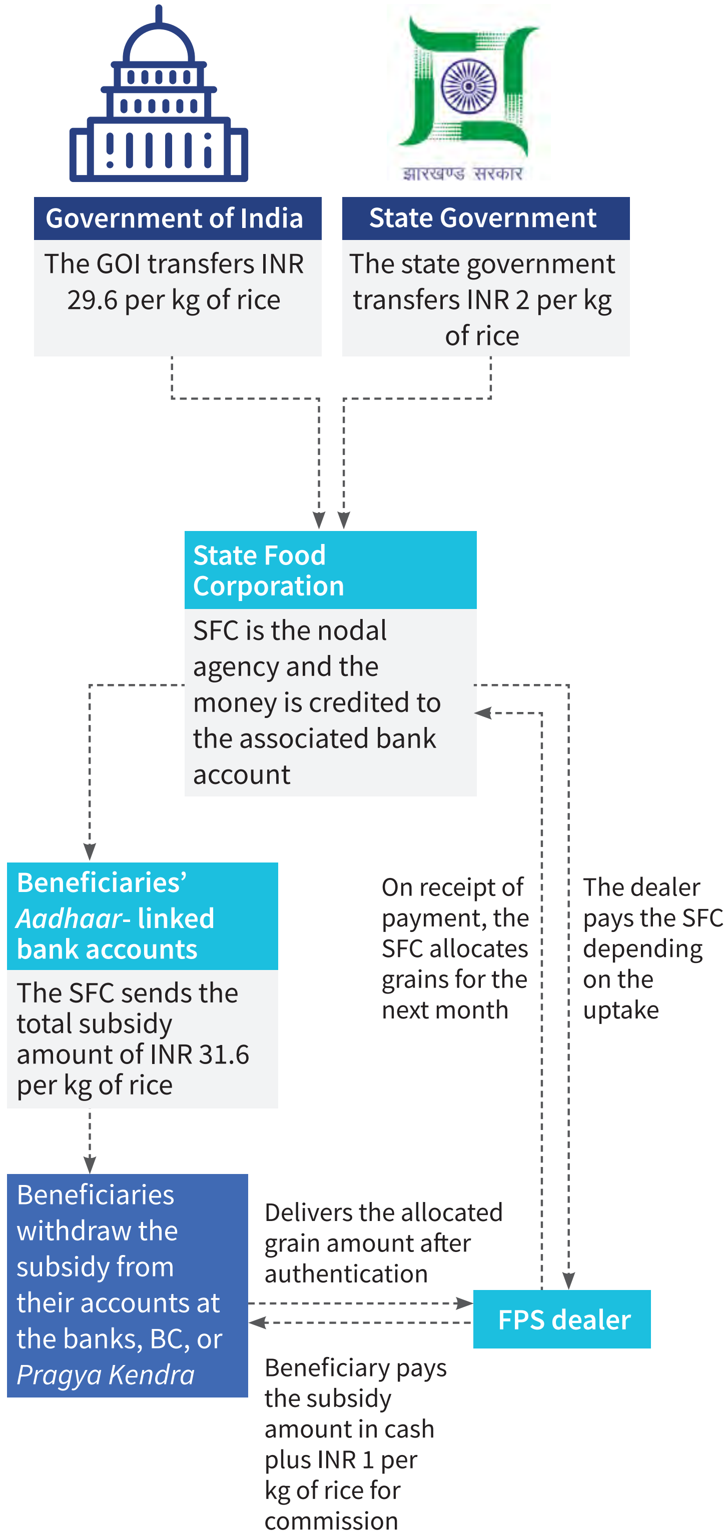
Nagri is a small urban block in the Ranchi district of Jharkhand. It has 12,109 TPDS households that are served by 56 FPS equipped with ePOS machines. The State Government of Jharkhand launched a cash transfer pilot in Nagri that came into effect on October, 2017.[10] The pilot followed a slightly modified PAHAL model of subsidy transfer.[11]

Pilot process:

In this model, the beneficiaries received an advance of the food subsidy amount in their bank accounts that they later used to buy rations from the FPS dealers by paying the full price. This model brings the price of ration at the FPS shop closer to the market price, which reduces market arbitrage and discourages the FPS dealer to commit quantity fraud and sell food grains in the open market. The Government of India transferred the majority of the subsidy (INR 29.6 or USD 0.4 per kilogram of rice) into the bank account of the Jharkhand State Food and Civil Supplies Corporation (SFC).

The Jharkhand SFC supplemented the remaining part of the entitlement (INR 2 or USD 0.03 per kilogram of rice), which was then deposited into the beneficiary's *Aadhaar*-linked bank account. The beneficiaries then withdrew the subsidy amount each month from the bank, ATM, or *Pragya Kendra*[12] (bank agents) and visited the FPS to lift their ration after biometric authentication (See Figure 2, adjoining).

Figure 2: Subsidy transfer process in Nagri pilot block



[10] https://www.telegraphindia.com/1171005/jsp/frontpage/story_176270.jsp

[11] The PAHAL scheme, which subsidizes cylinders of liquid petroleum gas used for cooking, requires that the beneficiary have an *Aadhaar* number that is linked to their LPG consumer number and bank account. The beneficiary receives the subsidy amount into their bank account according to their entitlement.

[12] *Pragya Kendra*s are common service centers set up by the state government to deliver e-services in rural areas. http://csc.jharkhand.gov.in/

Entitlement:

The total subsidy amount per household was calculated based on the number of family members in that particular household. The amount was then transferred into the bank account of the head of the household, referred to as the *mukhia* in the scheme. As part of the scheme mandate, the *mukhia* is usually a woman of the household over the age of 18.

As an instance of the subsidy amount calculation, a PHH family with five members received INR 790 (USD 11) for 25 kgs of rice and an AAY family with five members received INR 1,106 (USD 15) for 35 kgs of rice. To simplify the subsidy distribution process and overcome the beneficiary's adoption issues in the initial pilot phase, the Jharkhand government deposited an amount equivalent to two months subsidy into the beneficiaries' bank accounts.

Conditionality:

The Jharkhand government put in place a variety of conditions to determine whether a beneficiary in Nagri was eligible to receive their food subsidy each month:

- Beneficiaries were entitled to take their rations for a two-month period. For example, a beneficiary was able to receive their entitlement for October until the end of November.
- Beneficiaries were not eligible to receive their subsidies if they did not take their ration for two consecutive months. However, the beneficiaries could resume their subsidies by taking ration through the FPS dealer in subsequent months.
- Upon first launching the pilot, the government provided an advance subsidy to the beneficiaries for the two consecutive months of October and November.

वर्ष: 2016

माह	चावल	गेहूँ	मोटा अनाज	नमक	चीनी	केरासन तेल	अन्य	दुकानदार का हस्त० एवं तिथि
अप्रैल	15					4		
मई	15			2		4		
जून	15					4		
जुलाई	15				2	3½		
अगस्त	15			3		3		
सितंबर	15				4	3		
अक्टूबर	15			1		2½		
नवम्बर	15			2		2½		
दिसम्बर	15			1	3	2½		
जनवरी	15					2½		
फरवरी	15			2	2	2½		
मार्च	15			1		2½		

वर्ष: 2017

माह	चावल	गेहूँ	मोटा अनाज	नमक	चीनी	केरासन तेल	अन्य	दुकानदार का हस्त० एवं तिथि
अप्रैल	15			2	4	2½		
मई	15					2½		
जून	15					2½		
जुलाई	15					2½		
अगस्त	15					2½		
सितंबर	15					2½		
अक्टूबर	15					2½		
नवम्बर	15					2½		
दिसम्बर	15			5		2½		

3. Evaluating the cash transfer pilot

MSC's assessment of the cash transfer pilot

MSC conducted an independent study to evaluate the Nagri cash transfer pilot in March, 2018 with support from the Department of Food and Public Distribution of the Ministry of Consumer Affairs. We conducted the study with the following objectives:

- To understand the process flows of the new delivery model and the way it was implemented in Nagri block;
- To understand the issues and challenges that various stakeholders faced in implementing the new pilot;
- To assess the extent to which FPS owners and beneficiaries could adapt to the new delivery mechanism;
- To provide recommendations on the scalability of the pilot and the way forward.

We conducted mixed-method research with 30 FPS dealers and 423 TPDS beneficiaries in Nagri. We also conducted the same activity with 30 FPS dealers and 430 beneficiaries in Namkum, a non-pilot block in the district that we selected as control. We selected Namkum based on similarities with Nagri block—including rural population, literacy rates, and proportion of AAY and PHH beneficiaries. Based on our evaluation report, the DFPD terminated the pilot cash transfer delivery mechanism in Nagri block and restored the BAPU model of food subsidy distribution.

Framework to assess the pilot

Based on our rigorous studies of cash transfer initiatives around the world and more thoroughly in India, we see that successful implementations of innovative government subsidy distribution pilots share many similar characteristics. These include factors linked to both institutional- and ecosystem-readiness.

Design of the cash transfer scheme – establishing the value proposition for stakeholders

Critical design elements

Database of beneficiaries[13]

- Digitization of beneficiaries details
- Efficient MIS system

Backend payment system

- Functioning payment gateway (PFMS)
- Accurate NPCI mapping and *Aadhaar* Bridget

Last-mile connections

- Well established banking infrastructure
- Stakeholder buy in

Effective communication strategy

Robust process of grievance resolution

MSC evaluated the pilot in Nagri based on the factors charted in the above graphic. The challenges faced by all those involved ultimately resulted in the shutdown of the pilot. Overwhelmingly, 96% of the TPDS beneficiaries and 100% of the FPS dealers in Nagri (pilot block) did not prefer the new system of food subsidy delivery and wished to revert to the old system of in-kind subsidy transfer. MSC observed that the following factors contributed to the failure of the pilot in Nagri block.

1 The pilot design failed to offer an adequate value proposition for all stakeholders

The design of the pilot should have focused more on guaranteeing a relevant value proposition for all the stakeholders involved to facilitate their buy-in. Beneficiaries were not motivated to adopt this new mode of delivery. On the contrary, it burdened them with additional costs. These costs included days of work that the beneficiaries lost and transportation costs that they incurred while visiting banks or agents to

[13] Beneficiary details that should be available include household-level data on the number of members, identification of the oldest female member, age, correct mapping to her bank account, and *Aadhaar* numbers of all members. The Government of India developed the Public Finance Management System (PFMS) to link the financial networks of the central government, state government, banks, and other agencies. The system manages the payment of several government schemes by interfacing with banks.

withdraw cash for rations.

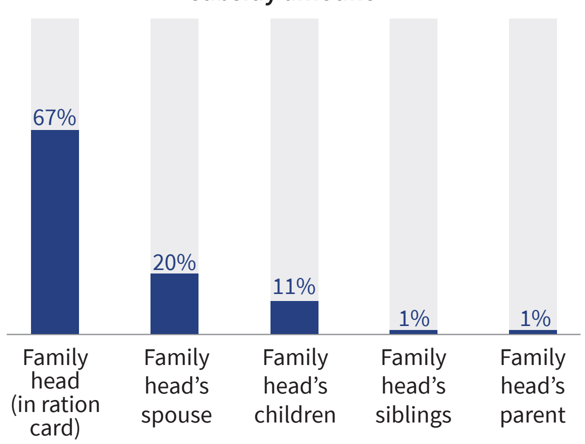
The plot design expected FPS dealers to spend more time in handling cash, undertake more administrative processes, and make frequent visits to the bank. Government officials were saddled with more work as they had to transfer cash and deal with issues around failed cash transfers or discrepancies in data. These factors increased their administrative and monitoring duties.

A pilot designed with value propositions for all involved stakeholders could have included more options for a wider variety of grains for the beneficiaries, additional commission to the FPS dealers through the opportunity to become BC agents, and the likelihood of a successful and streamlined process to deliver food subsidy with increased participation of government officials.

2 Lack of a robust beneficiary database

Another preliminary consideration that the government overlooked was the readiness of the supporting infrastructure. The database of PDS beneficiaries failed to capture all relevant and updated data of the households accurately. This issue became known in the Nagri pilot because the government used incomplete or incorrect financial and demographic data of the beneficiaries to allocate subsidies. Typically, the head of the household's bank account should be linked to receive the subsidy; however, only 67% of the households had the account of a family head mapped to receive the subsidy, as illustrated in the bar chart. Moreover, some bank accounts that were mapped in the government's database for subsidy transfer belonged to deceased family members, which complicated the process of withdrawal.

In whose account do you receive the subsidy amount



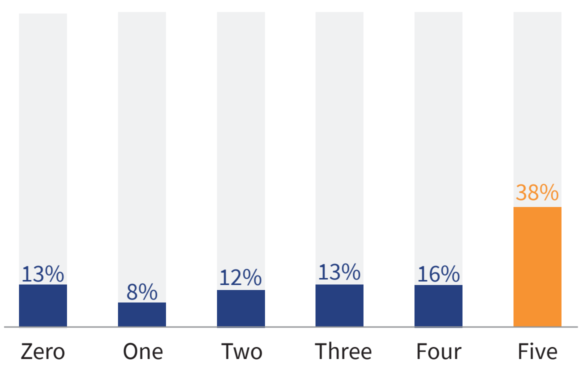
3 Complicated backend processes, complex MIS, and a reliance on manual follow-up processes

Due to the database at the back-end not being set up correctly, several issues arose during the pilot. The back-end process of subsidy transfer involved various databases and systems that were not connected to each other as they were maintained by different entities. The beneficiary list was contained in the Ration Card management system, but the amount of subsidy to be transferred to each beneficiary was held in a different database, managed by a different entity, and was manually updated in the PFMS for payment. In Nagri, almost 62% of respondents did not receive the subsidy amount consecutively for the five months during which MSC evaluated the pilot (October, November, December, January, and February), as illustrated in the graph. The reliance on manual processes or bad data at the back-end while generating payment files for PFMS increased the likelihood of human error or faulty delivery. This made the pilot extremely challenging to scale.

Further, at any point, the FPS dealer and the government were unable to track which beneficiaries had received their subsidies and for which month(s) rations were taken. This, in turn, made stock management difficult for both the FPS dealer and the government, directly affecting their ability to monitor subsidies under this scheme.

Because of the conditionality instituted by the Jharkhand government and for the reasons discussed above, subsidies often had to be transferred to the beneficiaries in multiple phases as some waited until the following month to take their current month's ration. Accordingly, the subsidy transfer depended on the uptake and disbursement that had occurred the previous month. This process of identifying beneficiaries that were eligible to receive the subsidy the following month was managed manually at the back-end, which made it extremely rigorous.

How many times have you received subsidy since the launch of the pilot



4 Database seeding

Beneficiaries experienced confusion and uncertainty when they opened bank accounts and their *Aadhaar* was linked or "seeded" to these new accounts. This was a shortcoming of the back-end processing systems—one that was overlooked. It has since been rectified. For some beneficiaries in Nagri, the status of *Aadhaar*-seeding changed when they opened a new bank account or loan account. Specifically, when Airtel Payments Bank launched and beneficiaries were given Airtel payments bank accounts automatically, their *Aadhaar* numbers were automatically linked to these new accounts. As a result, these beneficiaries had no visibility of the account in which they had received their subsidy and often had to visit the bank multiple times to update their passbooks and track their subsidy.

5 Beneficiaries had to travel an average of 20 kilometers and incur approximately INR 371 (USD 5.4) every month to withdraw the subsidy from their bank accounts

The pilot shed light on the inadequate banking infrastructure in Nagri, particularly the failure of the business correspondent model.[14] This was also evident in Rajasthan when MSC evaluated the impact of the Bhamashah program.[15] Because of the poor BC network in Nagri, beneficiaries had no option but to travel to banks located far away from the villages. Beneficiaries had to travel an additional 20 km and spend, on average, INR 371 (USD 5.4) each month to withdraw the subsidy from their accounts at bank branches.[16]

Many beneficiaries had to visit the *Pragya Kendra* on several occasions to check whether they had received their subsidy. At the *Pragya Kendra*, beneficiaries were allegedly charged INR 12 (USD 0.2) each time they updated their passbooks. Airtel Payments Bank outlets charged INR 35 (USD 0.5) for each withdrawal, which is an additional cost borne by the beneficiaries.

Beneficiaries also encountered other issues while dealing with the banks during the pilot. Some banks refused to let beneficiaries withdraw an amount less than INR 2,000 (USD 28.6). Moreover, banks often adjusted the food subsidy amounts against loan installments or other bank charges and penalties, which left beneficiaries short of money when they needed to lift their rations from the FPS.

[14] The banking correspondent model allows banks to appoint entities and individuals as agents to provide doorstep delivery of banking services to those who live in rural and remote locations.
[15] Impact of Bhamashah on digital governance reforms in Rajasthan, December 2017
[16] This amount includes opportunity loss in terms of a day's wage and travel expenses.

Table 1: Average expenses per month borne by beneficiaries throughout the pilot

	Pilot Block—Nagri
The average number of visits to the bank	**2.3 times per month**
I. Additional time spent by beneficiaries in Nagri	
Average travel time to the withdrawal point or bank (A)	~60 min
Average time spent at the bank (B)	99.5 min
Travel and transaction time per month (A+B * 2.3)	~6 hours
II. Money spent in withdrawing the subsidy	
The average amount spent to reach the nearest withdrawal point (C)	INR 38.6 (USD 0.55)
Other bank expenses per trip (D)	INR 12 (USD 0.2)
Average wages per day: 6 hours (as calculated above) (E)	INR 260 (USD 3.7)
Total costs incurred (C+D * 2.3) + E	**INR 371 (USD 5.4)**

Note: All estimates in this table are based on the results of the survey conducted by MSC

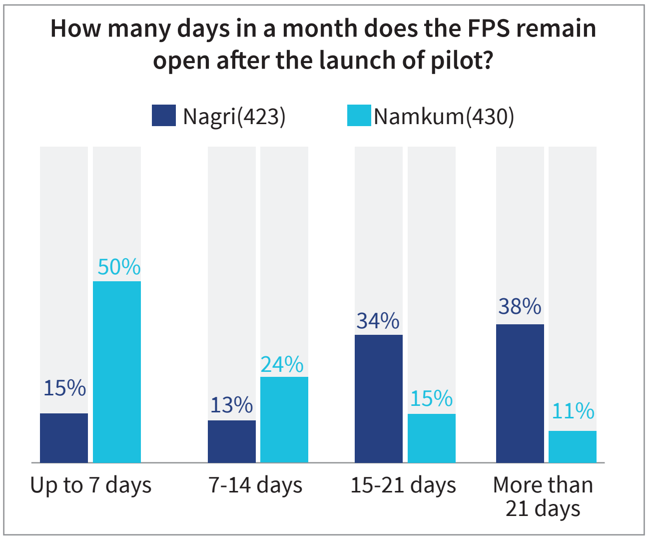
6 FPS dealers had to work harder and remain open for longer hours post-pilot implementation in Nagri

Because of complications and inconveniences experienced by the beneficiaries, their visits to the FPS to take their rations were delayed. In Nagri block, 80% of FPS dealers had to remain open for more than 21 days every month to ensure that beneficiaries received their entitlements. Before the implementation of the pilot in Nagri block, beneficiaries were accustomed to visiting an FPS at a particular time each month to take their rations. Post-implementation of the pilot, beneficiaries had to invest more time and effort to first withdraw their subsidy from the bank branch, *Pragya Kendra*, or ATM and then visit the FPS to take their rations.

Among beneficiaries in Nagri block, 72% visited the bank during the last 15 days of the month.

Because of the additional hassle associated with traveling to the nearest banking outlet, beneficiaries often reached the FPS location later in the month at which time the FPS dealer had to accept their request to purchase rations.

The corresponding graph reveals that the FPS dealers in Namkum block had a much lighter working schedule when compared to FPS dealers in Nagri block. In the Namkum block, which served as the control block, 74% of the beneficiaries bought their rations during the first 15 days of the month. The implication of increased working hours for FPS dealers in Nagri was that they were unable to spend time on other income-generating activities.



7 FPS dealers in Nagri witnessed a dip in revenue after the pilot rollout

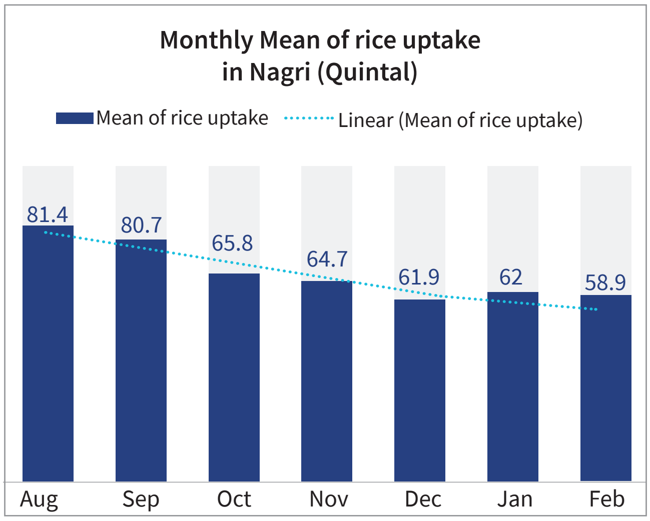
The uptake of rice at FPS in Nagri shows a declining trend, as beneficiaries are unable to take their rations regularly as shown in the graph below. Of the FPS dealers, 66% claim that due to decreased commission post-pilot implementation, their profitability reduced.

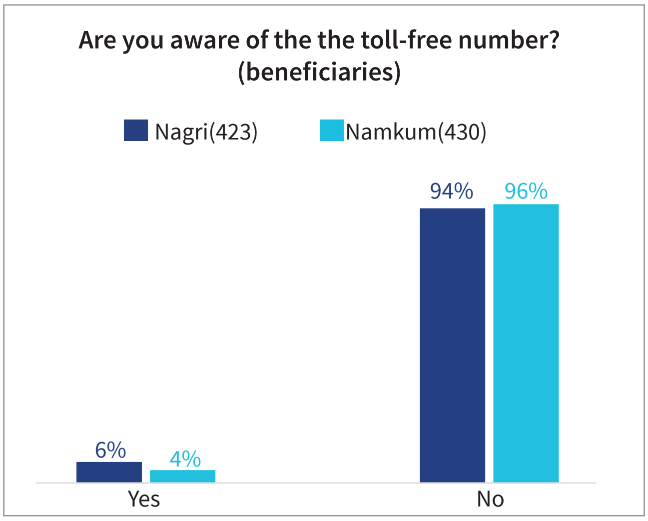
FPS dealers also faced additional administrative burdens during the pilot that required them to visit the bank more frequently, and therefore, incur more travel expenses. Additionally, FPS dealers had to handle larger sums of money, with which many expressed their discomfort.

8 The government did not conduct a major outreach campaign—dealers were the only source of information for beneficiaries

In Nagri, information on the pilot was not disseminated to the appropriate audience. Specific details are necessary to facilitate the smooth uptake of any new delivery method. These details include information on who would receive the subsidy, how much they would receive, and the helpline number—none of which was communicated.

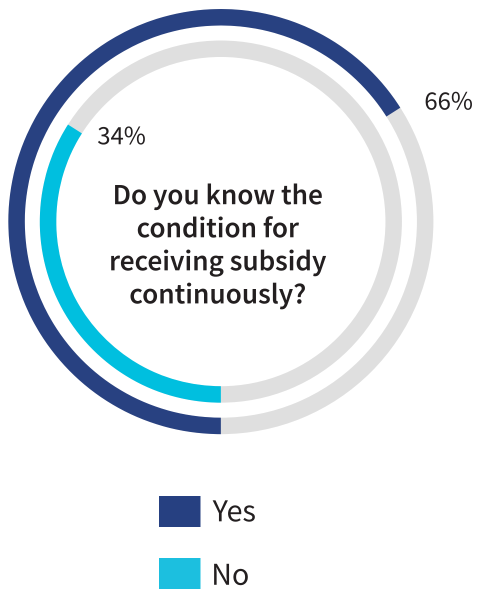
Moreover, the Jharkhand Food Department mandated the clause that beneficiaries who do not lift rations for two consecutive months would stop receiving the subsidy amount. All beneficiaries were either not aware of the conditionality of the subsidy transfer or were misinformed. This left most of them confused and dependent on the FPS dealer. The FPS dealer was the beneficiary's first point of contact, yet they were not utilized adequately to optimize the communication efforts. The government should have used this channel for better outreach and trained the FPS dealers to handle beneficiary issues and queries.

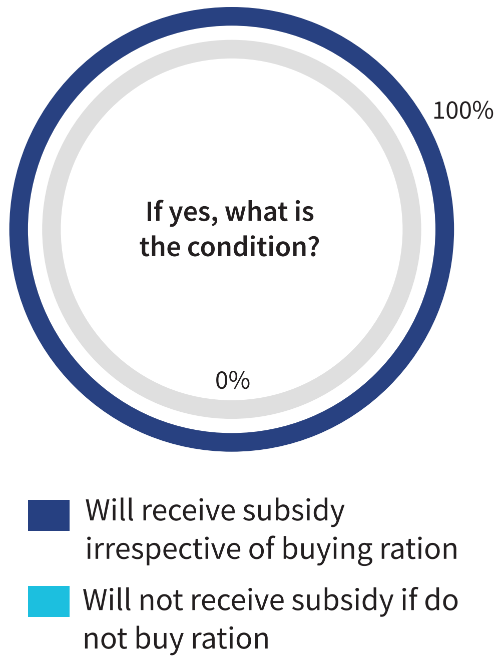




Beneficiaries were also misinformed about the conditionality of the subsidy. As it were, they believed that rather than their subsidy being terminated, their actual ration cards would be suspended if they did not lift their rations for two consecutive months. Therefore, they continued to buy rice from their own pocket despite not receiving their subsidy.

Beneficiaries were also unaware of the timing of the subsidy credit, as over 50% of respondents visited the bank more than twice to check their passbooks.





Another key piece of information that beneficiaries were not aware of was how to register complaints formally. More than 90% of the beneficiaries and nearly 100% of the FPS retailers reported that they had no knowledge of the toll-free number to register complaints. This meant that many issues faced by beneficiaries went unaddressed.

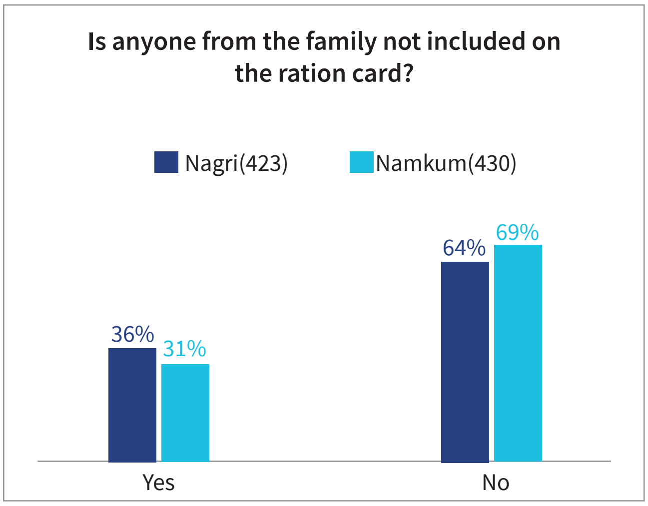
4. Key lessons from the pilot in Nagri

The pilot in Nagri was designed to resolve key systemic issues in the PDS supply chain and improve the delivery of subsidy efficiency. However, poor planning and execution resulted in its failure. Yet this offered a great deal to glean from the government's attempt to innovate the mechanism to deliver food rations, particularly as it pertained to future pilot designs.

1 The beneficiary database should be free of discrepancies to avoid exclusion

One of the primary reasons the Nagri pilot did not work as planned was due to the lack of sanctity and robustness of information for the 12,109 TPDS households in the database. The Nagri pilot revealed discrepancies in the beneficiary database. Incorrect demographic and financial information for the head of the household resulted in problems with payments. In addition, both Nagri and Namkum beneficiaries reported that more than 30% of the households had at least one family member whose name was not included in the ration card, which resulted in lower entitlements under PDS.

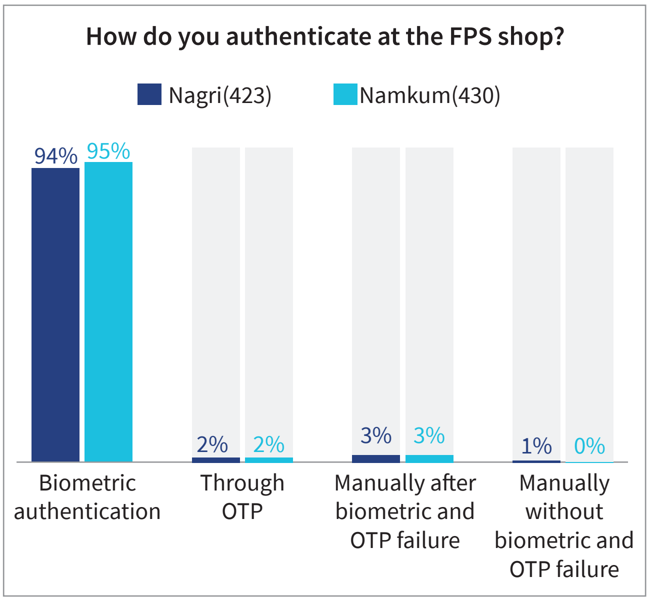
The beneficiaries attributed manual errors in data entry and reporting during the digitization drive as a major reason for exclusion. Automation in customer enrolments and a simplified system of maintaining a dynamic beneficiary database could help build a robust scheme database. Customer enrolment can be automated through technical checks and balances to reduce the chances of human errors. The system of maintaining a dynamic beneficiary database would be one that can account for changes in the details of beneficiaries through customer-centric processes.



2 Innovation to modify existing subsidy delivery system should allow ample time for stakeholders to adapt to the newer systems and processes.

BAPU is now the norm for PDS beneficiaries, as illustrated in the graphic. However, when the new system was introduced, beneficiaries faced several challenges while adapting to it, such as issues related to authentication and connectivity. However, in time, beneficiaries recognized the benefits and the impact of the BAPU model and embraced it wholeheartedly.

BAPU now has a successful authentication rate of 95% in the first three attempts. This supports our recommendation that systematic changes should be given ample time for stakeholders to adapt to. This time also allows stakeholders to recognize the benefits and understand the reasons for the changes. The government should avoid rushed implementation of innovations in the delivery channel. We recommend that they launch pilots slowly and steadily to give each stakeholder involved enough time to realize the benefits that could accrue to them.



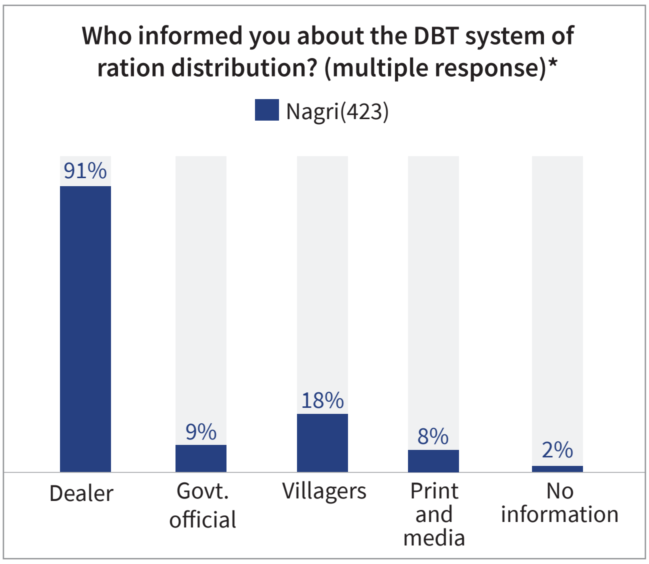
3 An efficient system of feedback and a robust mechanism to resolve grievances help overcome operational issues.

A prompt and efficient mechanism to resolve grievances is essential to the success of a social welfare program. An effective mechanism to resolve grievances is one that is accessible at the local level and through which the program can be improved continuously while also facilitating iterative design improvements. The mechanism should also have a tracking system to record complaints and ensure that their status is updated to show that they have been addressed or escalated, if necessary.

4 A dedicated communication and change management protocol for key stakeholders was critical to the success of the pilot

One of the key reasons the pilot failed to take off in Nagri was due to the lack of devoted efforts in communication and change management from the Food Department. Handholding of the beneficiaries and FPS retailers would have ensured that they understood the new systems and were able to follow the processes. Systematic changes to an already established process require time, as stakeholders involved have individual adoption rates. Despite the fact that the state government took adequate steps to train and educate FPS dealers on the new system, they did not allow them enough time to adapt to the new processes. The department instead followed a "short-burst communication campaign [17]" rather than a consistent, thorough long-term approach. This led to a lack of clarity and confusion among stakeholders, including personnel from the food department.

[17] A short-burst communication campaign is a quick official meeting with the FPS dealers to notify them of the new processes.



5 Incentivizing stakeholders is key to the design of a successful pilot.

A sustainable incentive structure in the government-to-person delivery processes—either financial or non-financial—helps stakeholders adopt new processes and systems. A few enabling factors help overcome the reluctance to change and facilitates the smooth implementation of these processes. These factors include financial incentives in the form of better commission structures for the FPS dealers, non-financial incentives in the form of improved scheme features for beneficiaries, and efficient processes for the government officials.

Policymakers must realize that FPS dealers are integral to the last-mile delivery of food rations, and should take special care to recognize how new policies could cause disruptions. In cases where they anticipate a decrease in commissions or extra burdens on some stakeholders, as with the Nagri pilot, they need to make efforts to compensate them. For instance, FPS dealers should have the opportunity to become BC to earn additional commissions and offer banking services to their beneficiaries closer to their homes.

6 The time is ripe to experiment with a nutrition-centric approach and move away from an availability-based approach

In our study, almost all the interviewed households clearly communicated that they would prefer the inclusion of wheat and pulses in their nutrition basket besides rice, which the government currently provides. We also found that PDS satisfies approximately 40% of a household's monthly requirement of food grain consumption, yet the populace at large suffers from a substantial deficiency in macronutrients and micronutrients. If we consider micronutrients, such as calcium, and iron—households meet less than 50% of the recommended dietary allowance as per MSC's study.

The lack of nutrition highlighted a need to transition from food security to nutritional security. With the implementation of NFSA, households are now food secure as PDS has ensured that eligible households receive food grains. However, the PDS system does not sufficiently contribute to the nutritional content of meals in beneficiary households. These households must buy other essential grains, such as pulses and other nutrition-rich items in the open market, which results in a financial burden on the exchequer.

Conclusion

The Nagri pilot was an innovative approach to deliver food grains to beneficiaries under TPDS. The main change instituted in the pilot was that the beneficiary would receive an amount equal to a family's total food subsidy entitlement in their bank account. The rationale for the pilot was primarily to reduce quantity fraud that the ration dealers committed in the system. However, the pilot implementation, which was rushed, was fraught with a number of issues. These included delayed or missed subsidies to beneficiaries, challenges in subsidy withdrawal through the banking system, increased burden on ration dealers, and complications in the process of reconciling the monthly ration.

MSC's evaluation found that the pre-existing ecosystem and available infrastructure of ration delivery were insufficient for this change. Stakeholders at every level faced the burden of extra work and did not receive compensation, which resulted in their reluctance to adopt the new delivery model.

This pilot highlighted weak links within the existing ration delivery system in India and helped the GoI identify the need to strengthen the TPDS and financial inclusion ecosystem before launching innovative pilots as "Nagri" in India.

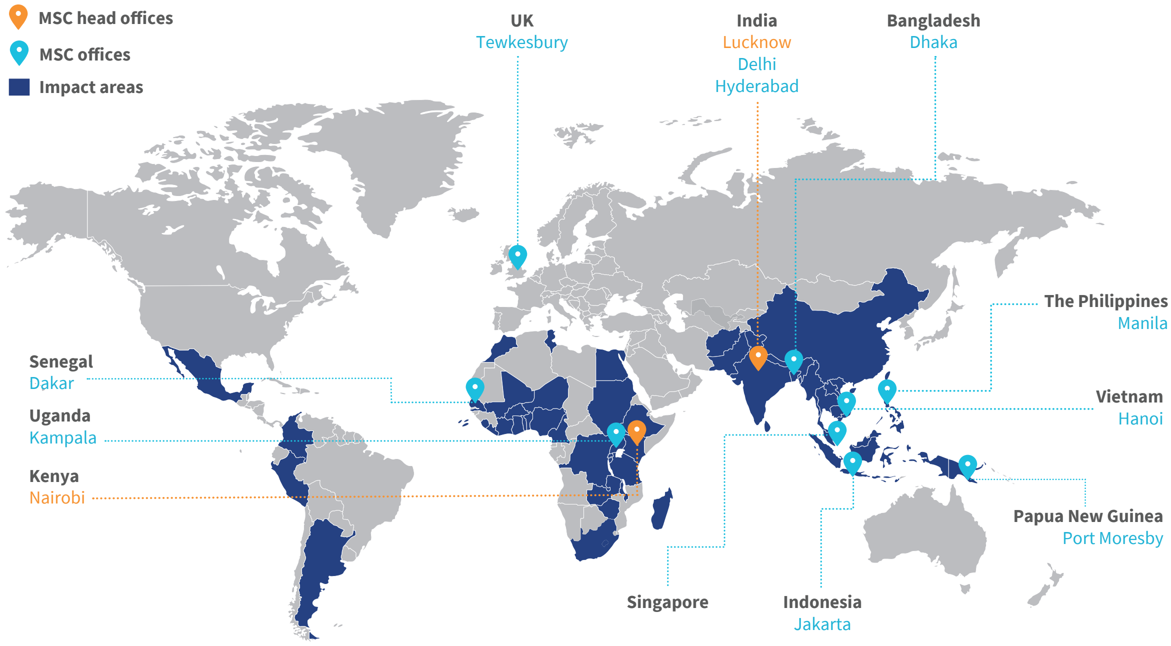
Authors

Anurodh Giri

Ritesh Rautela

Vikram Pratap Sharma

Sneha Sampath



Asia head office

28/35, Ground Floor, Princeton Business Park, 16 Ashok Marg,
Lucknow, Uttar Pradesh, India 226001
Tel : +91-522-228-8783 | Fax : +91-522-406-3773
Email : manoj@microsave.net

Africa head office

Shelter Afrique House, Mamlaka Road, P.O. Box 76436,
Yaya 00508, Nairobi, Kenya
Tel : +25-420-272-4801 | Fax : +25-420-272-0133
Email : anup@microsave.net

www.microsave.net