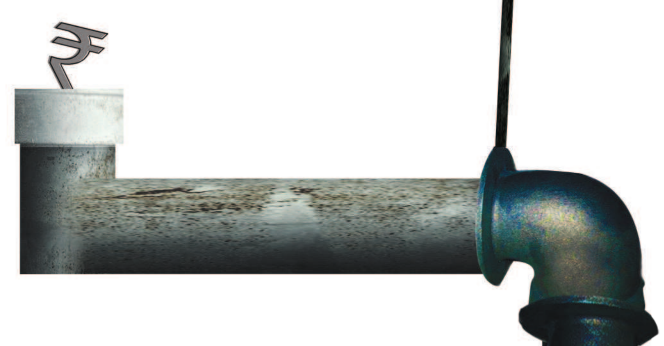

For all the Congress' proclamations, cash transfers may not be a vote-catcher for it in elections 2014. Cash transfers fumbled in implementation in the six districts of Rajasthan where it was launched and where the Congress was routed. Even elsewhere in the country, cash transfers is fumbling for the same set of reasons, reports **Akshay Deshmane**

"We have also created the right to identity so that your money reaches you directly. It is the largest anti-corruption platform that anyone has ever built. It will enable people to get their benefits and entitlements without paying a bribe."
—Rahul Gandhi, addressing the Congress Party, on January 17

In time, the Congress' leader-in-waiting might be proven right. But for now, his government's big push on moving welfare entitlements directly into the bank accounts of beneficiaries, a weapon it unveiled in a small tehsil in Rajasthan in October 2012 to make an electoral offensive, is beginning to resemble a double-edged sword.

Direct benefit transfer (DBT) was one of the factors intended to rescue the party in the Rajasthan elections, held last December, but that does not seem to have happened. In the three Rajasthan districts where it launched DBT on January 1, 2013, or 11 months before the state went to polls, the Congress won just two out of the 27 seats on offer. If the experience of Rajasthan is anything to go by, a similar poor return of electoral capital from DBT awaits the Congress elsewhere.

The implementation problems that blunted DBT in Rajasthan, the original laboratory, are endemic across the country. "The benefits never reached the people," says Raghuvir Singh Meena, the Congress MP from Udaipur, of the experience of DBT in and around his constituency, which sends eight legislators to the Rajasthan assembly.

The benefits are not going down either in the rest of the country—DBT is currently being implemented in 121 districts in all—in the scale and sweep, or within the timelines, the Congress had envisioned. A senior Central government official working on rural development, not wanting to be named, agrees with the premise of cash transfers, but is critical of the way it is being implemented. "There was an unseemly hurry," he says. "It was a big mistake to set these deadlines, when it was clear that the supporting factors were not in place."

Incomplete Linkages

The DBT process is essentially an assembly of two parts. The first part is the Aadhaar number, being issued by the Unique Identification Authority of India (UIDAI) to every Indian. According to the 10-year progress report of the UPA, released at the prime minister's press conference earlier this month, 510 million Aadhaar numbers had been issued, but this has not necessarily cover all beneficiaries of welfare schemes. In Rajasthan, for example, the Aadhaar enrolment is 62%. "You and I do not need Aadhaar numbers," says the Central government official . "The people working on NREGA do. For them, it is transformational."

In the direct benefit transfer rollout, various arms of the government are not moving together

The second piece is the linkage of an Aadhaar number to a bank account number, which is the job of banks. So far, according to the same UPA progress report, only 40 million bank accounts had been seeded with this number. This leaves a lot of beneficiaries in the cracks.

The three districts where DBT was launched in Rajasthan—Ajmer, Alwar and Udaipur—shows the adverse impact of this incompleteness. Of the 325,590 registered beneficiaries present in these three districts, only 31% had an Aadhaar number and only 12% received DBT.

Dudu tehsil, in Jaipur district, was where the Congress, in a rally attended by all its top leaders, sounded the poll bugle. "Dudu was never the first choice for unveiling DBT," says a Jaipur-based state government official involved in planning and implementing the unveiling ceremony, not wanting to be named. "We had said Kheroda in Udaipur is the most favourable place, keeping in mind various things such as administrative preparedness for organising an event of that scale, Aadhaar enrolments status, number of beneficiaries, etc. Dudu was given only as an alternate option."

This official terms the choice of Dudu as a "political decision". Members of the Rajasthan Congress cite the influence Babulal Nagar, the MLA from Dudu then, had with Ashok Gehlot, the then chief minister. Before he was disgraced and imprisoned on charges of rape, in October 2013, Nagar was an important Congress leader representing the Scheduled Castes.

But, says the state official quoted earlier: "Dudu, as well as Jaipur district, do not have a particularly good Aadhaar coverage. At 61%, it has slightly improved in Aadhaar lately. But in 2012, it had not." In the assembly elections, the Congress fielded Nagar's brother Hazarilal Nagar, who lost to the BJP candidate by 33,720 votes.

Weak Coordination

According to an official of a bank involved in DBT implementation in Jaipur district, not wanting to be named, the initial plan was to implement all welfare schemes via DBT. "It could not be done because there was a paucity of data about the schemes—for instance, the list of beneficiaries in scholarship schemes were not fully available," he says. "The seeding with bank accounts had also not been done."

Sujata Chaturvedi, deputy director (northern region) of UIDAI, finds the data claim absurd. "I do not believe that there can be no lists available," she says. "Before DBT, the schemes were being implemented by conventional methods. For their implementation, some lists will obviously have been needed, even if some of them could be not genuine."

Of the 325,590 registered beneficiaries in three Rajasthan districts, only 31% had an Aadhaar and only 12% received DBT

In Rajasthan, where three more districts were added from July 1, 2013 (Jhunjhunu, Pali and Kota), a decision was taken to implement DBT for LPG cylinder sales, the reasoning being that it would compel people to obtain Aadhaar numbers. "However, even the DBT scheme for LPG seems to be facing too many roadblocks, with the gas agencies, government departments and banks not coordinating well," the bank official says.

A senior UIDAI official who has a pulse on the all-India picture on DBTs says, on the condition of anonymity, that the problem is various arms of the government are not aligned in the DBT rollout. "The principal secretaries of all welfare schemes running ministries resisted DBT implementation during its rollout," he says. "When the DBT division of the Planning Commission spoke with district collectors directly and got the list of beneficiaries, the secretaries of ministries refused to own up to the data. They did not cooperate in implementation."

Similarly, there were different issues with different states, this official adds. For instance, Andhra Pradesh, one of the states with high Aadhaar coverage (65%), refused to cooperate in implementation as it already had a system of electronic transfer in place that functioned well. In Rajasthan, when former chief minister Gehlot expanded the ambit of the health and pension schemes, he did not opt for the DBT route.

Last-Mile Issues

There have been other problems. "Seeding went too slowly," says the Central government official. "There are problems with the last mile. The banking correspondent model has serious problems. It was also a mistake to make Aadhaar mandatory even when everyone did not have it."

In schemes were DBT was being used, the patchy coverage in Rajasthan hurt. "Due to illiteracy, many people could not obtain their Aadhaar cards and welfare benefits promised to them via DBT by visiting banks or post offices, where they faced a lot of red tape," says Meena, the Udaipur MP. "Since it was promoted so much, the promise and hope created by Aadhaar among Adivasis was belied and, among other reasons, it has added to a lot of discontent against the party and its government."

"One day, everyone will be happy that they did this," says the Central government official of DBT. "In that sense, all this hurry has done some good as well. The creation of new architecture for welfare delivery has speeded up. We see that in the rate at which broadband has reached panchayats, in the acceleration of financial inclusion into rural India." For now, though, cash transfers are struggling for direction, and are unlikely to result in vote transfer for the party that took ownership of the idea but not its implementation.

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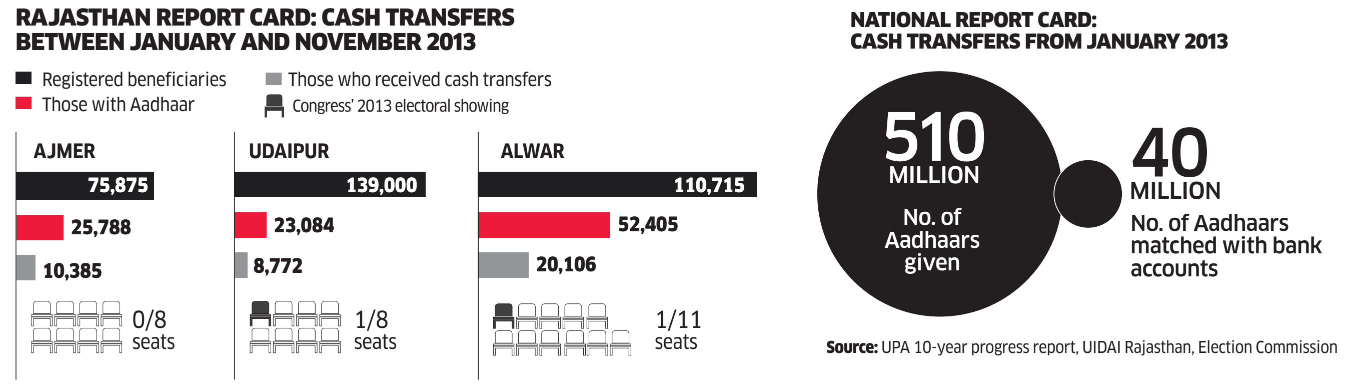
With inputs from M Rajshekhar

Money Not in the Hands

Direct benefit transfer needs Aadhaar numbers, and these to be seeded with bank accounts. There are gaps in both



Source: UPA 10-year progress report, UIDAI Rajasthan, Election Commission

Social Businesses: Using Equity for Impact

It connects philanthropic monies with social enterprises wary of commercial capital. Now, with a financial innovation, RangDe is looking to scale up, drawing the best from for-profits and from NGOs, reports **Naren Karunakaran**

The Middle Ground

Today, there are 2 routes adopted by entrepreneurs in the social space. The RangDe way seeks to promote a third way: a social business that has the rigour and accountability of for-profits, and the commitment to a cause inherent in NGOs.

Structuring

FOR-PROFIT	NOT-FOR-PROFIT
Registered as a private limited company and functions like any other business	Registered usually as trusts or societies

Funding

FOR-PROFIT	NOT-FOR-PROFIT
• Offers Equity • Raise debt	Grants and donations

Funding outcomes

FOR-PROFIT

- Pursuit of scale and profits
- Impact is considered a given. Lot of talk, but little thought or effort about measuring and reporting true impact
- Unforgiving nature of capital: leaves little scope for manoeuvre; for entrepreneur to explore, learn, make mistakes and correct course
- Investor obsession with valuation and exit can be detrimental
- On rare occasions, promoter is sidelined by investors

NOT-FOR-PROFIT

- Impact directly related to funding available
- Impact peaks with infusion of project money; organisation remains anaemic
- Mission and objectives often changed or tweaked to suit funders of the day
- Transparency, accountability and efficiency issues
- Scale thus always remains a challenge
- No focus on sustainability

JUST AS A DISRUPTIVE MODEL IS beginning to sear through the politics of the country, an organisational innovation in the social sector has burst through the old order, threatening to churn impact investing and philanthropy as it is practised today. A not-for-profit company, infused with the commitment and passion of jholawala NGOs and adorned by the rigour and trappings of a true-blue business entity, is inviting equity investments from donors-investors with the promise of returning their principal anytime they want after two years.

The company—valued at a bold Rs 50 crore on the basis of social performance metrics, something unheard of in the non-profit sector—also offers quarterly audits and guidance on impact and sustainability akin to any publicly listed company. The idea is to channel growth capital to social businesses without saddling them with the negatives often associated with commercial capital focused sharply on profits.

It's already causing a flutter in impact investing and social sectors, evoking a range of reactions—spirited, gung-ho support, wait-and-watch, studied indifference. Yet, the consensus is that it is a ground-breaking experiment in disruptive innovation. "There is this huge middle-ground between for-profit social enterprises and traditional NGOs which has been missed," says Ramakrishna NK, co-founder and CEO of RangDe. "Ours will be a new class of business; a possible game-changer."

Changing Form To Scale Up

RangDe is an online microfinance lending platform that connects lenders to small entrepreneurs, and manages the ecosystem around it. It has been around for six years; in its formative years, it was mentored and supported by Nachiket Mor, then with the ICICI Foundation. It's been a participant and witness to the evolution of the Indian social sector as a traditional trust.

Only now, given the exigencies and the urge to scale, it has emerged in a new avatar: a Section 25 not-for-profit company under the Companies Act, which can offer equity, raise debt and also accept grants. While Section 25 companies abound, RangDe offers a new take on positioning a not-for-profit, raising funds, scaling and running a business, without losing sight of the underprivileged communities it serves. It is raising Rs 5 crore, 10% of its valuation, by offering 2,000 shares with a face value of Rs 10 at a premium of Rs 24,990 each.

It is soliciting philanthropic money as equity in the company with the assurance that donors-investors, if they so desire, can take back the entire principal, after a lock-in period. The excess generated on exit of an investor and entry of a new one, resulting from improved valuation of the company having met its milestones, is to be ploughed back into RangDe. "Imagine the excitement it can create when we return the amount," says Ramakrishna. Recycling of money happens. The amount can be channelled into some other social enterprise.

"The accent is on how efficiently you are using money," says Shekhar Kirani, partner at the India office of Accel Partners, a venture and growth equity firm involved with category-defining technology companies like Facebook, Dropbox, Angry Birds, BookMyShow and Flipkart. Kirani, a former country manager of VeriSign India, is handholding RangDe in refining its business model, in his personal capacity.

Preserving Social Businesses

The refurbished RangDe draws on the tenets of 'social business' as propounded by Nobel laureate Muhammad Yunus: a non-loss, non-dividend company focused exclusively on delivering social benefits. "For me, as a social entrepreneur, impact comes first, and then returns," says Ramakrishna, who is not impressed by the community of impact investors that now abound and the nebulous nature of the impact claimed.

Yunus often explains his model of social business: "When profit and human needs conflict, profit generally wins…social business is about making a complete sacrifice of financial reward from business; it's about total delinking from the old frameworks of business." It doesn't mean social businesses are not allowed to make profits; they can, as long as it stays within the company.

Ramakrishna and his wife Smita, co-founder of RangDe, are now building on this flexibility available to them after spending years shying away from impact capital, even as many social entrepreneurs recast their models as for-profit private limited companies to attract commercial capital.

The couple wanted to escape the suffocating strings and sins of so-called impact capital. The effort, importantly, was also to retain the "freedom and space" to learn, unlearn, and evolve without compromising on core values. "It took us six years to merely figure out whether our model is working; which impact investor would have the patience to wait so long," asks Smita, alluding to the short timelines of impact investors who, in the pursuit of scale and profit, give little thought about what it does to the entrepreneur, the organisation or the communities they serve.

RangDe's innovation involves raising equity and using social returns as a valuation driver

"Several social entrepreneurs I know are under tremendous pressure, even staring at 'existential questions', as they see their models being pulverised by impact investors," says Ramakrishna who left a high-paying IT consultant job in the UK for microfinance. As witness to the dilemmas of social entrepreneurs, he would like to catalyse half a dozen social businesses in his mould and is talking with like-minded entrepreneurs.

Measuring Impact

Mission drift is becoming a key concern in the social sector. Vineet Rai of Aavishkaar, one of the pioneer impact investors, concedes the impact investing sector is in tumult, and that the expectations of the sector are all muddled and awry. He and several others have therefore catalysed the Indian Impact Investors Council (IIIC) to self-regulate, do some clean-up, and accord a sense of order and sanity in the space. "Creating the right metrics of measuring impact is going to be long drawn and difficult," he says.

While crafting his model, Ramakrishna and his cohorts, in fact, debated long and hard on impact metrics. Is it the amount of loans disbursed, empowerment of women, or rising income levels of borrowers? It was then narrowed down to numbers of 'first-time borrowers', untouched by institutional finance. This component then found its way into the computation of valuation.

However, valuation in this context is just a totem pole. People like Kirani advised Ramakrishna to get the product right as a priority and build efficiencies: how to lower costs per loan, minimise defaults, enhance communication channels and reporting mechanisms with online investors, and also improving the company's technology backbone. "It's imperative for Ram to start thinking like a product company," says Kirani.

Shobha Punukollu, a Singapore-based former banker and one of the first to pick up equity in the new RangDe, roots for the innovative concept and the fact that the company has been able to hold low interest rates to bottom-of-the-pyramid borrowers. RangDe's annual percentage rate is 15.3 % — microfinance companies charge around 26 %.

Punukollu has invested in RangDe to see it scale up. With several investments in for-profit social enterprises, she feels this is the biggest challenge for companies in the space. "Building of human capital is also critical," she says. Punukollu is also keen that Ramakrishna shore up his marketing skills.

Right now, along with fund-raising, the focus is to attract the right kind of people on the company board—who will ask tough questions and uphold the spirit of innovation that underlines this new animal in the Indian social sector.

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