

Direct Benefit Transfer in India: Progress, Challenges, and the Path Forward

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Abstract

The Direct Benefit Transfer system has emerged as a transformative tool for streamlining welfare schemes in India, aimed at assuring that state subsidies and benefits reach the target beneficiaries in a transparent and efficient manner. Introduced in 2013, DBT leverages technology, particularly Aadhaar and bank accounts, to deliver financial assistance directly to the accounts of the beneficiaries, thereby reducing leakages, corruption, and delays. This paper examines the progress made by DBT, evaluates the challenges that have limited its full potential, and explores the path forward to enhance its implication on financial inclusion and welfare delivery. By reviewing secondary data, government reports, and case studies, the paper provides a comprehensive analysis of DBT's role in India's socio-economic development, with policy recommendations to address the persisting gaps.

Keywords: Direct Benefit Transfer, Economic development, Financial Inclusion, Challenges, Welfare Schemes, Technology.

1. Introduction

India's underprivileged is protected by a wide range of in-kind and monetary subsidies run by the central and state governments. However, these social protection schemes frequently experience substantial leakages and inadequate targeting, corruption, and delayed transfers which distort market functioning by subsidizing prices and impose substantial fiscal stress without corresponding social benefits. The Direct Benefit Transfer (DBT) system, launched in 2013, sought to address these issues by ensuring that subsidies and entitlements are transferred directly into the bank accounts of beneficiaries. By leveraging the Aadhaar identification system and a robust banking network, DBT has revolutionized the delivery of public services and financial assistance. As of 2024, the DBT system has covered numerous welfare programs, from LPG subsidies and pension payments to food security and fertilizer subsidies, benefiting millions of Indians.

2. Concept of Direct benefits transfer and Financial Inclusion:

DBTs are technology based subsidy distribution system in which the target beneficiaries under government welfare schemes receive the benefit directly credited to their bank account. As the beneficiaries are identified by using the unique identification number generated based on the Aadhaar number of each beneficiaries it carries certain advantages such as,

- Benefits are distributed based on bank accounts linked with Aadhaar number and biometric Identity which helps to remove the fake/ duplicate beneficiaries.
- No middlemen's/ intermediaries that eliminates the cuts/corruption in the benefit distribution.
- With a strong bank network, the bank would ensure that the cash will reach the right beneficiary at its doorstep.
- Cash transfers can be performed quickly at affordable cost through use of aadhar based micro ATM networks.

2.1. Financial inclusion:

Over the decade Financial inclusion has been a key word for the economic policy making agencies across the globe, especially in developing countries as they experience the problem of poverty, low employment, regional disparity etc. and this issues can be effectively addressed by an economy where inclusive financial markets are present because they offer opportunities for individuals and households to effectively manage consumption, payments, access to credit and insurance. Financial institutions and banks are fundamental to economic growth and development. To maintain and enhance the growth rate, it is imperative to promote increased participation of economically weaker section of the population in the economic growth process. Financial inclusion is the trajectory India must pursue to raise as a global contender.

Financial inclusion can be defined as ensuring that formal financial services and products like transaction, credit cards, payments, savings and insurance are access able to individuals, households and businesses in a community in a sustainable way (Singh & Singh Kondan)¹. The financial inclusion level is measured as financial inclusion index (FII) constructed based on three aspects of a financial system for overall growth in welfare economy: availability of banking services , bank branch penetration , and usage of banking system.² (Sarma.,2008)

2.2. Financial Inclusion and Economic Empowerment

Financial inclusion plays a crucial role in economic development by contributing to growth of GDP, reducing regional inequality, and reducing poverty levels. Access to financial services enhances the ability of marginal families to improve their financial consistency, while providing firms and households with opportunities to increase income and self-reliance. Without access to formal financial products, individuals may miss out on key development opportunities, leading to deeper poverty and higher costs for accessing finance. A well-developed, accessible financial system reduces costs, facilitates savings, investment decisions, and fosters technological innovation, which in turn positively impacts a country's long-term economic growth.

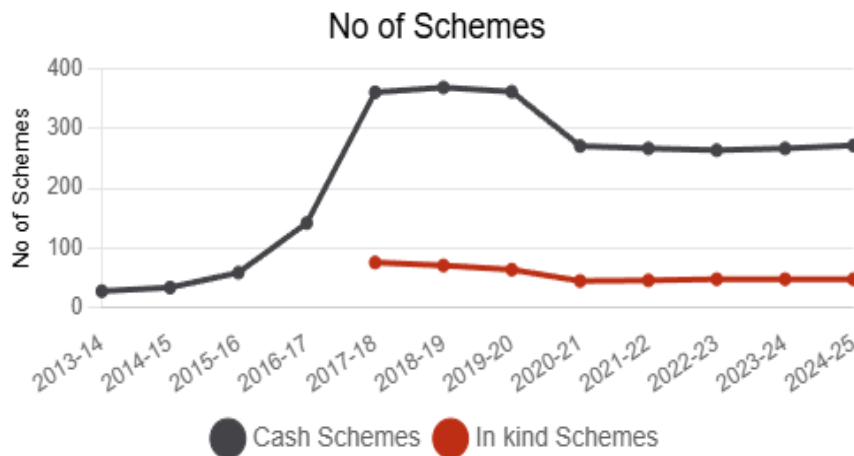
Financial exclusion, often linked to poverty and inequality, arises when individuals or regions are unable to access financial services due to factors like unemployment, low income, poor health, or social instability. This exclusion exacerbates social disparity, deepening the divide between the rich and the poor, and negatively affects national economic development³ (Andreoni et al.,2008)

As a result, financial inclusion is essential for narrowing the gap between socio-economic classes, and different countries implement tailored policies to promote financial inclusion based on their unique economic, social, and cultural contexts. The ultimate goal is to foster economic development while reducing social and financial inequality.

3. Evolution and Progress of DBT in India:

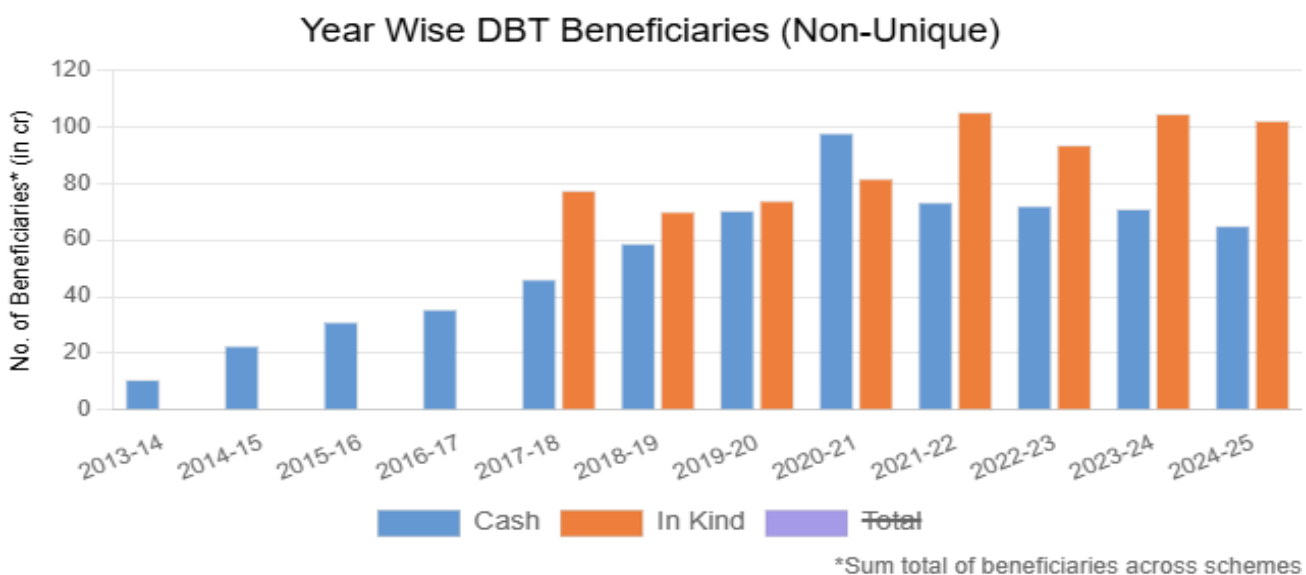
The concept of DBT was first piloted in 2013 in select districts for specific welfare schemes, such as LPG subsidies. Its initial success laid the groundwork for scaling it to a nationwide program. By 2014, the government introduced the Pradhan Mantri Jan Dhan Yojana (PMJDY), which sought to provide every Indian household can have access to a bank account. This initiative played a key role in ensuring that a vast majority of beneficiaries were eligible to receive direct transfers. In tandem with PMJDY, the Aadhaar identification system, launched in 2009, became an essential tool for verifying the identity of beneficiaries and linking them to their bank accounts. Over the years, the scope of DBT has expanded significantly covering large number of schemes like Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), National Social Assistance Programme (NSAP), PDS (Public Distribution System), and food security benefits, to name a few.

Figure 3.1: Year wise progress of number DBT schemes from 2013-14 to 2024-25(Provisional)



Source: <https://dbtbharat.gov.in/>

Figure 3.1: Year wise progress in number of beneficiaries of DBT schemes from 2013-14 to 2024-25(Provisional)



Source: <https://dbtbharat.gov.in/>

Figure 3.1 shows a steep rise in the number of DBT schemes from 28 to 440 schemes between 2013-14 to 2018-19 and thereafter a slight reduction is seen till 2020-21, then number schemes were stabilized around 320 as on 2024-25(provisional) overall the number schemes has and CAGR of 22.47%. as on 2023-24 the total number of DBT schemes operative in india including state specific schemes are 1016 with a growth of total amount paid beneficiaries of Rs. 0.06 lakh cr to 2.14 lakh cr. Whereas figure 3.2 provides the number of citizens received benefit under DBT schemes. The total number of non-unique beneficiaries have increase from 10.8Cr to 167.6Cr with an CAGR of 79.36 % shows that the government is bringing more number of schemes under DBT system with a view to achieve the very basic purpose of the government welfare programs. This growth has resulted in reduction in administrative cost, elimination of duplicate beneficiaries and saving thousands of crore rupees to the government which can be utilized for investing in aggregate economic development of the country.

4. Challenges in DBT Implementation

Direct Benefit Transfer (DBT) schemes have revolutionized welfare delivery in India by promoting transparency, reducing leakages, and ensuring timely benefits to beneficiaries. However, their implementation is experiencing certain challenges such as,

4.1: Technological Barriers

While DBT has made significant strides, its success hinges on **technology**. The reliance on bank accounts linked with Aadhaar and need for mobile phones has created challenges in rural areas with inadequate infrastructure. **Internet connectivity** remains a significant barrier in areas, where network coverage is poor. A report by the **Telecom Regulatory Authority of India (TRAI)** reveals that **25% of rural households** still lack reliable internet access, which impacts their ability to receive DBT transfers smoothly.

4.2: Aadhaar-Linked Issue

Aadhaar-based authentication is central to DBT's functioning, but it has been plagued by issues related to **biometric mismatches** and **data errors**, particularly for the elderly, those with disabilities, and people in rural areas with worn fingerprints. These errors have led to **exclusion errors**, where eligible beneficiaries were unable to access their entitlements due to issues with Aadhaar authentication.

4.3 Financial Literacy and Digital Skills

Despite the growing access to bank services, financial literacy remains a significant challenge. Many beneficiaries, especially those in rural areas, lack the skills to access digital banking services. According to **NABARD**, nearly **27% of rural adults** are financially illiterate, and a large portion of the population in rural area is unaware of using mobile banking applications or online platforms to manage their cash. This digital divide exacerbates the difficulty in ensuring that DBT reaches all beneficiaries effectively.

4.4 Inclusion of Vulnerable Groups

While DBT has contributed to the financial inclusion of many previously marginalized groups, there are still challenges for **women**, **elderly citizens**, **tribal populations**, and **persons with disabilities**. These groups often face challenges in accessing bank accounts, especially if they do not have the documents or Aadhaar numbers. A report by **UN Women India** notes that **only 30% of women** in rural areas have access to financial services offered by banks and financial institutions, which limits the reach of DBT schemes for female beneficiaries.

5. The Path Forward: Recommendations for Improving DBT

5.1 Strengthening Digital Infrastructure

To overcome technological barriers, India needs to invest in expanding internet connectivity and improving mobile network coverage in underserved areas. Ensuring that rural regions have access to reliable broadband would help facilitate smoother transactions and better access to DBT services. Public-private partnerships could play a strategic role in addressing infrastructure gaps.

5.2 Enhancing Aadhaar-Linked Systems

The government must focus towards improving the Aadhaar authentication system, addressing biometric mismatches, and incorporating alternative methods for identity verification, such as one-time passwords (OTPs) or KYC (Know Your Customer) updates. Additionally, awareness campaigns should be initiated to educate citizens about the need of linking Aadhaar with their bank accounts.

5.3 Promoting Financial Literacy

Increasing financial literacy through targeted campaigns is required for assuring that beneficiaries can fully utilize DBT services. The government, in partnership with banks and NGOs, should launch localized training programs to teach digital banking, mobile wallets, and the use of government portals to access subsidies.

5.4 Ensuring Inclusivity for Vulnerable Populations

To ensure that DBT benefits are accessed by most vulnerable groups, the government should create specialized outreach programs for women, elderly people, tribal communities, and people with disabilities. This could include simplifying the Aadhaar registration process, offering training in digital banking, and providing additional mobile banking solutions tailored to the requirement of these groups.

5. Conclusion

Direct Benefit Transfer has made significant contributions in advancing financial inclusion in India, bringing millions of previously excluded individuals into the formal banking system. Through its ability to reduce leakages, improve welfare delivery, and encourage digital payments, DBT has the potential to be a game-changer in India's socio-economic landscape. However, challenges related to infrastructure, technology, and financial literacy persist. By addressing these barriers, India can further unleash the potential of DBT completely and ensure that the advantages of financial inclusion reach every corner and every person of the country. DBT represents not just a policy success, but a transformative tool for achieving inclusive growth in India, moving the nation closer to its goal of universal financial inclusion.

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