

India's Direct Benefit Transfer Programme – An Update

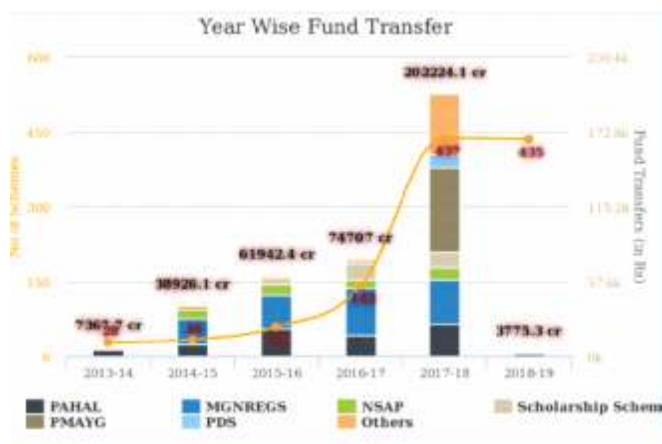
Where does India's Direct Benefit Transfer or DBT programme stand? What is required to maximize its benefits? This policy brief gives a status update of the programme and identifies the challenges that the government must address to help make the DBT programme scale up, become more efficient, and inclusive.

India's DBT programme has expanded significantly over the past year, with the inclusion of the Public Distribution System (PDS) or food entitlement. This year, the programme will also cover fertilizer and rural housing, taking the overall transfers to surpass INR 2 trillion. Undoubtedly the rapid expansion over the past two years has been driven top-down and on a war footing. However, the continued success and sustainability of the massive sized national DBT programme depend critically on the operational capacity of implementing agencies. This policy brief therefore attempts at documenting the key changes required as the DBT programme matures and spreads.

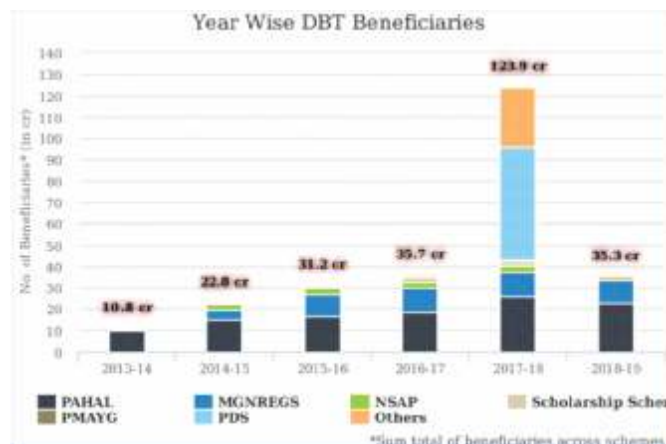
Key Takeaway

For the DBT programme to mature and become more pervasive and efficient, it is imperative to build a comprehensive monitoring and supervision mechanism. This mechanism needs to ensure that all processes are in place at all levels of administration, till the last mile, with transparency and accountability at each level.

An effective and transparent grievance redressal mechanism within the DBT Mission and the State Government DBT Cells, as well as in the interface with the beneficiaries, should be the next policy objective.



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



Status of India's DBT Programme: Massive Expansion

The Indian government's programme for Direct Benefit Transfers began in 2013, with pilots in 43 districts and 27 schemes and has grown significantly, especially in the past year. In March 2016, the government announced its commitment to expand the scope of the programme to include all welfare and subsidy schemes operated by all Ministries/Departments of Government of India directly or through implementing agencies, which involve cash or kind benefits' transfers to individuals. As of March 2018, of the 1193 schemes under 74 Ministries, 452 from 58 Ministries have been identified as DBT applicable. The programme currently covers 437 schemes under 57 Ministries, with 121.1 crore beneficiaries, a significant rise over the 35.5 crore beneficiaries in 2016-17. A large part of

the growth comes from the expansion of the DBT programme to cover the Public Distribution System (PDS) or food entitlement last year; of the 85.6 crore additional beneficiaries under the DBT platform in 2017-18, the PDS accounted for 52.9 crore beneficiaries. Apart from the PDS rollout this year, the government aims to include disbursements under the fertiliser subsidy and under the Pradhan Mantri GraminAwas Yojana for rural housing. For 2018-19, the disbursements under DBT are expected to cross Rs. 2 lakh crores, a huge jump from the Rs. 7,360 crores disbursed in 2013-14.

In 2015, the DBT Mission was brought directly under the Cabinet Secretariat, with the implementation directly under the Prime Minister's Office. This was to ensure smooth coordination across ministries, departments and state governments. Over

the years, the stage has been laid for all disbursements to go through the Public Finance Management System (PFMS) to ensure stricter monitoring of utilisation of funds, transparent accounting, just-in-time release of funds etc. All Central and Centrally sponsored schemes were to go online through the platform by March 2017, while state governments were encouraged to bring disbursements in their schemes through the system.

The expansion of DBT has had a direct positive impact on the banking agent network, supporting India's financial inclusion objective. Agent viability has been a challenge so far and the MicroSave-Helix Institute ANA survey, February 2018, has shown that government disbursements have significantly contributed to the adoption of banking in India over the past two years. The median daily transactions in India have gone up from 13 in 2015 to 31 transactions in 2017, with Aadhaar-linking to bank accounts, insurance and pension registrations for government led schemes bringing more business to the agents. In rural and non-metro urban areas, an agent offering G2P services conducts more than twice the number of median daily transactions - 44 and 32 respectively - compared to those agents who do not offer G2P services - 21 and 14 respectively. In metros, G2P agents conduct a median of 28 daily transactions compared to 15 by non-G2P agents. Further, agents who offer government services are more compliant than others (See graph).

Notwithstanding the benefits from the programme over the past few years, there are significant operational challenges in the expansion of the DBT programme to all government



Source: Agent Network Accelerator Research Survey - India Country Report, MicroSave-Helix Institute, February 2018

schemes and across the country; these will be set out in the following section.

Operational challenges in expanding DBT

Over the past five years, the DBT programme has faced substantial implementation challenges (See, India's Direct Benefit Transfers Programme: An Update – Policy Brief, June 2017, Direct Benefit Transfers: An Update - Policy Brief, June 2015). Independent evaluations on DBT pilots in food (Process Monitoring of Direct Benefit Transfer in the PDS Final Report, May 2017, NitiAayog, May 2017) and fertilizers (Assessment of Direct Benefit Transfer in Fertiliser, MicroSave, April 2018) have revealed significant gaps in the DBT process. While such problems are expected, what is critical is how they

are addressed. A non-systemic correction mechanism may yield quicker results in the short run. However sustainability requires a more systemic approach outlined below.

At the outset, two noteworthy trends are clear from both the reports so far:

One, the process is going through continuous feedback and improvement

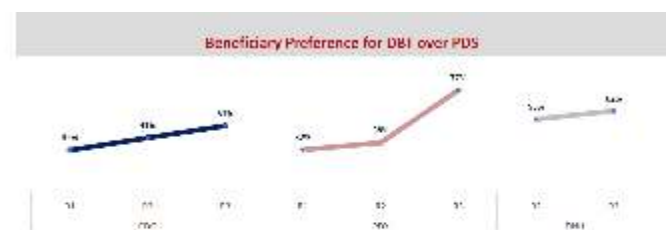
- The PDS pilot report (Niti Aayog, May 2017) showed that of the 17% beneficiaries in the sample not receiving any transfers at the start, roughly half of these began receiving the transfers along the way.
- The DBT-F survey (MicroSave, April 2018) showed a significant improvement in successful Aadhaar authentication over the three rounds of the survey.



Source: Assessment of Direct Benefit Transfer in Fertiliser, MicroSave, April 2018

Two, most beneficiaries are in favour of the new system of benefits delivery -

- The DBT-F survey showed that 54% of the retailers and 59% of the farmers preferred the DBT-F over the manual system of fertiliser distribution.
- The PDS survey showed that over time, 65% of beneficiaries across the 3 UTs prefer DBT to PDS.



Top three reasons to prefer DBT

- Elimination of any choice (44%)
- Better quality ration (37%)
- Ration whenever I want (30%)

Top three reasons to prefer PDS

- Get more ration (64%)
- Have no pay loss for ration (64%)
- Do not have to buy at market price (36%)

Source: Process Monitoring of Direct Benefit Transfer in the PDS Final Report, May 2017, Niti Aayog, May 2017

Given the preference by beneficiaries for DBT in these pilots, the key challenges have been set out for attention.

Aadhaar-related challenges: To begin with, multiple challenges remain in Aadhaar-seeding, ranging from incorrect entries, fingerprint mismatch, inadequate training of data entry

operators at field level etc. According to the MicroSave DBT-F survey, fingerprint mismatch is the main reason for authentication failure. The OTP authentication is one method to bypass the biometric mismatch issue, however linking of mobile phones with Aadhaar numbers has its own set of problems. For instance, a mobile phone may be shared by all members of a household, may not be in the possession of the actual beneficiary etc. Over the past few years, there have been many surveys with small sample size as well as analysis of data from Andhra Pradesh (the only state to provide such details) that show that exclusion from Aadhaar authentication is a problem (See Somanchi et al, February 2017; Venkatanarayanan, April 2017). The latest State of Aadhaar report 2017-18 reveals that while most beneficiaries do want Aadhaar, there continues to be exclusion due to Aadhaar-related factors.

The systemic solution requires a two-tiered approach. The first is to address the fingerprint mismatch problem, with a monthly monitoring on failure rates shared both by UIDAI, NPCI and banks. This may take some time to fructify, however the process needs to start now. The second is to find an alternate authentication to the OTP for Aadhaar, where the beneficiary has the option to choose the method.

Connectivity challenges: Connectivity is the second most significant reason for Aadhaar authentication failure. While majority of the agents do currently experience good connectivity, it is crucial to fix network failures at every location to ensure a hassle-free beneficiary experience. As highlighted in our earlier brief, Service Quality Standards in Telecom Connectivity for Financial Inclusion – ICFI Policy Brief, November 2015, the Department of Financial Services (DFS) needs to identify, along with TRAI, appropriate metrics for service quality for mobile financial transactions, like 'transaction drops' (equivalent to 'call drops' in voice telephony nomenclature).

The top down approach of the past would focus on the aggregates of metrics such as call drops; however, a systemic approach should now identify the specific geographies – circles, blocks, and even towers where these problems are more endemic. In aggregate monitoring the high usage areas tend to dominate where quality levels are typically superior. Therefore, geographical and temporal disaggregate

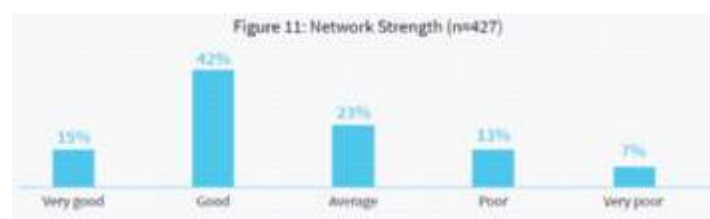
monitoring of metrics such as call drops is the need of the hour.

Through the TRAI, a more granular reporting by service providers is needed of the telecom footprint and data service quality aligned to Sub Service Area (SSA) level, ideally building a GIS heat map of telecom towers, data service quality profiles and transaction quality at the locations of business correspondent outlets across India. This recommendation was reiterated in the Report of the Committee of the Chief Ministers on Digital Payments Committee in January 2017: “an online real-time GIS dashboard with heatmaps to be developed by RBI by March 31, 2017 for all transaction points (branches, BCs, microATMs, PoS, etc.) and all channels (BHIM etc.) with ability to slice and dice the data.” The Department of Financial Services is currently working on creating such an application for digital financial infrastructure, which will help identify dark spots in financial and network coverage.

Viability challenges: Bankers and Business Correspondent Network Managers (BCNMs), involved in the disbursement of the direct benefits, have for long been raising the issue of inadequate transaction charges paid by the government on processing DBT payouts. One of the key findings from both surveys - the DBT-F and the PDS- has been the possible attrition at the last mile due to unattractive commissions on one hand and increasing operational burden from PoS-related issues, record keeping associated with Goods and Services Tax etc. So far, there has been no costing rationale offered for the transaction charges currently fixed by the government (See Department of Expenditure's OM dated 26th February, 2016).

Clearly, transaction charges should be determined on the basis of costs incurred and in consultation with all stakeholders - Department of Financial Services (DFS), National Payments Corporation of India (NPCI), all Banks and Business Correspondents. Since costs and technologies are everchanging, what is required is an institutional mechanism that updates the costing exercise regularly, in line with changing economic conditions and policy objectives and considering the views of the multiple stakeholders. The key therefore is an institutional mechanism, and not a one-time correction.

Capacity challenges: The State of Aadhaar 2017-18 report reveals that non-Aadhaar reasons for exclusion may also be significant. For instance, non-availability of ration and not using the manual override facility even though it is allowed by government are some of the reasons why beneficiaries are denied benefits. When it comes to programme implementation, attention must be placed on setting appropriate processes and imparting adequate training to the middle mile i.e. all the layers of government that process a DBT, and the last mile – where the agent/retailer interacts with the



Source: Assessment of Direct Benefit Transfer in Fertiliser, MicroSave, April 2018

customer. Ramping up human capabilities is as vital as appropriate physical infrastructure. The UIDAI circular “Exception handling in Public Distribution Services and other welfare schemes” (N. 23011/Gen/2014/Legal-UIDAI, 24th October 2017) noted that beneficiaries were being denied benefits “for various reasons such as not having Aadhaar; failure of authentication; and other extraneous circumstances like electricity outage, internet connectivity issues etc. despite .. provisions of Aadhaar Act and other adequate mechanisms to handle such exceptions already provided in the Regulations.” It went on to detail the mechanism for seamless delivery with no exclusion.

The systemic approach requires all officials in the DBT chain across the country, both at the central and state level, to understand and implement the distinct options. Monitoring of the causal factors of transaction failures, and course correction within a short duration requires each link in the chain to be answerable not only for greater coverage but also lower failure rates.

This brings us to the last and most important challenge of instituting a real time monitoring and grievance redressal mechanism.

Real Time Monitoring and Grievance Redressal Mechanism

Earlier Indicus briefs have repeatedly brought out the need for dashboards for real time monitoring at a granular level. There could be a multitude of problems - malfunctioning PoS terminals, connectivity or power breaks, non-availability of rations for PDS, management of fertilizer DBT during peak

season, Aadhaar authentication failures, delays in processing payments, OTP links not working etc. Grievances can arise at many levels – from staff within the system, from agents/retailers, from beneficiaries. A process is needed that will help identify the precise issues as they arise at specific locations. The report on PDS pilot also reiterates this: “Field based process monitoring is a costly and time-consuming exercise. It is essential to have a systematic, scalable system for collecting representative beneficiary feedback as an essential metric on programme implementation dashboards. Using outbound calls for information provision, labelling of transfers, grievance redressal and documenting beneficiary feedback across DBT schemes is an efficient and effective way of maintaining connection with beneficiaries.” (Niti Aayog, May 2017)

The key point to note is that the main challenges will vary across locations and only granular data and stringent monitoring can identify the precise solutions for each location. This will enable better delegation and assignment of responsibility and accountability.

A country of India's size and heterogeneity, even in state government capacities, requires considerable hand holding across the DBT chain and careful gleaning of the numerous glitches that will continuously emerge. All surveys so far show that moving to full digitisation and pure cash less transfer is right now a distant goal. Yet, India has begun well, transforming the subsidy regime is a process that will take time, its success depends on honestly addressing the challenges as they arise.

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