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Direct Benefit Transfers: From Policy to Practice

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Economics Hons

“Of every one rupee sent by the government for the needy, only 15 paisa reaches the intended beneficiaries.” These were the words of the former Prime Minister, ‘Shri Rajeev Gandhi’ referring to the rampant depravity and leakages in the government’s public programs.

Public programs involve the government and the intermediating agencies overseeing subsidy disbursement, and information asymmetries between them. This makes it difficult to authenticate the identity of beneficiaries and validate that the middlemen don’t eat up the funds and subsidies.

Consider the famous case of LPG subsidy in India.

The number of households that withdrew the LPG subsidy benefits in 2010-11 was about 50% higher than the government estimates shown by the 2011 census. This is a classic case of leakages under the preface of “Ghost Beneficiaries”. Fake or Ghost Beneficiaries refer to an existing or non-existing person, under whose name, benefits are illegally drawn from the government welfare schemes.

Such scanty measures to administer transfers effectively results in significant fiscal burdens for the nation.

Direct Benefit Transfers, by its very own nature minimized the proliferating and widespread problem. DBT solved the problems caused due to ghost beneficiaries by its secured biometric verification and Unique Identity (Aadhar) compulsion.

Direct Benefit Transfer is a reform initiative launched by the Government of India on 1st of January, 2013. It was launched to revolutionise subsidy transfers by using Information and Communication Technology(ICT).

It aims to transfer the benefits directly into the bank accounts of the beneficiaries and thus curtailing the chances of any diversions and leakages and at the same time the bank accounts must be Aadhar seeded so in order to validate the identity of the beneficiaries.

It was implemented to make sure that hindrances associated with the traditional ways of subsidy transfers can be eliminated and to ensure last mile connectivity allowing disbursements to take place at the doorstep of the beneficiaries through a network of bank branches and Business Correspondents (BCs) with micro ATM machines.

Basically Direct Benefit Transfers are directed to achieve:

- Timely payments and reduced delays.
- Accurate targeting of beneficiary
- Reduction in cases of ghost beneficiaries, leakages and diversions
- Minimizing the role of middlemen and layers in transfers
- Bringing Transparency in the system

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Why DBT?

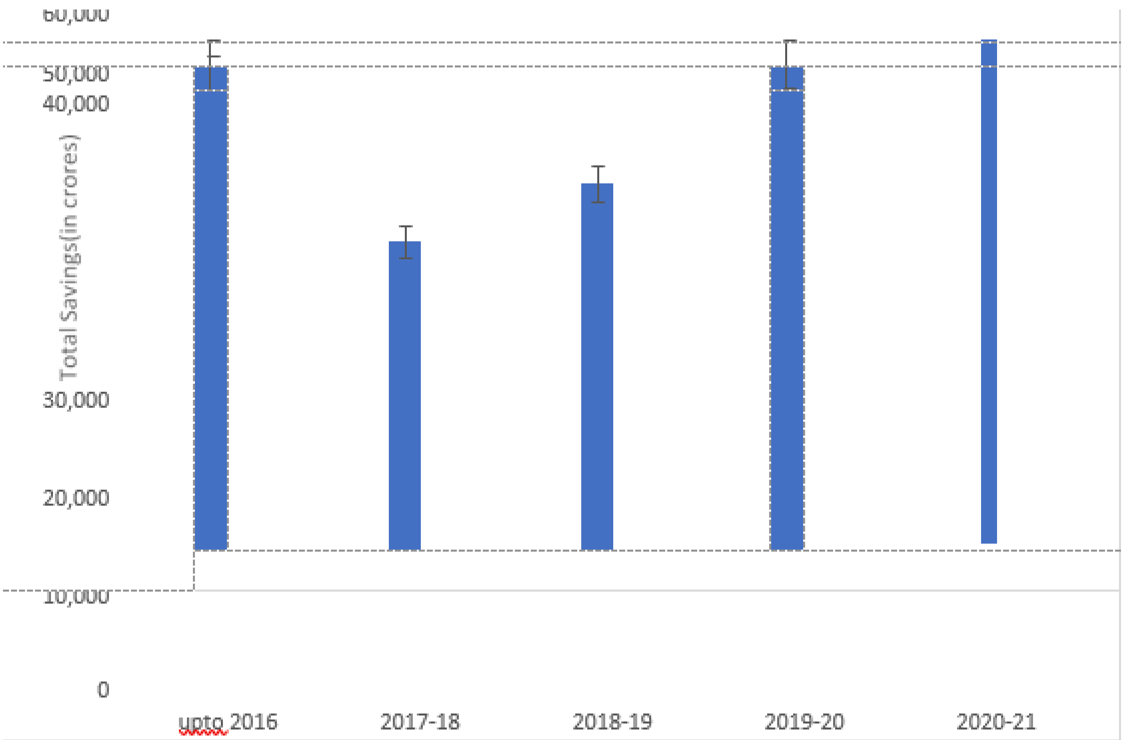
The traditional methods of subsidy transfers had a few major complications such as leakages, diversions, ghost beneficiaries and middlemen corruption causing almost 50% in loss or miss-transfers. Hence it was important to keep up with the changing technology and implement a new method of transfers which can resolve these problems and ensure end to end transfers.

DBT involves a compulsory ID (UID/ Aadhar) validation and bank accounts seeded with Aadhar and transfers money directly to the recipient's account, so removing the role of any middlemen and possibilities of duplication, leakages and diversions.

Let's get back to the popular LPG subsidy case, subsidy transfers to the needy and deserving through DBT caused massive market changes which in turn resulted in the advancement of the society.

Prices of diverted LPG refills fell by up to 19% in the black market and reduced household LPG purchase by between 11% and 14% due to the subsidy transfers through DBT. This actively implies that the Direct Benefit Transfers solved the predominant problem of diversion and leakages to a great extent. Leakage percentage has dropped from almost 50% in 2014 to at most 5% in 2022.

More than 9 crore duplicate, fake/ non-existent, inactive beneficiaries were identified and eliminated. This has helped the government save almost 2,22,968 crores. These savings can further be invested for the betterment of the nation.



Please note that the data is an estimate calculated from the government's estimates and may have an error of ±1%.

Cash transfers- CCT v/s UCT?

Cash transfer programs can be classified into 2 main types. Firstly, conditional cash transfer (CCT), where cash transfers are conditional on households meeting certain criteria or demands. The second type of DBT is the unconditional cash transfer (UCT), which was targeted towards households or individuals meeting a particular criteria or universal in nature.

The history of cash transfer programs began in the mid 1980s in Brasilia but they made headlines when in 2003, they launched the scheme 'Bolsa Familia Programme' which was shaped by principal of universalism guarantee of minimum income and common public services, CCTs have been rapidly emerging as a social protection instrument for governments of middle income countries like Mexico, Brazil, China, South Africa, Indonesia, etc. In Brazil, 26%, in Mexico, 15%, in Chile, 6%, in Columbia, 5%, and in Nicaragua, 3%, of the population has been provided protection through CCT programmes.

Whether the former or latter is more effective has been a point of debate. Conditional cash transfers may be a better option when mere cash transfers are perceived in suspicion. Some proponents of cash transfer programs view UCTs as a highly viable social policy that has the potential to reduce growing social inequalities in a liberalising economy. According to them, UCTs would eliminate the problem of leakages, bureaucratic discretion lives in the delivery of subsidies and benefits.

The underlying logic behind these different modes of transfer- be it CCT v/s UCTs or cash v/s kind is that people tend to display different propensities of consumption subject to their preferences and utility that they draw out of the consumption of certain good (can be education, health, water, electricity, etc.). As long as the utility that a consumer derives from the different combinations of these two goods fall along one curve **(Indifference curve)** she can shift to any point on that curve, being indifferent to the combinations. With a certain budget, say β, if a person wants to fix her consumption levels between good X (say, food) and good Y (say, education), it will be a function of the following equation: **aX + bY = β where 'a' is the price of good X (Food) and 'b' is the price of good Y (Education)**

Now, if the government under its role as the welfare state decides to provide assistance to its citizens falling below poverty line towards the consumption of good Y (education), it can do so through direct benefit transfer which sends a fixed amount of cash to the identified person's account. Identifying that for a marginalised household education may be treated as a priority falling next to consumption. Many Indian states have adopted cash transfer schemes towards subsidising education. However, these cash transfers have been conditional in many cases, which implies that households will be transferred the amount subject to meeting certain criteria of attendance provided by the schools.

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. 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. 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.

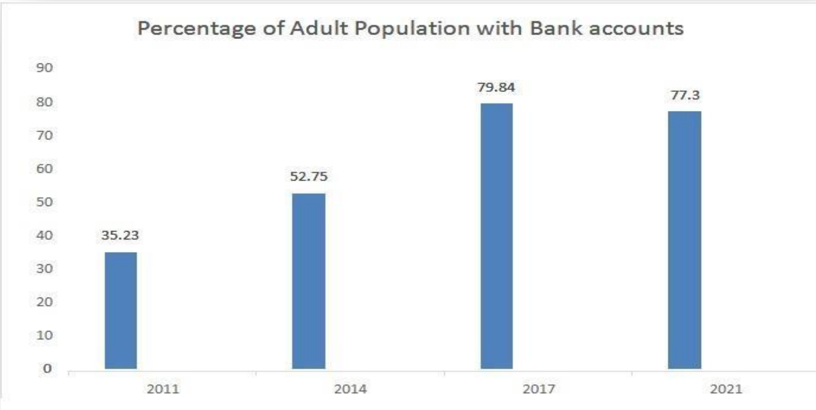
Financial Inclusion:

Financial Inclusion is crucial for the economic development of any country, as it helps to bridge the gap between the two extreme ends of economic structure i.e the rich and the poor. More than 60% of the Indians still reside in rural areas, where access to financial services is limited. Therefore, if majority of the population do not participate actively in financial activities, it hinders the economic growth of the nation.

Hence, it is essential to enable these individuals to access banking services, savings products, loans and insurancewhich can help them improve their financial and social well-being.

Direct Benefit Transfer does exactly the same. It has played a significant role in promoting financial inclusion in India by not only enabling individuals to access and benefit from various government schemes and subsidies but also has encouraged people to open bank accounts, use financial services and made people aware about their financial rights. This has resulted into a significant growth in the percentage of adult population participating in financial activities.

The number of adults with bank accounts has increased from a mere 35% in 2011 to almost 80% in 2021.

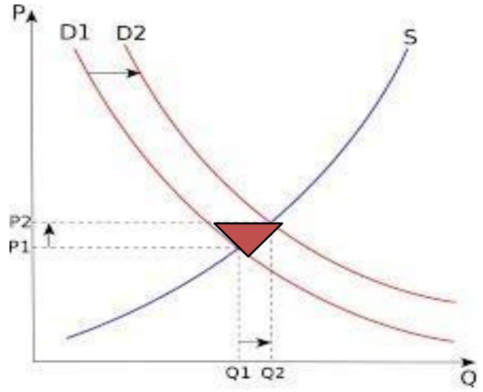


Impact on the Nation's Economy:

Furthermore, Financial Inclusion has a significant impact on the nation's GDP growth and economy as well.

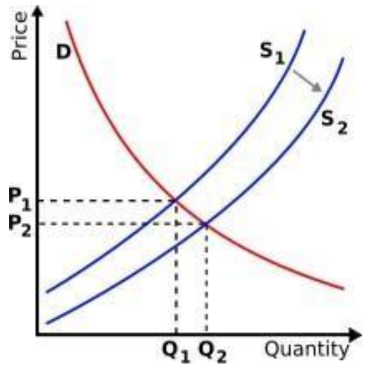
According to World Bank, Financial Inclusion is positively associated with GDP growth, by up to 14% indeveloping economies. As a key element of social inclusion, financial inclusion is especially useful in tackling income inequality and poverty by increasing advancement opportunities for disadvantaged populations in emerging economies.

Impact on The Financial Sector:



This level of participation in financial activities has caused a rightward shift in the demand curve of Financialservices as shown in the figure below.
This shift has resulted in an increase in the equilibrium quantity (Q, Q2>Q1) and simultaneous increase in equilibrium price of the services(P, P2>P1) which has eventually led to an increase in the social surplus(represented by red) signifying that the market is now better off.

The abnormal or the economic profits has put the 'Invisible Hand' to work. Inspired by the abnormal profits,



more number of players entered the market causing a rightward shift in the supply curve as well. This caused a further increase in the equilibrium quantity but a decrease in the prices from P2 to P.

Hence, it can fairly be concluded that the financial inclusion due to DBT has helped both the components of the market i.e the producers and the consumers, in ways as shown in the table below.

• More options to choose from Better quality of services, low prices, facilities even at grass root level, new and efficient technologies	Bigger and more defined consumer base, Consumer's higher willingness to pay, specialised work force, new technologies
CONSUMERS	FIRMS

Behavioral Changes:
Economics is much more than just money. It is the study of choices and behaviour of economic agents. So how could we ignore the behavioral impacts of DBT while analysing it?
This scheme has had a significant impact on the behavioral change in the Indian mindset, particularly in terms of financial literacy and the use of digital transactions.
DBT has led to increased financial literacy among the beneficiaries, as they have become more aware of the importance of savings and managing their finances.
Consider that the average deposits per account has increased from RS 1279 in 2015 to RS 3761 in 2021. This signifies increased usage of bank accounts and the inculcation of saving habits.
It has also reduced the reliance on cash transactions, which has in turn led to a decrease in corruption and black money.
In addition to this, DBT has also brought transparency in the delivery of subsidies, as the beneficiaries can now track the transfer of funds and ensure that they receive the full amount of the subsidy. This has instilled a sense of trust in the government and has encouraged people to participate in other government schemes as well.
Here we particularly analyse how DBT helped in Financial Inclusion of the underprivileged section of thesociety and its economic impacts.

Budget 2023-24
DBT Predictions as per the outcome budget 2023-24[1]
Number of DBT transactions reported by States/UTs :
1. Indira Gandhi National Old Age Pension Scheme (IGNOAPS): 16
2. Indira Gandhi National Widow Pension Scheme: 4.73
3. Indira Gandhi National Disability Pension Scheme (IGNDPS): 0.62

Talk inthe union budget 2023-24:
- Direct Benefit Transfer under a pan-India National Apprenticeship Promotion Scheme to be rolled out to provide stipend support to 47 lakh youth in three years.
- According to the official, routing stipend payment through **DBT** will help identify leakages in financial disbursement under NAPS, formalise the offline modes of stipend payment system, which was resulting in delays in payment, and make apprenticeship aspirational among youth.

[1] https://www.indiabudget.gov.in/doc/OutcomeBudgetE2023_2024.pdf

The entire process of DBT will be hosted on the apprenticeship portal with limited manualintervention. [2]
- "It is always better to do a direct transfer to avoid time lag and leakages in the system, if any," a senior official at the **Confederation of Indian Industry** said.[3]

DPI enabled DBT:
Centre says that Indian gov has saved over 27 billion USD in key gov schemes rolled out via DBT as these transfers were direct, end to end with meager scope of leakages. DPI (Digital Public Infrastructure) enabled DBT has emerged as a boon providing relief to millions of people whose livelihoods were impacted. The government was able to help by delivering vaccines and providing social protection services through DPI, Ajay Seth, Secretary of Department of Economic Affairs, noted. DPI created by India is inherently scalable, interoperable, innovation-friendly and inclusive. DPI has transformed governmentto people, people to people and people to business interactions.[4] **e- RUPI**
E-RUPI, launched by the prime minister Narendra Modi on August 2, 2021, is a cashless and contact instrument for digital payment that has played a significant role in making DBT more effective.
Addressing the event, the Prime Minister said that the e-RUPI voucher is going to play a huge role in making DBT more effective in digital transactions in the country and will give a new dimension to

digital governance. This will help everyone in targeted, transparent and leakage-free delivery.[5] E-RUPI came amidst the government's failure to adequately provide poor with the welfare schemes and other DBT schemes. There were instances of beneficiaries facing problems linking their Aadhaar to their ration card.

In its National Election Study (NES) during the 2019 Lok Sabha elections, Lokniti-CSDS had asked electors whether they had ever been denied food grains due to non-possession/production of an Aadhaar ID or because their Aadhaar biometric details didn't match or on account of technical or server issues.[6] **28% orover one in four households said they had indeed experienced such a situation.**

And then there's the separate matter of many poor people still not possessing bank accounts (abt 22.7% as in 2021)[7] and hence not being able to receive DBTs from the government. And e-RUPI could solve all that.

[2]https://12ft.io/proxy?ref=&q=https://economictimes.indiatimes.com/jobs/apprenticeship-stipend-through-dbtin- works/articleshow/97561164.cms

[3] https://12ft.io/proxy?ref=&q=https://economictimes.indiatimes.com/news/economy/policy/india-budget-2023key-highlights/articleshow/97509935.cms

[4] https://12ft.io/proxy?ref=&q=https://economictimes.indiatimes.com/news/economy/policy/centre-saved-27-bn- in-schemes-using-dbt-method-says-economic-affairs-secy/articleshow/98428031.cms

[5]https://www.livemint.com/news/india/what-is-e-rupi-and-how-does-it-work-list-of-banks-live-with-this-payment- option-11627959489308.html

[6]https://www.business-standard.com/article/finance/what-is-e-rupi-and-how-it-can-plug-leakages-in-direct- benefit-transfers-121111500050_1.html

7https://www.theglobaleconomy.com/India/percent_people_bank_accounts/#:~:text=For%20that%20indicator%2C%20we%20provide,from%202021%20is%2077.3%20percent.

e-RUPI addresses main challenges with bank account based direct transactions such as lack of transparency on end-use, high authentication failure rates, inactive bank accounts as well as lack of cash out points in rural India, according to experts.[8]

As e-RUPI does not require the beneficiary to have a bank account, a major distinguishing feature as compared to other digital payment forms, it will see higher adoption rate in rural and distant areas effectively that are currently a hub of small businesses. The government is depending on the e-RUPI platform to deliver welfare schemes for which MSME and small businesses are a major part," Shams Tabrej, Founder, and CEO Ezeepay told Financial Express Online.[9]

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[8]https://12ft.io/proxy?q=https%3A%2F%2Feconomictimes.indiatimes.com%2Fnews%2Feconomy%2Fpolicy%2Fe-rupi-to-create-a-transparent-and-efficient-welfare-delivery-mechanism-pm-narendramodi%2Farticleshow%2F84977167.cms

[9]https://www.financialexpress.com/industry/sme/msme-tech-explained-what-e-rupi-launched-by-pm-modi- mayhave-in-store-for-msmes-to-boost-digital-transactions/2304190/