

Digital Financial Inclusion in India– Phase 3 (DFII-3)

Pillar 1 - Strengthen India's DBT/G2P program

Insights, Impact, and Challenges

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Project overview

- Under DFII-2, we worked with the Government of India to strengthen and evolve the DBT regime, the NPCI, banks, and ANM to strengthen pro-poor payment systems and supported other countries to learn from India's DBT experience.
- However, a few challenges remained, such as payment delays and transaction failures, non-dynamic beneficiary databases, and limited usage of payment platforms.
- To address these challenges, the focus under DFII-3 is on demonstration through two key pillars
 1. Further strengthening India's DBT/G2P program, especially digitized cash transfers
 2. Enabling digital payments to work for the poor and women.

Key outcomes under pillar 1 are:

- Make cash-based DBT efficient, effective, and more beneficiary-centric by reducing payment delays and failures (e.g., cash transfers in UTs), increasing beneficiary centricity of G2P schemes, including a choice architecture and reducing exclusion (e.g., ONORC), and digitized payment flows across areas of G2P subsidy value chains to increase usage of DFS (FPS transformation)
- Support the GoI and state governments to accelerate reforms and initiate policy dialogues and movement from in-kind to cash (e.g., in fertilizers and the PDS)

Stakeholders and Geographies

Key stakeholders

- Department of Food and Public Distribution, GoI
- Union territory governments of Chandigarh, Puducherry, and Dadra and Nagar Haveli
- State governments of U.P. and Rajasthan
- Multiple state and union territory governments for ONORC, PMGKAY, and other initiatives
- Ministry of Skill Development and Entrepreneurship
- Small Industries Development Bank of India
- Ministry of Housing and Urban Affairs (PM SVANidhi)
- DBT Missions (DBT gender study and G20 support)
- CSC-SPV, NPCI, PFMS, and NIC
- Open Network for Digital Commerce
- Migrants Resilience Collaborative and Jan Sahas

Geographical areas

- Chandigarh, Puducherry, and Dadra, and Nagar Haveli for cash transfers in the PDS
- Ghaziabad (U.P.) and Jaipur (Rajasthan) for 'nutrition hubs'
- Across states with CSC-SPV for FPS transformation

Project Outcomes Achieved (incl WIP)

Project name	Outputs/ outcomes
Cash transfers in the PDS in three UTs	<ol style="list-style-type: none"> 1. Payment failures reduced from 5% in 2019-20 to <2% in 2023-24 2. Automation of end-to-end payment through the Subsidy Claim and Advances 2.0 portal would reduce TAT from 45-60 days to < 1 month (as per SOP)
ONORC	ONORC transactions increased from 1.8 million in April 2022 to 2.8 million in Aug 2024.
DBT's effect on women's economic empowerment	<ol style="list-style-type: none"> 1. DBT mission presented the findings in a side event during the G20 presidency 2. Coverage in a peer-reviewed journal (Economics and Political Weekly) and leading national newspaper (Hindustan Times)
DBT Mission	<ol style="list-style-type: none"> 1. India's DBT journey and its impact on reducing leakages and corruption- G20 event
Digital payments ecosystem of street vendors (PM SVANidhi)	<ol style="list-style-type: none"> 1. 30 million transactions amounting to USD 3.3 billion by street vendors each month 2. ~52% beneficiaries conducting digital transactions (against ~39% for the all SVs) 3. Improved repayment discipline and demand for varied credit products
FPS transformation: 'National Conference' and ' <i>chintan shivir</i> ' paving way for the FPS transformation initiative	
FPS transformation (CSC-SPV & ONDC)	<ol style="list-style-type: none"> 1. No, of FPSs providing financial and non-financial services – 10,000 2. ~79,000 no. of transactions per month valued at USD 400,000
Nutrition hubs (Jan Poshan Kendra)	<ol style="list-style-type: none"> 1. Pilot in 30 FPSs (15 each in Jaipur and Ghaziabad) 2. Working capital loans to FPSs by SIDBI through invoice financing, onboarded B2B aggregators and capacity building and skills training through MSDE 3. Gross income in the first month- ~USD 50 per FPS (~INR 4,000)

Key Learnings and Insights

Things that worked

- Coordinated efforts among different stakeholders helped decrease transaction failure cases in cash transfers in UTs
- Well-planned communication design and its implementation helped uptake of ONORC transactions, particularly intra-state transactions, eventually improving beneficiaries' lifting experience

Challenges

- Last-mile delivery channels (FPSs) continue to face challenges in diversifying their income. For example, low brand recognition and market penetration of ONDC affect dealer visibility on the ONDC platform and high competition from the existing BC agent network
- Access to credit and capacity building of FPSs
- Handholding support to FPSs for effective implementation

What could have been done differently?

- Greater collaborations among implementation partners (FPSs as CSCs)
- Improved engagement with government stakeholders and regulators to drive policies around transaction failures and product design for vulnerable segments

Opportunities for collaboration

- Better utilization of government bulk distribution channels such as FPSs, CSCs, etc., to improve access to financial services, especially in remote areas.
- Enabling government bulk distribution channels as multi-purpose last-mile delivery points through bundling of products and services. This will not only improve the channel's financial viability but also provide a range of products and services to citizens, such as CSCs providing both financial (banking) and non-financial services (G2C).
- Government bulk channels' access to credit and capacity building/ skills need improvement to enable them to serve as multi-purpose last-mile delivery points. The channel also requires handholding support in the initial phase.
- Government programs such as PM SVANidhi, PM Vishwakarma, MUDRA, etc., can enable access to credit for micro-enterprises as it did for financial inclusion through DBT and G2P programs. Coordinated efforts are required to improve access and use of these programs.

Team Information

Mitul Thapliyal is a Senior Partner and heads the Government and Social Impact domain at MSC. He works with governments, philanthropies, multilateral institutions, and private institutions to design, optimize, and implement public policies and programs across Asia and Africa. His work areas include digital governance, digital public infrastructure, public finance, state capacity, innovation, south-south cooperation, nutrition, social protection, climate change, and energy.



Ritesh Rautela is a Senior Manager in MSC's Government and Social Impact (GSI) domain in India. He has more than 15 years of experience in management consulting, G2P programs and payment systems, banking, branchless banking, digital financial services, social protection, agriculture, financial inclusion, and financial literacy. Currently, he leads the social protection practice at MSC.



Noel Johns is a Manager in MSC's GSI domain. He is a development professional with more than eight years of experience gained through projects with nonprofits and policy think tanks. His areas of expertise include public policy, legislative research and advocacy, and project management. Currently, he leads the work with the Department of Food and Public Distribution.

