

CHALLENGES OF DIRECT BENEFIT TRANSFER SCHEME

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ABSTRACT

DBT stands for Direct Benefit Transfer is a government scheme via which all subsidies taken by a citizen is directly transferred to the bank account of the beneficiary if a citizen is below the poverty line. The primary aim of DBT is transparency in the process of monetary benefits transferred by the government whereas charging subsidies below the poverty line are concerned. The Direct Benefit Transfer implementation is made via the Aadhar card. The Aadhar card has the unique identity number of every citizen and is directly linked to their account. Thus using the Aadhar number it is possible for benefits to be transferred from the government so that subsidies can be given to individuals who are living below poverty line. Another major reason for taking this step is to eliminate excessive poverty in the country. Plus using an Aadhar number to transfer the money would also ensure complete transparency and hence eliminate any means of corruption in government funding schemes. This paper is a modest attempt to focus on the challenges that DBT scheme is facing.

Key Words: DBT, Cash Transfer, PDS, UID system.

INTRODUCTION

DBT Scheme can be particularly useful in reducing delays, once payment instructions are issued. Since the transfer from the Union treasury to the state and thence to the Aadhaar enabled bank account can be near-instantaneous, it should help reduce delays considerably.

However, it is useful to remember that merely depositing money in a beneficiary's bank account does not mean that it has reached the beneficiary, who still has to access it. For this, the coverage of the BC network (number of settlements visited by BCs) and its quality (how frequently the settlement is visited and the associated necessary connectivity) is of critical importance. Only then can the time to delivery be reduced significantly. This

is one of the lessons of the experiment in converting kerosene subsidy to cash in Kotkasim, Alwar, where transfers that were supposed to offset the cost of purchasing kerosene at market prices did not reach beneficiaries at all or reached them late and intermittently. Furthermore, even when it reached, the actual collection was from a bank branch located some distance away, and sometimes the beneficiary had to forego a day's wage (Bhatti and Khanna 2012).

Further, there are many delays prior to the issue of a payment instruction. For example, in MGNREGS, where the wages to be transferred using DBT, the payment order would not be generated until the muster rolls were checked and the work measured and certified. Such delays would be unaffected by DBT. There is limited information about the relative importance of different types of delay, making it difficult to judge exactly how helpful DBT will be, but if the BC system and connectivity network are in place, it can have an ameliorative effect on delays.

CASH TRANSFERS: THE NEW MANTRA

Cash Transfers are the new mantra for resolving all the problems that plague service delivery in India. However, cash transfers are neither new (scholarships, pensions and even NREGA payments are all cash transfers) nor does the much-hyped roll-out of Direct Benefit Transfers through Aadhar in 21 districts involve any scheme which is not already a cash transfer. The debate really is about the future possibility of convening existing in-kind subsidies such as food, fertiliser and fuel into cash. Theoretically, there is nothing wrong in a system of cash subsidy delivery so long as beneficiaries can purchase the equivalent amount of goods and services through the cash. Proponents of cash transfers see this as a magic bullet not because this improves outcomes in terms of the stated purpose of subsidies but because it may cure problems in present service delivery which at present is plagued with serious leakages. Another argument in favour of cash transfers is that current in-kind subsidies are market distorting and the belief that therefore cash transfers may be more efficient.

Unfortunately, the debate on cash versus in-kind transfers has not been backed by sufficient empirical evidence. The case in favour of cash transfers is usually built on the grounds that the existing public institutions involved in, kind transfers are inefficient both in terms of reaching intended beneficiaries and in the costs they incur for whatever they deliver. Such perceptions are backed most often by reference to the Public Distribution System (PDS) where leakages are undoubtedly high and also complaints abound regarding functioning of the Food Corporation of India and the targeted public distribution system. However, the argument that a large part of the grain is used by the non-poor is a complex argument. A lot of the problems in this regard are because of the

faulty selection of beneficiaries and also due to arbitrary capping of number of beneficiaries at the state level - problems which neither cash-transfers nor Aadhar will resolve. In fact, there is now strong evidence that states which have universalised their PDS have also managed to eliminate leakages to a large extent. The message from the successful states is that a reduction in food prices has led to elimination of leakages. Finally, this has also been made possible by the successful adoption of basic technology such as GPS and SMS in streamlining the function of PDS. But then these are problems which not only require innovative thinking but also a strong political will to eliminate leakages in the functioning of PDS. Similarly, there is now sufficient evidence that the FCI is not as inefficient as it is made out to be. Except for 2004-05, for most years for which data is available, economic cost of FCI is in fact lower than the prevailing market prices. This is despite the fact that FCI not only pays full MSP and taxes that the private sector often does not and incurs much higher costs on account of more long distance transportation and much larger storage obligations than that of the private sector.

DIRECT BENEFIT TRANSFERS

In January 2013, GOI launched the Direct Benefit Transfer (DBT) scheme—an initiative to transfer cash benefits such as wage payments, subsidies and incentives for a number of government programmes directly into bank accounts of beneficiaries through electronic systems. The scheme was designed with the objective of minimising delays in fund flows, ensuring accurate targeting of beneficiaries. and curbing leakage and duplication. DBT was initially rolled out as a pilot project. Phase 1 (January 2013-November 2014) covered 43 districts and 24 selected Central Sector and Centrally Sponsored Schemes. This was expanded to 78 additional districts in Phase 2, starting December 2014. In addition, a number of other schemes were included in its ambit such as wage payments under the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) and Liquefied Petroleum Gas (LPG) subsidies.

COVERAGE OF DBT SCHEME

DBT is applicable to all GOI programmes involving cash transfers to individual beneficiaries. To this end, DBT aims to cover 536 schemes across 65 ministries and departments, of the total 1182 schemes administered by the 75 ministries and departments of GOI. However, as of December 16, only 84 schemes (16 percent of the target) across 17 departments and ministries were using DBT. In terms of the quantum of transfers, since the schemes inception, Rs. 57 lakh crore had been transferred through DBT.

CHALLENGES OF DBT SCHEME

We can draw on extensive evidence from various types of cash benefit schemes in a variety of countries and socio-economic conditions. And we can draw on experience in India, notably from the pilots we have been undertaking.

The first advantage is that, being more transparent than alternative policies, they can be directed to those in need more effectively than any scheme that goes through layers of bureaucracy. Here, the authorities must be careful. The transparency and simplicity of the channels of distribution of cash must be preserved.

Second, cash benefits are emancipator. They enable people to make choices on how to spend their money, depending on their priorities. Not everybody is food poor. Many are health poor and might wish to spend more on medicines or treatments. Some are primarily schooling poor and might wish to spend mainly on - school-related expenses. Many are “debt poor trapped without the cash to chip away at the burden weighing down their lives. Some are “production poor’ unable to pay for items that would enable them to become productive. Cash benefits could facilitate investments, helping families break the shackles on small-scale production.

Third, cash benefits paid regularly, each month, provide a source of insurance. The regularity of money leads people to feel some basic security; as such, they can more control of their lives.

What we know from studies in India and other countries is that cash benefits lead to better nutrition and health, better school attendance and performance and improvement in women’s economic status.

However, it is the design of cash transfers and the implementation strategy that will determine their success. Here there is room for improvement. Cash benefits can be a supplement to other schemes, capable of inducing desirable outcomes that could not be done by subsidised commodities or the MGNREGS (Standing, 2013).

Conditionally should be resisted, even though nominally CCTs (Conditional Cash Transfers) have been perceived as successful in Latin America and some other places. Their success is almost always because of the cash, not the conditionality. In Brazil, as the Minister responsible for the Bolsa Familia told me, it became impractical and unedifying to take the conditionality to its punitive limit of taking benefits from women who could not carry out the conditions imposed on them.

CHALLENGES IN IMPLEMENTATION

The Department of Food and Supplies is the main implementing agency in this scheme and faces a co-ordination challenge. It has to manage within itself a network of 120 GRC5 with a large human resource of approximately 840 personnel. In addition, it has to interact with other stakeholders which are the banks, the NPCI, the UIDAI and the Department of Food and Supplies. It is also a pioneering system which is being implemented and all the stakeholders are to some extent or the other new to the process.

Banks play a major role in implementation as they are in charge of providing bank accounts to citizens, managing the BC network and transferring funds. Their full involvement is a must for the success of the project and problems. In securing complete cooperation of banks have proven difficult for successful implementation of the project.

IMPROVING THE DBT SCHEME USING AADHAR

The benefits of DBT / cash transfer schemes in the economic development of a nation are well chronicled — be it conditional transfers with specific requirements or unconditional transfers For any benefit transfer scheme to be successful, it should be carefully designed; the beneficiaries targeted correctly and proper] the schemes efficiently run; and demand side and supply side of the access to financial services carefully evaluated and tailored to ensure that the beneficiaries are not put to inconvenience in accessing the financial services touch points with a lot of focus on country specific issues and circumstances.

CONCLUSION

The ambitious Direct Benefit Transfer (DBT) system of the Government of India has been envisaged as a radical transformation in service delivery that bypasses the inefficiencies that traditional service delivery mechanisms have faced. Under the system, funds are transferred by banks directly to bank accounts of beneficiaries. These accounts are Aadhaar-enabled, in that they are linked to the beneficiary's Aadhaar number. Beneficiaries can link their existing bank accounts or open new accounts, even no-frill ones, using their Aadhaar number. The entire process of fund disbursement to beneficiary accounts is instantaneous.

Transactions can be carried out by beneficiaries at the standard off take points of bank branches and ATMs. However, to further ease access, the Business Correspondent (BC) model has been deployed. BCs carry out financial transactions using micro-ATMs (biometric point-of-sale devices) that authenticate identities by connecting to the UID system and thus ensure that funds are not misappropriated.

The main problem faced by this system is the exclusion of deserving and inclusion of undeserving beneficiaries.

Entitlements are claimed on the basis of bogus identities. These identities exist on the names of deceased or ghosts. Sometimes one person manages to get more through unfair means. There are also some technical problem i.e. operational errors such as spelling variations in names and change in address by the beneficiaries. It becomes difficult to verify the same person every time. Lack of Computerized records to be linked to DBT was hindering rollout.

In spite of the above mentioned problems which are faced by DBTs, this system has become very popular and effective. However, mass level awareness creation is urgently required. The awareness must be created that the Direct Benefit Transfer (DBT) system is an experiment in delivering services to citizens. It provides the guarantee that the funds are reaching the accounts of the beneficiaries. It also ensures that funds are withdrawn by beneficiaries themselves through the biometric system. This system reduces the time and cost of transferring funds.

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