

The Direct Benefit Transfer System: Made in India

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Excessive public expenditure as a result of leakages, inefficiencies and high transaction costs of social welfare programmes is a major policy concern in India today.

The 2004–05 National Sample Survey showed that 70 per cent of the beneficiaries of the targeted Below Poverty Line (BPL) food distribution and Antyodaya Anna Yojana programmes in rural areas and 43 per cent in urban areas had an income above the eligibility level (Government of India, 2007).

In 2000 there were 243 million ration cards² for 180 million households in the country³ due to ‘duplicates’ (where the same individual benefits multiple times) and ‘ghosts’ (non-existent beneficiaries).

The Government of India has explored a technological option to address these two issues in what is called the Direct Benefit Transfer System (DBTS). It involves crediting payments such as scholarships, pensions and wages under public works directly to the bank accounts of the beneficiaries identified through the Unique Identification Authority of India (UIDAI).

The UIDAI is an agency to implement the Aadhaar (support) scheme. It provides a 12-digit unique identification number to all citizens. The number is linked to demographic and biometric information—photograph, 10 fingerprints and iris recognition—of each individual to serve as evidence of identity and address for an Indian citizen. It is robust and would eliminate duplication.⁴

To transfer welfare benefits only to the Aadhaar numbers identified, the government has set up an Aadhaar Payment Bridge (APB). The APB provides Aadhaar-enabled bank accounts by dovetailing them to the Aadhaar number. The objective is to eliminate duplicates and ghosts by linking the Aadhaar number to the list of beneficiaries of welfare programmes.

The government claims that DBTS would involve better targeting, bringing in efficiency, accountability and transparency in the administration of social safety nets.

The same mechanism would be used to implement schemes such as food, fertiliser and fuel subsidies by working out their cash equivalents and transferring them directly to the beneficiary accounts. This would reduce price distortions and contain expenditure on social programmes by integrating those which overlap and cater to similar beneficiary groups (Government of India, 2013). This would widen the choice of beneficiaries from purchasing subsidised items or receiving a cash subsidy in their bank account to receiving the “cash equivalent of the product into their bank account” (Government of India, 2011).

The government launched the DBTS on 1 January 2013. It covered seven welfare schemes in 20 districts spread over 16 states. The schemes include scholarships, cash benefits for pregnant and lactating mothers (Indira Gandhi Matritva Sahyog Yojana), conditional cash transfers for girls (Dhanalaksmi scheme) and stipends for trainees for job seekers through coaching-cum-guidance and vocational training. During the first phase of implementation (1 January to 31 March 2013), the DBTS is intended to cover 26 such schemes in 43 districts.

The DBTS involves setting up accessible and user-friendly micro-ATMs throughout the country to make it easy for beneficiaries to withdraw money. This scheme would be implemented by involving self-help groups, community service centres, post offices, grocery stores and petrol stations. As a pilot, such ATMs have been set up in 51 districts since 1 January 2013. The DBTS was implemented successfully on a pilot basis for rural employment, pensions, the Indira Awas Yojana and similar social welfare schemes in the states of Jharkhand, Tripura and Maharashtra. It has also experimented with online Aadhaar authentication of beneficiaries for Fair Price Shops distributing food in the districts of East Godavari and Hyderabad, and for companies marketing LPG gas cylinders in Mysore.

In an era of duplicates, ghosts and leakages, the DBTS would streamline the targeting process and hence reduce public expenditures. Will it be successful in reducing the incidence and depth of deprivation in its multiple dimensions?

It will succeed if the following conditions hold: (i) Aadhaar-based identification and targeting for poverty alleviation programmes like food distribution is valid and efficient; (ii) poor households have sufficient liquidity to buy food grains or LPG at unsubsidised prices; (iii) subsidies are price indexed to insulate poor people against periodic price inflation; and (iii) there is no constraint on physical access.

Experience so far with periodic revisions in conditions for identifying poor people in the BPL censuses has only confused the implementation of targeted programmes. Subsidies, even if price indexed, would in all likelihood reach the beneficiary households with a time-lag, virtually neutralising such indexing. Liquidity is a major constraint, which would limit the impact of the DBTS on errors of omission. This is because limited liquidity motivates poor households to buy piecemeal in the retail outlets of the open market. Physical availability of food grains is a major factor that accounts for inter-state variation in food grain consumption.

In sum, the DBTS should improve the delivery mechanism of safety nets and reduce fiscal deficit. Its impact on deprivation of the masses will be limited or even negative in the short/medium term due to the pressure of potential extra demand on a market with poor infrastructure and hence supply constraints.

References:

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Notes:

1. Thanks are due to Fabio Veras for comments on a previous version.
2. A ration card is a document issued to a household by the state government as proof of residence and eligibility to benefits for subsidised goods.
3. See <<http://dfpd.nic.in/?q=node/1137>>.
4. See <<http://uidai.gov.in/what-is-aadhaar-number.html>>.