

A critical analysis of direct benefit transfer in India

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Abstract

Objectives: To critically evaluate direct benefit transfer mission in India, in terms of Aadhaar Card linkages, seeded bank accounts and in light of global experience. The paper also takes an account of the inflationary pressures that unconditional cash transfers may bring in to the system.

Methods: This is more of a descriptive study. Literature related to the study is critically approached and a few facts and figure that are officially released by direct benefit transfer mission of India has been used for the better understanding for the period 2013-2017.

Findings: From the analysis it is evident that by the time the Direct Benefit Transfer (DBT) system has been introduced in 2013, 5.68 crore beneficiaries were not holding an Aadhaar and the number became 8.36 crore in 2017. In 2017 only 29.01 % of fund transfer has been done through Aadhaar seeded bank accounts. Therefore even though Direct Benefit Transfer system is an innovative and efficient system, India was not prepared to take it up. So serious efforts of government is required in the grass root level by providing Aadhaar and Aadhaar bridge payment assistance to the common people.

Application: Continuous evaluation is required to ensure that no beneficiaries have denied their services in name of Aadhaar bridge payments. They must be given enough time and support considering India's depth and breadth in size and its poor literacy level among poor people. A study in the future when more data is available about the implementation of direct benefit transfer, can tell more systematically about the success and failures of the programme in India.

Keywords: Conditional versus Unconditional Benefit Transfers, Direct Benefit Transfers, Aadhaar bridge payments, Aadhaar seeded bank accounts.

1. Introduction

Direct cash transfer benefits are a fervently discussed topic of our time. In Indian economy, this has a particular significance. Rampant corruption and the meddling of middleman have failed the implementation of public policies adopted by various governments from time to time. By means of direct cash transfer benefits, a solution to the existing ambiguities is sought.

1.1. History and Cross country references

The history of cash transfers dates back to the closing years of the last century. The cash transfers began in the mid 1980s in Brasilia. Though many Latin American countries have employed the mechanism as a poverty reduction measure, it is those of Brazil which is most popular. Known as fome zero strategy in Brasilia, the state transferred income directly to families who were earning less than a predetermined income line as per the federal governments unified social services register. While the cash transfer schemes in Brazil were introduced in different areas to address specific issues, eventually in 2004 they were integrated to the headline scheme called "Bolsa Familia. The programme over the years has been successful in reducing poverty and inequality that existed in Brazil [1]. It is from here that India adopts its direct benefit transfer programme.

Following the success of the programme, many countries including other Latin American nations, United States, Mexico, some African republics and South East Asian Nations adopted the mechanism in the form of Conditional Cash Transfers (CCT). The largest and the most successful conditional cash transfer programme is the Bolsa Familia Programme.

CCTs such as the Bolsa Familia and Oportunidades in Mexico, in the year 2010 covered approximately 12 and 5 million families respectively with relatively modest budgets [2]. CCTs have been employed with the objective of breaking the vicious circle of poverty, and thereupon realizing social equity and human capital enhancement. Thus the whole mechanism is a thrust towards building structural stability. The success of the innovative mechanism can be summed up with the fact that by 2011, eighteen countries in Latin America and Caribbean were running CCT programmes. The datum can be more substantial when we account to the statistics that from 38 million beneficiaries in the year 2001, the number grew above 129 million in 2010 [3] The CCTs spread far and wide to the East, reaching Bangladesh, Pakistan, and Indonesia among others.

1.2. Direct benefit transfer in Indian context

In India, the conditional cash transfers scheme was used in Janani Suraksha Yojana. However, the cash transfer mechanism perceived in the economic survey 2010-11 was on Unconditional Cash Transfers (UCT). It mentions that; well targeted UCT can boost household consumption and asset ownership and reduce food security problems for the ultra-poor. Subsequently the government of India in the budget speech 2011-12 constituted a task force under the chairmanship of Nandan Nilekani (Report of the Task Force on Direct Transfer of Subsidies on Kerosene, LPG and Fertiliser, 2011) to endorse and implement a solution for direct transfer of subsidies [4]. The committee recommended Core Subsidy Management System (CSMS) amidst others, which would encompass integration of Aadhaar, ERP (Enterprise Resource Planning) systems, Nodal Bank and Payment Gateway along with Logistics, Training, Education, and Outreach Modules for replacing kerosene, LPG and fertilizer subsidies with cash transfers. The subsidies were made available directly to beneficiaries in the form of cash which could be now be used now to avail services directly from the market. Consequently, payments under various government welfare schemes came to be channelized directly to the beneficiary through Aadhaar seeded bank accounts. Direct benefit transfers thus came in to effect on 1st January 2013 to seven fully centrally funded government schemes in India.

More recently the committee constituted by Reserve Bank of India and chaired by Deepak Mohanty (Report of the committee on medium-term path on financial inclusion, 2015) suggested that subsidizing farmers by reducing the prices could be reverting and hence recommended that the government should transfer cash to farmer's equivalent to the fertilizer subsidy [5]. In a similar note, the committee presented the prospects of cash transfer in irrigation and power sectors; and mentioned that this is the most efficient way of financial inclusion. In the backdrop of recommendations of task force and committee on financial inclusion the government of India in the union budget 2016-17 announced to introduce direct benefit transfer of fertilizer subsidy to farmers on pilot basis in a few districts in the country.

In this phase of growing importance of cash transfers, it is a mandate to critically review the introduction of the scheme in the country; its implementation process and the road ahead addressing the pitfalls and concerns. The paper thus looks into these dimensions of the direct benefit transfer.

2. Unconditional versus conditional cash transfers: India and the World

Though the underlying genre of direct benefit transfer in India is similar to the cash transfers that are being practiced worldwide, the mechanism now adapted in India has two fundamental differences with regard to the global scenario. The former is the replacement of traditional programmes while the latter is with respect to the conditional and unconditional clauses of the direct cash transfers. This can be elaborated as below:

2.1. Replacement of traditional programmes

The notion of direct cash transfers came into Indian picture at a time when Indias Centrally Sponsored Schemes (CSS) faced with enormous expenditure, was proving to be unviable and inefficient. In the year 2007-08, the total expenditure on CSS and subsidies exceeded ₹1, 78,765 Crore. This was accompanied by the truth that the welfare schemes are process driven and lacked accountability and efficiency in terms of monitoring [6]. Nevertheless, the proponents of cash transfers were talking about replacement of the traditional in-kind transfer with cash transfer. This was in stark contrast to the world picture. For instance, the Bolsa Familia programme of Brazil and Progres Oportunidades of Mexico had started from a fresh account.

The policies of these nations have not intervened with market, but have moved along with market [1]. Whereas in Indian context the institutions have been a substitute for welfare schemes that the market has failed to deliver and the introduction of cash transfers is the replacement of the traditional in-kind transfer [7]. The deployment of cash transfers for public provisions in the form of kind allocations may not be suitable for certain goals and is dependent highly on the context [8].

2.2. Conditional versus unconditional clause

As mentioned earlier, the history of cash transfer starts with conditional cash transfers. While in India the proposed and implemented direct benefit transfer is unconditional in nature. Whether the former or the latter is more effective has been a point of debate. Conditional cash transfers may be a viable option when mere cash transfers are perceived in suspicion [9]. CCTs then are found to be well targeted. Conditional cash transfers have been a tool to change the course of poverty reduction programmes in Latin American and African countries. They have been identified as the most progressive program in this context [10]. The study also highlights how imposing conditionality can raise concerns as well with regard to risks of exclusion and potential additional penalization of vulnerable groups. This can be more waning for the indigenous and the extremely poor sections whose opportunity cost to abide to the conditions remain high.

In Indian setting, the problem is not herewith the transmission of money but the conversion of money into desired outcomes. Reports argue that the direct cash transfers designed is not in lieu with the attainment of forward and backward linkages and is a mindless act which is not income generating as well [11]. CCTs are better measures when the intended outcome is building human capital [12]. Nevertheless, studies have also supported the claim of unconditional cash transfers being as efficient as the conditional cash transfers. For instance, to the United Nations development goal policy network, experiences from OECD and other Southern African countries, it is apparent that the relative consumption poverty can be addressed with the help of non-conditional transfers. Transition to unconditional was also examined to be successful to avoid the adverse impacts of conditionality in the context of early marriages and teenage pregnancy (13). Many other writings and studies in this context provide a supportive picture towards the employment of unconditional cash transfers. In the draft discussion Puja Dutta, elaborates how the social pension scheme in the country is a success. The limited coverage and less leakage compared to the public distribution system and other social expenditures can be considered the reason behind the accomplishment [14].

Accordingly it seems that less the presence and enforcement of conditionality, the system is better off [9]. In general, conditionality in cash transfers has attained its preoccupation to reduce poverty, and the success largely depends upon the context, the tradeoff between conditionality, coverage and targeting. In Indian picture of multitudes, the DBT rolled out has yet to deliver the policy implications. Still the experience of un-conditionality till date is positive and evokes strong signals as a better tool of Public Finance.

3. Introduction and Implementation: Benefits and Concerns

The direct benefit scheme was rolled out on 1st January 2013. It is defined as the direct transfer of government subsidies and other benefits to the entitled beneficiaries as recognized by the government. Introduced by the UPA government and carried forward by the NDA Government, the basic purpose of the scheme is to reduce leakages (i.e. de-duplication and reduction of fraud), which otherwise was rampant in the system of in-kind transfer of subsidies. DBT aims faster and accurate targeting of beneficiary.

In India DBT mission was created in the planning commission to act as the nodal point for the implementation of the DBT programmes. The Mission was transferred to the department of expenditure in July, 2013 and continues to function till 14.9.2015. To give more impetus, DBT Mission and matters related thereto has been placed in cabinet secretariat under secretary (Co-ordination & PG) w.e.f. 14.9.2015. First phase of DBT was initiated in 43 districts and later on 78 more districts were added in 27 schemes pertaining to scholarships, women, child and labour welfare.

DBT was further expanded across the country on 12.12.2014. Seven new scholarship schemes and Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) were brought under DBT in 300 identified districts with higher Aadhaar enrollment.

Direct Benefit Transfer (DBT) has made significant progress in recent times. Number of schemes monitored under DBT was initially 27 which have increased up to 140 in March 2017 (as on 31st March 2015, it was 34 schemes and as on 31st March 2016 it was 59 schemes). Till March 2017, ₹1,82,671.36 crore has been disbursed to 35.7 crore Beneficiaries (DBT Mission, 2017). The success of the programme rests on the two sub-notions of Aadhaar Card and bank account that are scrutinized below:

3.1. Aadhaar platform

Aadhaar is a twelve digit biometric unique identification card specifying all necessary details of the card holder maintained by the unique identification authority of India, established on January 28, 2009. Unique Identification is a mandate for cash transfers as it would aid the effective delivery of benefits directly to the person concerned. Government transfers the benefit directly to the bank account to which the Aadhaar Card is seeded. This removes the space of middlemen in picture. It is further understood to have reduced the cost borne by banks for knowing their customers. This thereupon will increase the banking coverage. Broadly, the benefits of having Aadhaar enabled bank accounts can be summarized as below:

1. From 1980s onwards, the government of India has been facing the problem of increasing subsidies to various government schemes. It rose from 12.38% to 23.43% of the government non-interest expenditure. More than half of the supply of PDS does not reach the beneficiary. Thus the system fails to identify the rightful beneficiary. Here Aadhaar can play an important role.
2. Aadhaar enabled transactions will be transparent and hence the ghost players can effectively be erased off.
3. Authentication can eliminate duplication. It can also thereupon remove the chances of selling off the subsidized products at the market price.
4. It can collapse different income sources into the spectrum of one account seeded to Aadhaar Card.
5. Productivity will be increased enhancing the efficiency of deliverance in the System.

The Unique Identification Authority of India (UIDAI) started its mission under the directions of planning commission of India. However there existed the problem of autonomy between the planning commission and the home ministry; responsible for the implementation of the national population registry, when it came to decision making. Later when this was sort out, the then UPA government could not unveil the project on a large scale, as many of its ministers objected. Following which NDA government; though earlier a critic of the UPA policy on DBT came to power and implemented the proposed direct benefit transfers linked LPG subsidy; which needless to say was a success.

The government estimates ₹12,700 crore from DBT to LPG subsidy. Giving up the subsidy to help the needy can be considered as another highlight of the programme. Till date, 77,76,293 persons have given up their LPG subsidy, which without bias means reallocation of resources.

Table 1. Beneficiaries under direct benefit transfer schemes (Till 01.01.2013) (in crores)

Name of the Scheme#	Total number of Beneficiaries*	Beneficiaries with Aadhaar	Beneficiaries with Bank A/C	Beneficiaries with Seeded Bank A/C
	1	2	3	4
MGNREGA	4.66	3.05	3.21	0.76
NSAP	2.54	1.40	0.48	0.27
PAHAL	14.85	12.29	8.49	7.24
Other Schemes	0.67	0.32	0.11	0.07
Total	22.74	17.06	12.29	8.35
Name of the Scheme#		Percentage of beneficiaries with Aadhaar	Percentage of beneficiaries with bank accounts	Percentage of beneficiaries with seeded bank accounts
		5(2/1)	6(3/1)	7(4/1)
MGNREGA		65.34%	68.87%	16.33%
NSAP		55.19%	18.86%	10.64%
PAHAL		82.73%	57.17%	48.76%
Other Schemes		46.96%	15.87%	10.56%
Total		75.02%	54.06%	36.70%

Source: Ministry of finance, Government of India

The government also brought the UIDAI from the headship of planning commission to those of the IT ministry, to ensure symmetry between Digital India, DBT and Aadhaar Card linkages. Several measures were taken hence with. Upon the passing of the Aadhaar (targeted Delivery of Financial and Other Subsidies) bill in the Lok Sabha recently, the direct benefit transfers by Aadhaar also attains statutory backing. Government asserts that with the use of Aadhaar it can reach directly to the needy by eliminating leakages in the system and falls players. A brief summary of the Aadhaar Card and unique identification linked bank accounts is presented hence (Table 1-3). Beneficiaries are not unique, #DBT schemes are categories as:

1. MGNREGS (Rural Employment)
2. National Social Assistance Programme (NSAP) (Includes Old Age Pension, Widow Pension & Disability Pension)
3. PAHAL (former DBTL, LPG Subsidy)
4. Scholarship Schemes (Scholarship& Fellowship Schemes) and
5. others (all remaining schemes)

Table 1,2 gives a picture of Aadhaar holding beneficiaries of DBT by the time its being introduced and now. If it was 5.68 crore beneficiaries who were not holding Aadhaar in 2013, Its 8.36 crore beneficiaries who were not holding an Aadhaar to receive the direct benefit transfer in 2017, considering the fact that beneficiaries of DBT scheme has been increased from 22.74 crores to 35.71 crores. Another interesting fact is that in 2013, 8.35 crore (36.7%) of beneficiaries were having an Aadhaar seeded bank account which is an essential for the successful conduct of DBT scheme.

If we check the data of 2017, it's evident that only 29.01% of fund is transferred through Aadhaar linked bridge payment system. So the scheme is yet to reach out to many by ways of providing Aadhaar, opening of bank account and simultaneously linking the unique identity with the bank accounts to find its success.

Table 2. Direct benefit transfer report from 01.01.2013 to 31.03.2017 (in crore)

Name of the Scheme#	Total number of Beneficiaries*	Total number of Beneficiaries data seeded with Aadhaar	Percentage of beneficiaries seeded with Aadhaar
1	2	3	4(3/2)
MGNREGS	11.15	9.11	81.75%
NSAP	2.76	1.44	52%
PAHAL	18.73	15.32	81.79%
All Scholarships	2.27	1.18	52%
Other Schemes	0.81	0.30	37%
Total	35.71	27.35	76.6%
Using Aadhaar Bridge Payment	Without Aadhaar Bridge Payment	Total	Percentage of Aadhaar Bridge Payment
5	6	7(5+6)	8(5/7)
13,354.11	69,829.68	83,183.79	16.05%
2,963.09	17,767.15	20,730.24	14.29%
35,546.30	16,530.54	52,076.85	68.26%
873.73	21,022.86	21,896.59	3.99%
263.79	4,520.12	4,783.91	5.51%
53,001.01	1,29,670.35	1,82,671.36	29.01%

Source: Direct benefit transfer mission, Government of India

Table 3 projects the inter-state parity that has to be achieved as there exist a gap of as little as 7.3% in Assam to as much as 116.7% in the capital. There are critics against the recent bill passed in the parliament and the DBT in general. When not in power, the BJP-led NDA government has indeed demarked the DBT as no herb for all cures. The same government when came to power went against the words and implemented the scheme on a larger scale.

The current debate however is about the assurance of privacy and the potential for Aadhaar to violate the citizen's right for privacy. With Aadhaar becoming a tool for public service deliverance of the government, the biometric information will be made available with various private and public players leaving the question of privacy at stake.

The system thus requires a measure of checks and balance to ensure that the citizen's freedom is not subjugated. Regardless to the criticisms, the paper finds authentication that the Aadhaar Card provides an important tool in the context of public finance and can help in the less leakage of government expenditure, assuring efficiency and transparency.

Table 3. States with Aadhaar coverage as on 30th November 2017

State	Population	Aadhaar coverage	
Delhi	18,110,349	21136383	116.70%
Himachal Pradesh	7,246,418	7333123	101.20%
Telangana	38042884	38251896	100.50%
Nagaland	2,158,431	1201688	55.70%
Meghalaya	3,230,132	537811	16.60%
Assam	34,068,394	2477941	7.30%

Source: Unique identification authority of India

3.2. Financial inclusion

The direct benefit transfers were carried further forward to the JAM (Jan Dhan Yojana bank accounts, Aadhaar Cards and universal mobile banking access) trinity. Under the Jan Dhan Yojana, a whopping 15 Crore accounts were opened, and the Aadhaar enrollment is just less than one billion. Mobile banking access will also ensure easy money. Thus the Government is pushing forward for financial inclusion with the DBT as the focal point. A person with Aadhaar Card finds it easy to prove his identity and open an account with the bank. His identity is assured each time when a transaction takes place.

The rural and the needy folk will find an escape from the cumbersome procedure to open an account with the Bank. From the view point of the Bank, the cost of KYC norms can be substantially reduced with the help of Aadhaar Card. Various reports on financial inclusion released by the Reserve Bank of India substantiate the validity of the claim. However, one argument that should be noted in the context of paradigms of financial inclusion is that the basic function of the Bank is to accept deposits and grant loans.

Hence moving to a Aadhaar Card enabled bank account for the transfer of cash and interest subventions should not take place at par with the necessary function of credit creation, which is as or more important than the former. Another important thing that has to be noted in the context of cash transfers is the presence of inflationary pressure and other serious dangers that are neither discussed nor debated. The paper in short discusses this problem.

3.3. Inflationary pressures and related concerns

When we are moving from subsidized schemes to the introduction of cash transfers, the beneficiaries will now avail the benefits at the market price. On the other hand, the sellers will sell and they will incur income, part of which will be saved for further spending. Thus the transformation from subsidies to cash will generate a series of secondary spending. If not met with the supply of necessitated demand, the central bank of the country will have to take up monetary tightening policy.

This will prove to be dampening for the economy due to less investment prospects. Specifically, besides investors, others who will be affected are the poor people who fall in the margin. With inflationary pressures creeping in, and in the absence of BPL (Below Poverty Line) provision, they will face price hike and increased cost of living. On the other hand, with cash transfers, people who could not avail the scheme at the subsidized rate will now be able to take advantage of the DBT of cash.

Thus along with economic instabilities will come to play the reallocation of benefits that will prove detrimental to the cause of the system.

4. Conclusion and Summary

To conclude, the rolled out direct benefit transfer scheme is an evolving project of the government that has to be closely watched and scrutinized to track the accruing benefits and the cost. As in the case of any scheme or project, the direct benefit transfer scheme comes with its own prospects and concerns. A systematic appraisal of the costs and benefits is a mandate for the efficient functioning of the system. Thus to sum up, the conditional and non-conditional clauses of the DBT is all a matter of context and priorities. Unconditional DBT unlike CCT can have varying repercussions on the economy, starting from inflationary pressures and re allocation of resources to a source of income for the poor.

The Aadhaar Card and financial inclusion through opening up of bank account; are the two pillars upon which DBT rests. The former in no doubt is an innovative tool and has many prospects and certain concerns of privacy and freedom. While the latter has been important for the government to roll out the DBT and subvention schemes, the banking institutions should further be encouraged to provide other and more important functions such as lending of credit.

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