Rice is a staple food for people in Andhra Pradesh, who buy most of it (70 percent) on the open market and get the balance (30 percent) from the Public Distribution System (PDS).\(^1\) Statistics show that the poor spend a substantial percent of their income on food. For instance, in 2001–02, rural households in Andhra Pradesh devoted an average of 55 percent of their total expenditures to buying food.\(^2\) Those households that lack sufficient income either borrow from money-lenders and traders at very high interest rates, or they eat less. This critical food security gap has implications for the state’s goal of reducing rural poverty.

To address this issue, the Andhra Pradesh District Poverty Initiatives (APDPIP) and the Rural Poverty Reduction Project (APRPRP) have introduced the Rice Credit Line (RCL)—a community managed credit and food distribution mechanism. The community managed RCL program addresses the imperfections of the government sponsored PDS system and the inefficiency of micro-markets—i.e., markets serving the buyers of half kilograms and one kilogram packages. The community through its organization—i.e., SHGs and VOs—mediates between the market and the consumers and eliminates the inefficiencies. The RCL aggregates demand and creates economies of scale through the bulk purchase of food grain so that households can purchase grain at a lower unit cost. It is an innovative financial “credit” product that helps villages purchase food grain, pack and distribute the grain, and recover the outstanding credit which was taken out by the households to purchase the grain. This institutional mechanism makes food accessible to the poorest. Now reaching 1.5 million households, distribution is based on participatory needs assessments and community demand, and communities manage the system.

Social and Economic Mobilization in the Project

The project has mobilized eight million women into about 630,000 self-help groups,\(^3\) covering 90 percent of the poor. These groups have been federated into 28,282 village organizations, 910 sub-district organizations, and 26 district organizations. The poor and their organizations have cumulative savings exceeding US$ 340 million and have leveraged more than US$ 1.2 billion of credit from commercial banks since 2000. Diversification of livelihoods and asset building has increased incomes sevenfold increase.

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\(^1\) Operated by the State-level Civil Supplies Department, PDS provides rationed amounts of basic food items (rice, wheat, sugar, edible oils) and other non food products (kerosene, coal, standard cloth) at below market prices to consumers through a network of fair price shops throughout the country. It is the most far reaching safety net operation in India, in terms of coverage and of public expenditure.


\(^3\) A typical self-help group comprises 10–15 women from the poorest of the poor and the poor. The members meet once a week, collect savings, and maintain books of accounts. The groups are then federated into village organizations.
Livelihoods Learning Series 1, Note No. 4

The social and economic mobilization of community institutions, building strong community institutions and investing in human capital are a necessary pre condition for developing the rice credit line as well as making this activity achieve scale and sustainability. Figure 1 above provides the process at a glance, as well some of the other innovations which have been developed on the foundation of these institutions.

How the RCL System Works

The RCL system uses a bottom-up process to calculate demand. The village organization (VO) is central to the RCL system, anchoring the planning, financing, and procurement and distribution functions.

First, an SHG uses a participatory process to create an SHG micro plan. This calculates the family size, monthly rice requirement, PDS entitlement, and balance of rice needed for each family in the SHG. Based on this assessment, the SHG estimates the total

Figure 1: Community Institutional Arrangements and Mobilization

First 2 Years: Building Social and Financial Capital for the Poor

Accumulate savings, Managing money, Lending within small groups, Accessing credit

Year 2 Onwards: Converting Social Capital into Economic Capital

Creating assets; developing technical, business and management skills
cost of rice for one, three or six months; the repayment period, including the number and size of installments for each household and the interest rate.

Each SHG presents its micro plan at a village meeting, after which, the village organization (VO) aggregates the micro plans into a village plan. The VO presents that plan either to the Mandal Samakhya (a sub-district federation of VO s) or to a commercial bank.

If the Mandal Samakhya or commercial bank approves the application, it then provides a loan to the VO. This is a one-time loan that serves as seed capital to establish funds to continue the RCL system at the village level.

The VO appoints a Food Security Committee, which purchases rice in bulk from the open market and acquires the PDS entitlements for all village inhabitants for a period ranging from one to six months. The village plan specifies the amounts to get from each source. The VO stocks the food at the village level for packing for no more than 24 – 48 hours. It then distributes the packages of rice through the SHGs. SHG members repay the amount to the VO in weekly or monthly installments over the course of one, three or six month cycle.

Every month we purchase 100 quintals of rice at a time for 40 SHGs. For the past two years we have been practicing this Rice Credit Line, and suddenly we women started feeling very strong with this bulk purchasing for all of us.

S.K. Kasim Bee, Vice President
Unnava Grama Samakhya Rice Mill,
Chilakaluripeta, Guntur District

In one real-world example, the Edlapadu mandal samakhya extended US$2500 (or Rs 114,000) in credit to the Unnava village organization. Unnava was able to recycle this amount to the extent of $44,000, and procured 146 Metric Tons of rice over a year. It also generated a surplus of about $1,936 against an initial credit line of $2,500 by charging a small margin of 50 Paisa to Rs 1/kilogram of rice when recovering the loan from the SHG members. Unnava not only repaid the US$2500 with interest to Edlapadu, it also achieved a financial turnover of 18 times the initial investment.
This example demonstrates how a market-based mechanism to deal with food security can be sustainable. In the broader program, the repayment rate of credit was 100 percent. The VO’s either used their surplus to increase the amount of rice purchased or to support the most vulnerable and destitute.

Benefits and Impacts
Currently, more than 1.6 million households in 7,000 villages (out of 28,000 villages) benefit from the RCL, and the program is expanding rapidly to the remaining districts of Andhra Pradesh. VO’s involved in the RCL from March 2005 to April 2006, handled 300,000 metric tons of rice or a financial turnover of $88 million. Reduced transaction costs resulted in estimated cumulative household savings of $77 million. The cumulative surplus funds generated by the VO’s is estimated to be in excess of $12.8 million. By the end of 2007, the RCL will be extended to an estimated three million households across 12,000 villages and will generate a business turnover in excess of one million metric tons of rice or $300 million for the VO’s.

Economic Impact
An impact assessment of the RCL was conducted in May-June 2006 as part of the mid-term review (MTR) of the World Bank-financed Andhra Pradesh Rural Poverty Reduction Project. The study found that
buying grain in bulk lowered transaction costs and saved households US$48 annually. It also showed that the RCL reduced the proportion of indebted households from 21 to 13 percent—i.e., a 38 percent decline. Daily wages have also increased by 30 percent compared to the start of RCL intervention, due to increased bargaining power exercised by poor farmers, a result of having more food available in the household.

**Food Security**

Moreover, the RCL has eliminated gaps in food access that often occurred during the year. RCL ensured food security for a period of 3-6 months at minimum, although most beneficiaries have accessed a continuous supply of food without any gap for a period of one year. Quantitative analysis showed that consumption of quality food grains increased from 47 kgs of rice to 59 kgs per month, and 97 percent of the respondents reported that their household food security situation had improved.

Many communities have started expanding the food basket of essential needs to include pulses, vegetables, tamarind, sugar, edible oil, soap, and other hygiene items in addition to rice. The concept of RCL is now being expanded to the larger and more comprehensive concept—the Food Security Line (FSL).

The Center for Economic and Social Studies (CESS), in an impact assessment of the Andhra Pradesh District Poverty Initiatives Project (2007), points to a significant difference in the amount of food items accessed from the PDS by participants of the RCL program compared to non-participants due to this institutional arrangement. Now that they can get essential food items—such as, grains and oil—the PDS, RCL participants can spend more on diversified food items and non-food items.

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**Portrait of Yellamma**

Yellamma, a member of the scheduled caste, was caught in a cycle of poverty and debt. Her family of seven could not survive on their half acre of dry land because of acute drought. At first skeptical of losing money by joining the SHG movement, she was enticed by the RCL program. Under the scheme she borrowed 70 kilograms of rice at Rs7/kg. She repaid the money in several installments, even borrowing from her SHG when falling short. She has received rice regularly for 12 months in the last year and has repaid the whole amount, which makes her eligible for the next month’s quota.

Twelve months ago, she was anxious, migrating with her family to major cities or towns like Bangalore and Tirupathi in search of construction work. Now, since her family has access to a continuous supply of food, her children are attending school regularly. Recently, she traveled to Hyderabad to share her experience and motivate others to join.
Gender Roles

The RCL, and the projects of which it is a part, have had perhaps the most significant impact on gender relations. The SHGs, and the other institutions operating the RCL, are all women's groups. According to an assessment conducted by SERP, 66 percent of respondents reported an increase in women's control over household resources, especially food. This has enabled women to counter the traditional patriarchal system and gain a more favorable position in the household.

The program further upended the traditional role of women by building their skills in areas like quality control, book keeping, market scanning, and labor and logistics management. The women now negotiate with wholesalers, rice millers, and traders to get the best terms of trade for the whole community.

Due to security of a continuous supply of food, women are negotiating with employers for better wage rates. This empowerment seems to be transmitting across generations. Qualitative assessments indicate that food assurance has led households to encourage girls to attend school since they no longer need to work to meet the household's basic consumption needs.

Some VO's have acted to improve maternal and infant health by organizing nutrition centers for pregnant and lactating women with contributions from participants, VO's, and the project (APRPRP). This has resulted in increased weight of pregnant women and improved birth weights of children.

Institutional Development

The RCL experience has encouraged many VO's to establish community-managed enterprises in the agribusiness sector. They procure commodities, check them for quality, and in some cases seek to add value to the products by the network of grassroots professionals such as book keepers, quality controllers, and logistic managers. The RCL has increased the efficiency of the PDS. For example, VO's have acted as franchises for the Civil Supplies Corporation, the public sector body that is responsible for food...
distribution. This has helped the PDS better target the poor, eliminate leakages, and transfer the burden of quality assurance to community members. The community-managed PDS is expected to have a $20 million turnover for 2006-2007.

Participatory assessments conducted by SERP found that since the introduction of the RCL program, SHG members have become more regular in attending SHG/VO meetings. The program has led to increased participation by members in SHG and VO activities and increased awareness levels of members. Moreover, participating in the RCL program has led to a greater discipline of repayment, which strengthens the core institutional model of microfinance promoted by the two sponsoring projects.

Lessons Learned and Issues for Wider Replicability

The RCL experience provides a number of lessons for decision-makers and practitioners that are critical to successfully replicating the model elsewhere. First, it was not created in a vacuum. RCL was successful because it built on existing investments that developing strong institutions supported by grassroots functionaries promoting economic empowerment.

In South Asia, and most likely in other regions, there are a number of existing women's groups or community organization that have been hitherto used only for delivering food aid or other services and could be trained to provide food as a credit product. Also, there are a number of women's micro-credit groups that could include food credit and offer more holistic products to their members.

Second, the program was tested and backstopped by World Bank projects before scaling up. Moreover, that scale-up relied on the private sector, not the Bank. The RCL was piloted using World Bank project funds, and the pilot's success convinced financial institutions to adopt the system and offer lines of credit to VO's interested in either starting or expanding the food security program. This is a win-win situation for both the members of the SHGs and the commercial banks. Consumers get a cheaper
source of funding and the commercial banks get a profitable line of business where the repayment rates are 100 percent.

Finally, the capacity that the program builds within women’s groups is the source of its viability. Participating women’s groups are extending beyond the model—using their skills in market research, quality control, and more—to establish enterprises. This coupled with a sustainable savings and credit model create conditions for a food security program to evolve and contribute to a viable local economic system.