



Building state capacity

MSC (MicroSave Consulting)

The world's local expert in financial, economic, and social inclusion in the digital age

June 2022

We are MSC

The world’s local expert in social, financial, and economic inclusion

- MSC is a boutique consulting company that drives financial, economic, and social inclusion by partnering with participants in digital ecosystems.
- We work with our clients and partners across the globe to achieve sustainable performance improvements and unlock enduring value.
- With our support, you can seize the digital opportunity, address the mass market, and future-proof your operations.



International financial, social, and economic inclusion consulting firm with **20+** years of experience



180+ multilingual staff in **11** offices around the world



Projects in **~65** developing countries

550+
clients

Over 850
publications

Helped develop digital G2P services used by
875 million+
people

Implemented
>850 DFS projects

275+ financial inclusion
products and channels that
55 million+ people
now use

Trained 9,000+
leading financial inclusion
specialists globally

Sectors we work in

Providing impact-oriented business consulting services

MSC has a strong reputation for high-quality work with a wide range of institutions. Over the past 20 years, we managed 3,500-plus projects in more than 65 developing countries. Our experts come from various fields and can help you gain the critical edge in a competitive market.



Banking, financial
services, and
insurance (BFSI)



Water, sanitation,
and hygiene (WASH)



Government and
regulators



Micro, small,
and medium
enterprise (MSME)



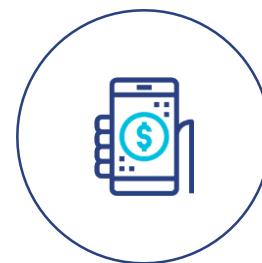
Social payments
and refugees



Gender and
youth



Education
and skills



Digital and
FinTech



Agriculture

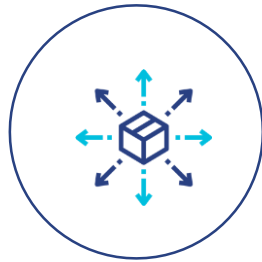
Multifaceted expertise

Advisory that helps you succeed in a rapidly evolving market

MSC helps you gain a deep understanding of your clients, their needs, aspirations, perceptions, and behavior. We leverage the opportunities of the digital age to help you create a better, more efficient, and profitable business that focuses on your customers and markets.



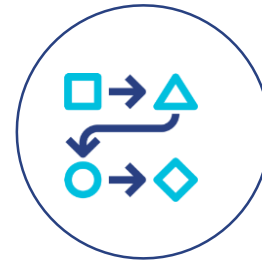
Policy and strategy



Products and channels



Research and analytics



Organizational transformation



Digital technology and channels



Design thinking and innovation



Marketing and communication



Training



Government and regulations and policy



Data Insights

Our clients and partners

We work with a range of organizations to build enduring change

Our clients and partners include influencers and decision-makers among financial service providers. We also work with governments and other groups that contribute to financial inclusion.





Building state capacity

Challenges and solutions

Weak state capacity has a direct and lasting impact on the lives of citizens across the globe

Globally, states have advanced in many ways. Yet, even the wealthiest states often struggle with achieving basic developmental outcomes. Economic prosperity and growth has not translated into improving basic services, such as health, education and infrastructure, deterring citizens from accessing quality and timely public services. Weak state capacity calls for innovations to improve resource utilization.



What does weak state capacity look like in India?

Over the decades, the Indian State's execution of its policy priorities has been a mixed bag. On the one hand, it is close to achieving near-universal bank account penetration and has rolled out complex programs, such as the Goods and Service Tax. Yet, severe deficits continue to plague governance capacities in areas like infrastructure, waste management, health, and education services.



Weak state capacity manifests in middling outcomes in critical areas, such as health, education, and infrastructure

Lack of access to quality public health services



Lack of urban Infrastructure



Poor infrastructure in schools



We must shift our focus to the individual bureaucrat and probe the binding constraints on their performance to spot systemic issues underlying common state capacity challenges

Some common state capacity challenges

Finance related issues

- ▶ Unpaid dues
- ▶ Idle funds or float
- ▶ Vendor payments

Process related issues

- ▶ Poor contract management
- ▶ Errors in beneficiary targeting
- ▶ Lack of interdepartmental coordination
- ▶ Inefficient workflows
- ▶ Poor data management

People related issues

- ▶ Understaffing
- ▶ Lack of incentive alignment for officials
- ▶ Lack of performance management



Systemic Issues leading to suboptimal outcomes

The State suffers from systemic pathologies. Unless these are addressed, it is difficult to break the vicious cycle that keeps producing suboptimal outcomes, such as poor learning outcomes and low-quality health infrastructure



Empowering the individual bureaucrat

An effective approach to diagnosing challenges in such a complex system is to start with the individual bureaucrat at the heart of the administrative machinery. The approach must then seek ways to foster an environment where bureaucrats are empowered and motivated to perform their functions.

The most common binding constraints for bureaucrats are friction in payment, administrative burden, and low accountability



Removing the constraints to perform

The most common obstructions fall within three broad categories: **impediments in the public finance architecture**, the **high administrative burden** shouldered by officials, and the limited mechanisms for effective scrutiny and feedback, which lead to **low accountability**.



Friction in payments

Friction and delays between the government and another government agency (G2G), the government and a vendor (G2B), or the government and citizens (G2P)



Administrative burden

High administrative burden of repeated data collection, reporting, and reconciliation

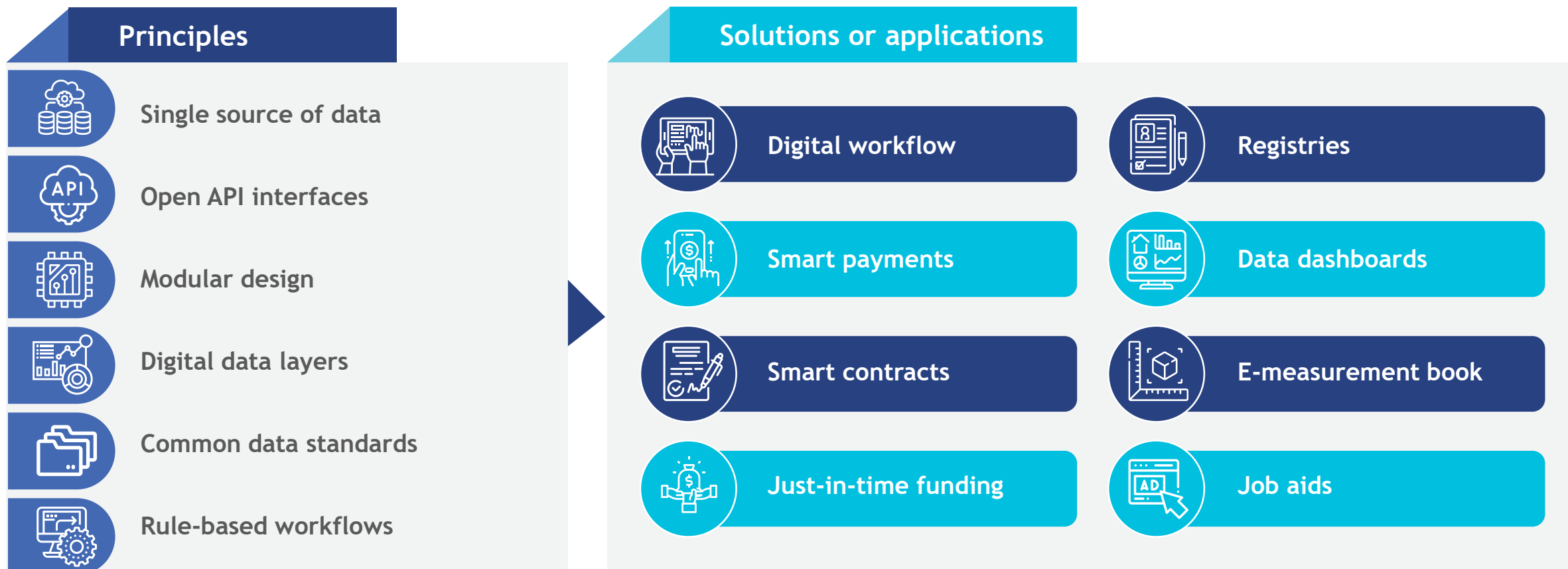


Low accountability of staff

Low accountability of the frontline workforce and lack of traceability in decision making

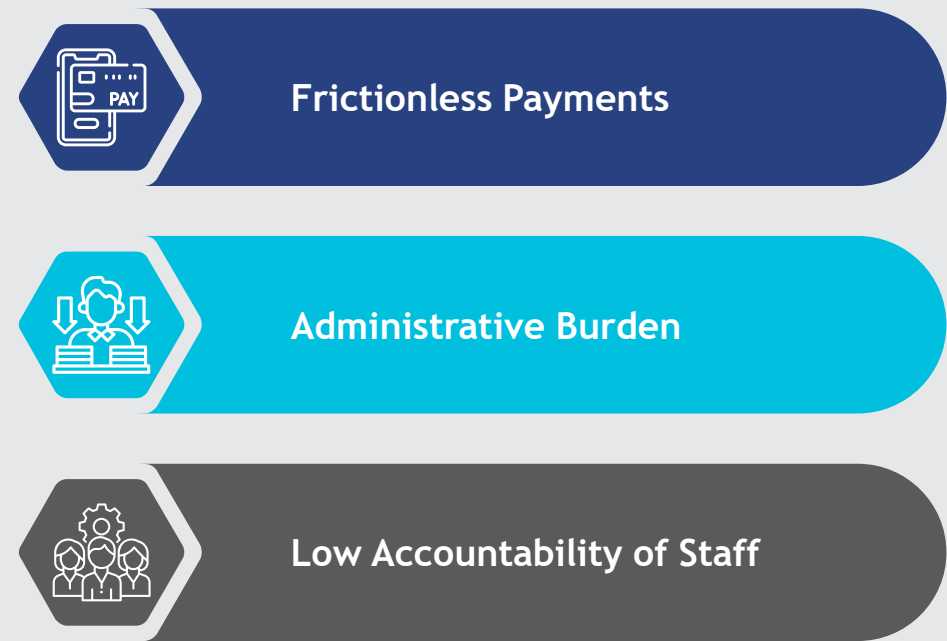
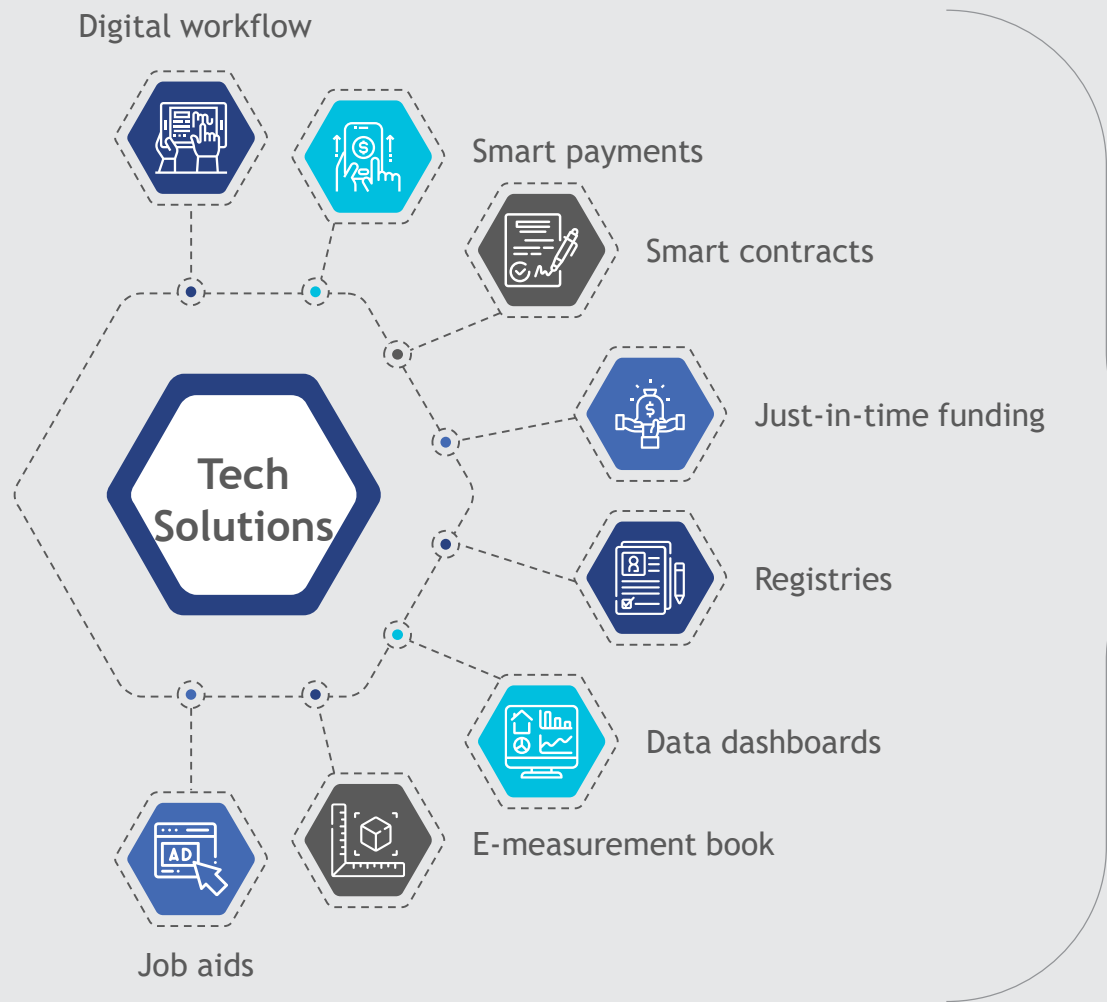
The question then is, how can we remove these binding constraints so that bureaucrats are empowered and motivated to carry out their functions?

- MSC designs specific technology solutions that solve for state capacity challenges, as explained in the earlier slides.
- These tech solutions are based on some commonly understood digital principles.
- These solutions have a direct impact on removing binding constraints that bureaucrats grapple with



The technology solutions will lead to lowering administrative burden, enabling frictionless payments and increasing accountability, resulting in improved state capacity

Solutions or applications



MSC is applying some of these digital tools and principles in solving two common state capacity challenges, that impacts government spending- unspent funds and unpaid dues

THE ECONOMIC TIMES | Rise

English Edition | 27 June, 2022, 05:17 PM IST | Print Edition

About Rs 10.7-lakh-crore stuck in delayed payments to MSMEs, amounting to 6% of India's GVA

Approximately USD 133.7 billion is stuck as delayed payments to MSMEs in India, amounting to 6% of India's gross value added (GVA) for FY 2020-21.



In its assessment of PMGSY, MSC observed that the unspent balance for the scheme in FY 19-20 was USD 2.3 billion, which was nearly 20% of the total outlay.

Nigeria: ICPC Recovers N189 Billion Unspent Wages By MDAs



Leadership (Abuja)

By Adebisi Adedapo

16 FEBRUARY 2022

Independent Corrupt Practices and Other Related Offences Commission (ICPC) yesterday disclosed that it mopped-up N189 billion unspent wages from ministries, agencies and departments (MDAs) in 2019 and 2020.

This is just as the House of Representatives' joint committee on Anti-Corruption and Public Service Matters summoned all heads of federal MDAs to appear before it on allegations of corruption and bloated nominal rolls.

The chairman of the ICPC, Prof. Bolaji Owasanoye, who was represented by a consultant, Mr Bako Gad, said, "The ICPC has by virtue of sections B, C and D of our enabling Act been conducting a wide range of investigations to uncover acts of corrupt practices in our MDAs and more.

The Independent Corrupt Practices and Other Related Offences Commission (ICPC) disclosed that it mopped up INR 189 billion in unspent wages from ministries, agencies and departments in 2019 and 2020.

Source: The Economic Times, May 9, 2022

Source: all Africa, 16 February, 2022

MSC designed the just-in-time funding and smart payments solution to address the issue of unspent funds or float and unpaid dues



JIT-FS

A solution for unspent funds or float



What is it?

- A system of fund transfer that is real-time, need-based, and allows pull-based transfer of funds from the consolidated fund to the end beneficiary or implementing agency



Components

- A virtual treasury single account that enables creating virtual spending limits like a credit card instead of actual fund transfer
- Allows onboarding of spending units
- Permits machine-to-machine exchange of payment requests and status with PFMS
- Generates utilization certificates



Impact

- Prevents idle funds in accounts
- Allows observability of funds
- Allows the movement of funds from sites of plenty to scarcity
- Reduces the fiscal burden on the State



Smart payments

A solution for unpaid dues



What is it?

- Payment contracts that self execute when certain predefined conditions are fulfilled



Components

- A single registry that manages the payer and payee profile
- A business rules engine where rules are configured and payment conditions validated
- A payments engine with an entitlement calculator and a “decision-to-pay” trigger



Impact

- Removes non-value-adding discretion
- Decreases the administrative burden
- Sharpens the locus of accountability

MSC has also provided thought leadership on reforming public expenditure in India

01

Influencing policy discourse

MSC has actively socialized PFM ideas and digital solutions among government stakeholders. Terminology, such as just-in-time funding and smart payments have now become common knowledge in the sector.



02

Creating a community of practice

MSC has worked on building influencers to champion PFM reforms as well as technology partners who work on building the IT solutions that MSC designs.



03

Knowledge building

Through pilot implementation and research, MSC has built various products, such as the PFM Readiness Index, Smart Payments Playbook, and prototypes of solutions. We also conduct training sessions for government officials.



MSC participated in a conference hosted by George Washington University and the Bill & Melinda Gates Foundation, where our team spoke on mainstreaming digitalization of public expenditure in India.

MSC's focused efforts on socializing digital PFM principles are leading to broader uptake of digital tools to improve the efficiency of public expenditure

 **FINANCIAL EXPRESS**
Read to Lead

FM Sitharaman: SNA dashboard to make governance more transparent

India's Finance Minister Nirmala Sitharaman iterated that the Single Nodal Agency (SNA) dashboard, which ensures tracking of fund transfer to states and its utilization, will make governance more transparent and realize better value for every Rupee sent by the center.

July 7, 2022



Digitizing social welfare benefits to make them more accessible

By using the SSOD concept in the One Nation, One Ration Card (ONORC) program, India has created a good data management and governance model while providing portability of services across geographical barriers.

September 30, 2021



Managing Public Expenditure Needs a Digital Boost

Disparate data systems need to “talk to each other.” This will require an approach that integrates digital principles with PFM principles. These integrated “Digital PFM (DPFM) principles” can transform the PFM ecosystem and improve governance outcomes.

March 9, 2022

 **BusinessLine**

Digitizing public finance architecture is the need of the hour

Timely payments, specifically, are critical for public service delivery. It is a significant incentive for private businesses to participate in government projects or for individuals to invest their trust in an elected official's ability to get things done.

September 2, 2021



Budget 2022 formulation is expected to have zero unspent money at the end of FY

The Comptroller and Auditor General of India (CAG) had highlighted that INR 4.72 lakh crore (around 60 billion USD) was unspent in the financial year ending 2019. In a period of high fiscal deficits, it is crucial to address this issue through prudent PFM reforms.

February 1, 2022

MSCs is also working with a community of partners that believe in the power of technology to improve state capacity

Governments and multilaterals



Govt. of Odisha,
India



National Rural Infrastructure
Development Agency

National Rural
Infrastructure
Development
Agency, MoRD



Institutional donors and global partners



TATA TRUSTS

Technology partners



Domestic partners and policy specialists or societal platforms



JANAAGRAHA CENTRE FOR CITIZENSHIP & DEMOCRACY





MSC's capabilities and services

Expertise to build state capacity



MSC capabilities (1/3)

Advisory and actions to support the ecosystem

MSC helps solve the state capacity-related challenges faced by governments and implementing agencies by offering a bouquet of services—ranging from consulting and implementation to capacity building



Technical Support
Unit (TSU)



Due diligence



Solution scoping



Solution design



Pilot
implementation



Monitoring and
evaluation to
measure outcomes



Research and
dissemination



Training and
capacity building

MSC capabilities (2/3)



Technical Support Unit (TSU)

- MSC has deep experience in running TSUs within government departments.
- We provide varied support at implementational, operational, and policy levels to improve outcomes.



Due diligence

- MSC specializes in conducting problem diagnostics of government programs and schemes to identify problem areas.
- We used mixed methods to identify bottlenecks in implementation and program design.



Solution scoping

- MSC works on citizen-centric and context-based solutions to ensure best possible solutions by applying technology
- We conduct assessments to identify the strength of existing systems and understand if additional systems need to be built for problem solving.



Solution design

- MSC uses different tools to bring the proposed solution to life through detailed documentation of the functional and system requirements for software applications.
- We develop the necessary documentation (e.g. BRD, URS or FRS) for the IT vendor to design the software.

MSC capabilities (3/3)



Pilot Implementation

- Pilot implementation is critical to verifying that the envisioned solution works as expected.
- We specialize in implementing pilots to identify any glitches that might arise and improve to build scalable models.



Monitoring and evaluation

- Data-driven approaches to monitoring and evaluation are a critical function in validating the outcomes of projects backed by private investors.
- MSC specializes in designing data collection methods and follows an evidence-based approach to generate insights.



Research and dissemination

- We specialize in conducting thematic, sectoral research, and landscaping studies globally. Our research and dissemination focuses on various components of state capacity.
- We curate opinion and editorial pieces to build saliency for state capacity solutions through national media establishments.



Training and capacity building

- We provide training and capacity-building support to governments and implementing agencies at various levels of the federal structure.
- Our efforts support officials responsible for governance to equip them with strategies and tools to achieve impact.

Snapshots: MSC projects

Our impact on state capacity



Signature projects—Infrastructure: Rural roads construction

MSC has designed smart payments and other digital applications to solve for delays in payments to vendors



Our engagement



- The Government of India launched the Pradhan Mantri Gram Sadak Yojana (PMGSY) to provide connectivity to unconnected areas as part of a poverty reduction strategy.
- Its implementation faces many challenges, like construction delays, cost overruns, and underutilization of funds.
- MSC's smart payments solutions will improve scheme delivery and capacity on the ground. The solutions will build transparency across the system by allowing critical decision-makers better observability of data from the sites, traceability of fund flow, and an overview of the scheme performance.

Solutions designed



- E-measurement book
- Single project registry
- Smart payments
- Decision support dashboard

Principles deployed

- Single source of data
- Microservices
- Workflow automation
- Open API interfaces
- Digital data layers

Services provided



- Due diligence
- Solution scoping
- Solution design
- Pilot implementation

Impact

- Improved utilization of funds
- Faster vendor payments
- Effective delivery and implementation of the scheme
- Removal of barriers to private sector participation

Signature projects—Urban wage employment: MUKTA scheme

MSC supports the Government of Odisha in overcoming delays in claim settlement in its flagship urban wage employment scheme, MUKTA



Services provided



- Due diligence
- Solution scoping
- Solution design
- Pilot implementation

Our engagement



- The Government of Odisha has launched the MUKTA scheme to provide employment and weekly wages to the unemployed labor force of the state through self-help groups in small-scale community infrastructure projects.
- The scheme faces challenges in implementation, resulting mainly from delays in settlement of claims and ineffective project management.
- MSC has proposed using digital payment systems as a tool to increase efficiency, enhance transparency, and reduce delays in contract management and fund disbursement processes.

Solutions designed



- Digital workflow
- Rule-based engine and smart payments
- Process automation

Principles deployed

- Single source of data
- Open API Interfaces
- Digital data layers
- Workflow automation

Impact

- Timely payment of dues
- Improved visibility over the implementation
- Better contract management

Signature projects—Education: Grant in aid to special schools

MSC supports the Social Security and Empowerment of Persons with Disabilities (SSEPD) initiative to implement a smart payment system to improve payments to special schools in Odisha



Services provided



- Due diligence
- Solution scoping
- Solution design
- Pilot implementation
- Monitoring and evaluation

Our engagement



- The Social Security and Empowerment of Persons with Disabilities (SSEPD) Department of Government of Odisha has recommended 50 special schools that educate differently-abled children to receive the grant-in-aid from the GOI.
- The scheme has faced challenges in terms of delayed payments of salaries to the teachers due to ineffective fund management and inadequate project monitoring.
- MSC supports the government in implementing the Smart payment solutions. This will be integrated with the government's existing public finance management platforms using Just-in-time funding system.

Solutions designed



- Digital workflows
- Just-in-time funding
- Smart payments

Principles deployed

- Single source of data
- Open API interfaces
- Digital data layers
- Workflow automation

Impact

- Effective delivery and implementation of the scheme
- Timely payments to vendors
- Improved visibility

Signature projects—Finance: Just-in-time funding

MSC supports the Odisha Finance Department in improving fund utilization and visibility of funds



Services provided



- Due diligence
- Solution scoping
- Solution design
- Pilot implementation
- Monitoring and evaluation

Our engagement



- The Odisha government has one of the most advanced treasury management systems in India. However, challenges of manual processing of bills, idle parking of funds, and float in the system persist, which cumulatively lead to suboptimal fund utilization.
- MSC is implementing a just-in-time funding solution for the Finance Department of the Government of Odisha. The solution will ensure that the money owed by the state's implementing agencies to the end beneficiary or the payee in a public project is paid directly from the state's treasury in real-time or near-real-time.

Solutions designed



- Just-in-time funding
- Smart payment
- Digital workflow
- Registries

Principles deployed

- Single source of data
- API interfaces
- Workflow automation

Impact

- Improved visibility on funds across all departments
- Prevention of idle funds outside treasury
- Optimize borrowing costs

Signature projects—Global work: Landscape study

MSC is conducting a landscape study in Nigeria and Uganda to understand PFM-related challenges



Context



- ▼ MSC is keen to explore the challenges in PFM for African nations and explore the potential to replicate lessons from our projects with Indian governments.
- ▼ This exploration will help assess the fitment and relevance of the tools and knowledge products our projects produce in Africa. It will also allow us to adjust our approach, if feasible, to ensure the products generated are relevant across several countries beyond India.
- ▼ Through this study, MSC will generate inputs to shape its PFM and state capacity work-related strategy for African nations.

Services provided



- ▼ Primary and secondary research on PFM, digital ID, interoperability of data and information and institutional structures and processes in Nigeria and Uganda
- ▼ Preparation of a report on findings and recommendations of solutions from the toolkit

Products

PFM readiness index

Index for the assessment of the PFM ecosystem as per PFM principles and standards



Smart payments playbook

The playbook will help practitioners to deploy smart payment solutions to solve for payment challenges in all scenarios—G2G, G2B, and G2P



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Our impact so far

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clients

>1,000
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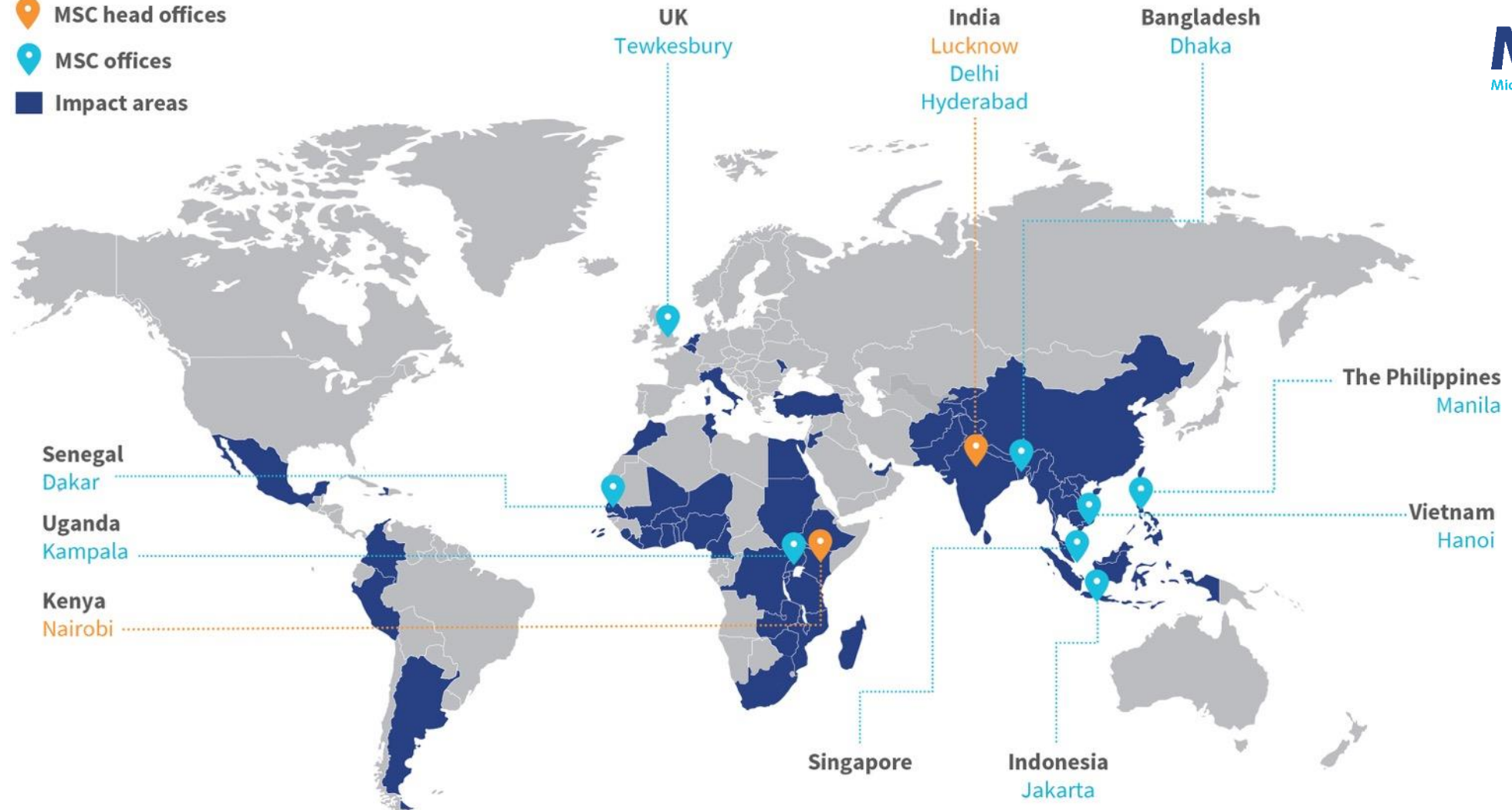
Developed **>275 FI products** and channels now used by **>55 million** people

Trained >10,500 leading FI specialists globally

Some of our partners and clients



- 📍 MSC head offices
- 📍 MSC offices
- Impact areas



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