



# YOJANA

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## Direct Benefits Transfer

**Cash Benefits -  
The Politics of Welfare:  
Guy Standing**

**Cash Subsidies for Food:  
The Politics of Composition  
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**Cash or Credit - Continuing  
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Sain**

**What can we expect from  
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Partha Mukherjee**

**Cash transfers  
and Social Security  
Dev Nathan  
and Anish N. Sharma**

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*Let noble thoughts come to us from all sides  
Rig Veda*

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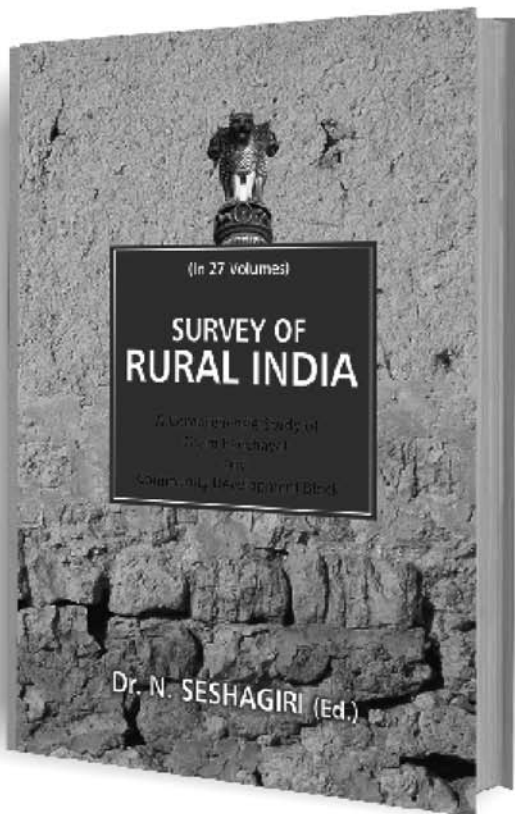
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# SURVEY OF RURAL INDIA

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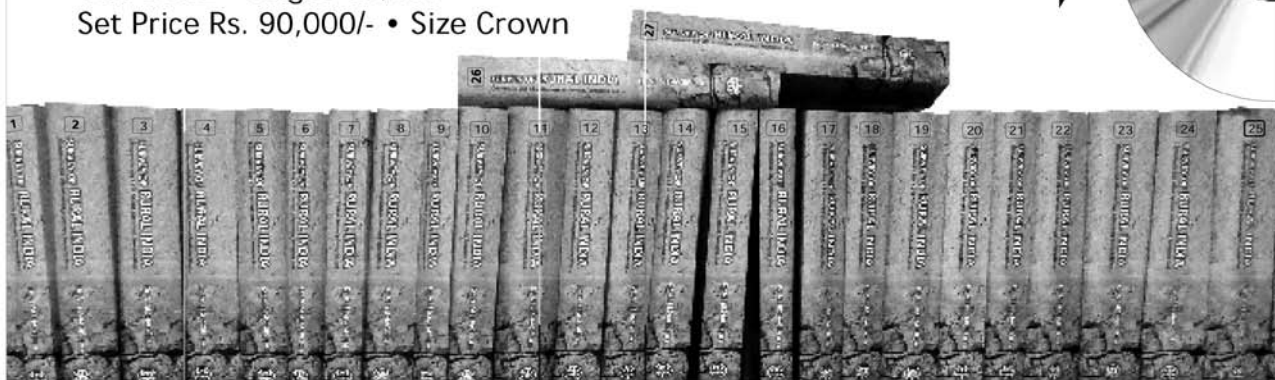
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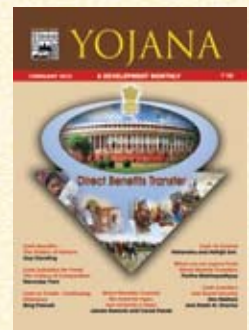
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## Bold Initiative-Cautious Start

The new year started with the announcement of the first phase of Direct Benefits Transfer (DBT) scheme rolled out in 20 districts of the country with 7 programmes under its ambit. The announcement has generated a lively debate on the impact of this scheme and its multiple dimensions. Similar schemes in various forms have been implemented in a number of countries in the world. We have had programmes like *Bolsa Familia* in Brazil, *Oportunidades* in Mexico, *Samrudhi Kosh* in Sri Lanka. This kind of programme has also been launched in Bangladesh, Iran, Namibia and many other countries of Asia and Africa. The cash-transfer of benefits has existed in India too as in case of payment of scholarships, old age pensions etc. But the importance of this step lies in the fact that the government has for the first time decided to experiment with a paradigm shift in visualising the future of social security programmes to make them sustainable, targeted and free from wastage and corruption.



It is no body's case to argue here that the country would not require cushioning in the form of subsidies and social security network. Undoubtedly, these will have to continue for a long time to come for a substantial section of our society. After all, even now close to 300 million people in India live under poverty who need economic support in various forms. However, the elaborate network of social security programmes which are now intricately linked to economic sustenance of the poor and ensuring health and education to all through inclusive growth is in danger of being grounded due to leakages and corruption in reaching the benefits to the intended social groups. The Direct Benefits Transfer (DBT) scheme is significant since it has taken up the challenge of defining a new social security structure which is bold in its vision, sincere in its intentions and has strong transformative potential. It would be wrong to assume that the adoption of DBT model implies cutting down the public services. On the contrary, it could free up resources which can be used for the provision of more extensive and better quality public services. A study by National Institute of Public Finance and Policy (NIPFP) has estimated that linking of *Aadhar* with DBT for major programmes of the government such as MNREGS, Food and fertiliser subsidy, Sarva Shiksha Abhiyan etc. can lead to huge savings which can be used for other programmes.

Indeed there are questions that are yet to be answered. Would it be right to include the Public Distribution System (PDS) in the ambit of DBT? What about fertiliser and Petroleum subsidies? Does it have to be linked to inflation indexing to keep the benefits undiminished for the poor as prices of commodities rise? Should we adopt a Universal Cash Transfer model or a Conditional Cash Transfer one? What would be the distributional impact of this scheme within a family? What would be the impact of these transfers on inequality in society? There are no easy answers to these questions but there are some indicators which can throw light on it. In Latin America, the Conditional Cash Transfers had significant impact on improving social indicators like enrolment of students in school and immunization percentage of children. In Brazil, the implementation of Cash Transfer Scheme has resulted in significant reduction in inequality. But blind copying of the example of another country may be counter productive. Each country has to devise its own programmes keeping in mind its specific realities and requirements. This explains the cautious start for this programme in India.

The task ahead is mammoth and daunting. The success of the Direct Benefits Transfer (DBT) depends crucially on the expansion of the banking network in the country. To tide over this problem, the scheme envisages the Banking Correspondent model, use of micro ATMs or utilisation of the Common Service Centres. Quick coverage of the entire population under the UID project or registration under the National Population Register (NPR) could prove to be decisive factors in the outcome of this initiative.

The issue carries articles by eminent scholars and policy makers which would surely spur informed debate on this subject and clarify a lot many questions in our minds.

# Cash Benefits: The Politics of Reform

*Guy Standing*



*Direct cash benefits can be a valuable part of social policy for the future, reducing poverty, economic insecurity and income inequality, while helping economic growth in low-income areas across India*

**F**OR MANY years, the writer of this article has been working on what is today called ‘direct cash transfers’ or, more correctly, ‘cash benefits’. I begin with that remark because recently there has been a tumult of shrill commentary in the media, much of it by commentators who appear to have little knowledge of what they involve and little respect for objectivity.

Let me give further context to the following. For the past four years, I have been working with SEWA and UNICEF on implementing and evaluating three pilot cash benefit schemes in different parts of India. What must be understood is that, even if the rationale for cash benefits were impeccable, the political strategy will be crucial. Public opinion will have to be convinced that they make sense. If reform is rammed through without intellectual preparation, it will backfire, and the legitimacy of a desirable reform could be so eroded that the cause will be put back for years.

Let us recollect what is at stake, and plead with advocates and critics for dispassionate analysis. Let us also make the heroic assumption that advocates and critics share a desire to reduce poverty more effectively, reverse the growth of inequality, boost economic development, and reduce government budget deficits to more sustainable levels.

If we could add a plea to all those involved in the debate to be intellectually honest and not indulge in political propaganda, insults, dirty tricks and caricature, then we might make progress in forging something close to a consensus. Nobody advocating cash benefits should imagine them as a panacea. Most advocates certainly do not think they are. And surely critics can appreciate that having money is a necessity for escaping from poverty.

I, among many, believe in a right to food for everybody and in well-constructed public social services. There are reasons for believing that cash transfers can help improve them.

The author is Professor in Development Studies, School of Oriental and African Studies, University of London, and co-president of BIEN, an international network of social scientists looking at ways of providing basic income security.

Putting polemical distortions on one side, recall some realities. For decades, the pillars of Indian social policy have been the Commodity Line and the Labour Line. The former has relied on an array of increasingly expensive subsidies, the latter on public works and the MGNREGS.

As far as subsidies are concerned, any Economist should be able to show they are always dubious. We also know that the main engine of subsidies, the PDS, is rife with corruption and that most of the money spent on it does not benefit the intended beneficiaries, as Rajiv Gandhi noted years ago, and as the Planning Commission and Minister of Finance have recognised. The Right-to-Food lobby wishes to universalise the PDS, somehow imagining that corruption could be overcome. But the corruption is not the fundamental problem. Subsidies distort legitimate market mechanisms, block off local production of foodstuffs, and are inherently inefficient, paternalistic and trap people in dependent poverty.

As for the MGNREGS, surely there is enough evidence now to show it cannot be an effective and equitable route for social protection. It is riddled with inefficiency and inequities, while not producing sustainable public infrastructure. For instance, in the 67 villages covered by our surveys in the past four years, not one has showed the scheme as working remotely like the way national statistics indicate. To continue to place great hopes in the scheme would be a triumph of hope over reality.

However, if those supporting the PDS and MGNREGS wish them

to continue, that should have no bearing on how they think about cash benefits. There is no need to treat them as substitutes. Each should be justifiable or not on their own terms.

Consider cash benefits as a stand-alone policy. What are the criticisms? They are the claims that the money would not reach the lowest-income groups, they would be wasteful, they would be inflationary, their value would fall because of inflation, and they would induce laziness. All of these claims can be refuted, theoretically and empirically. A review of the evidence is presented elsewhere.

What are the advantages? Here, 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 emancipatory. 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 have 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.

There are five design decisions to be made. First, should the cash benefits be universal or targeted? So far, government has presumed they should be targeted. However, in the SEWA-UNICEF pilots, the principle of universalism has been applied. Everybody in the nine villages was given the right to the cash each month. By contrast, the government seems to have accepted that cash should be targeted through the BPL ration-card system, with the intention of providing help solely to those holding the relevant card.

That system is inequitable and inefficient, as argued elsewhere, drawing on evidence from various studies. No amount of tinkering will overcome its failings. Social policy must be based on reality.

It would be fairer and less expensive to implement universal cash transfers, in which everybody would be required to apply to receive them. Where this has been done, what tends to happen is that some of the wealthy opt out by simply not applying. That should be their prerogative, as citizens. But cash paid out to above-poverty people could also be clawed back by making the tax system slightly more progressive. In addition, considerable savings would be made by not having to administer an expensive faulty BPL card system.

A universal system would also overcome the notorious *poverty trap*. This is an automatic feature of any policy based on giving only to the poor. It means that anybody who manages to go from being poor to being just above the poverty line loses entitlement to benefits and so can be worse off. The poverty trap encourages *moral hazards* – i.e., a person has no incentive to work harder – and *immoral hazards* – i.e., a person has an incentive to conceal income. A system that works like that cannot be good.

The second design question is even more controversial. Should cash benefits be conditional or unconditional? Conditionality means that recipients must undertake some prescribed type of behaviour or lose their entitlement.

Conditionality 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.

It may not be the fault of a mother that her child does not go to school for, say, 85 percent of the time, or whatever the rule might be. To take away the benefits because a condition is not met would worsen the situation for the child and the family. Accordingly, the system in Brazil has evolved into one based on “mutual responsibility”, where mothers agree to try to send their children to school and to clinics while local authorities agree to make it easier for them to do so.

The next design feature is the decision on who should receive the cash. Again there is more thinking to be done. Should the cash benefit be given to “the family” or to individuals, and should it be given to one type of individual on behalf of the whole family or household or to individuals? The Delhi scheme has been based on giving a block amount, Rs.600, to the senior women of a household. The trouble is that a household size is highly variable and a senior woman might not be the most suitable person to be given the money.

A family is a stretched concept. Some families live together, some are scattered. If one takes the household as the unit for cash transfers, should the amount be

determined by the number of usual residents or by some norm household size? What should happen if somebody leaves or enters? Should the amount be raised if people enter or be left as a standard amount? Merely to pose these questions should be sufficient to indicate the scope for unfairness that will arise if one proceeds on a family or household basis.

The only fair way is to calculate the amount to be paid on an individual basis, so that each and every person is treated as an equal, probably with children being entitled to a lower amount, and with that being paid to the mother or surrogate mother.

However, who should be the recipient? There is a tendency to think the money should be given to one woman in each household, on the grounds that women are more rational in spending money, and more likely to spend on children. But that is not always the case. And giving the money to any one person, be it a woman or the household head, sets up biases and potential frictions within households.

When we were designing the SEWA pilots, we debated this matter at length. Interestingly, women leaders from rural areas argued in favour of giving to each adult in the household, not just to women. There are sound reasons for this. One is easily overlooked. In cash-constrained households there is a tendency to give priority to certain individuals, such as the main earner, eldest son, and so on. This means the voice and needs of disadvantaged members are neglected. That unfairness can have severe consequences. But if each person has their cash

benefit, all will be in a position to demand their needs are respected. This is particularly important for female adolescents, the elderly and the disabled. In short, individual cash benefits can enhance their bargaining position, status and welfare.

This leads to the next design feature, one that has attracted most comment so far, the desire to combine cash benefits with a national campaign for *financial inclusion*. The UID is a marvellous innovation. Anybody doubting that is like an ostrich with its head buried in the sand. But we should recognise that it will take several years to evolve, during which time there will be numerous hitches. No UID advocate should be sanguine or rely on the lazy line that short-term pain is necessary for long-term gain. Everything should be done to

ensure that those who cannot afford to bear such pain do not do so. This means the initial distribution of cash benefits should be separated from the establishment of bank accounts, and that recipients should be advised that they have six months to open an account or establish a unique identity. The situation that arose in Kotsakim is unacceptable, and if repeated would erode the legitimacy of cash transfers in general.

There is much else to be debated as India comes to terms with the implications of moving towards a twenty-first century social protection system. It should not be based on patronising, paternalistic subsidies, nor on the sort of social security system developed in industrialised countries in the twentieth century. A social insurance system would not work.

We hope that many of the issues around cash benefits will be considered in the planned conference in Delhi in early 2013, when data from the evaluation surveys linked to the SEWA-UNICEF pilots will be presented. Nobody should claim cash benefits are a panacea, and nobody connected to our pilots have ever thought that.

Nevertheless, direct cash benefits can be a valuable part of social policy for the future, reducing poverty, economic insecurity and income inequality, while helping economic growth in low-income areas across India. But the design and how they are rolled out will determine whether the reformers succeed or not. Let us be strategic and wise. □

(E-mail :GuyStanding@standingnet.com)



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YE-248/2013



# The Direct Benefits Transfer: No need for Hype but Certainly a Hope

*Jairam Ramesh  
Varad Pande*



**T**HE DIRECT Benefits Transfer Initiative is the real tool against corruption that will ensure that the welfare state doesn't degenerate into a farewell state.

The Government of India has announced the Direct Benefits Transfer initiative with the aim of ensuring better and more timely delivery of benefits to the people. This marks a paradigm shift, where the State is explicitly taking responsibility to ensure that welfare schemes and basic entitlements reach the intended beneficiaries much more effectively than at present.

### What will DBT do?

The DBT programme aims that entitlements and benefits to people can be transferred directly to them through biometric-based Aadhaar-linked bank accounts, thus reducing several layers of intermediaries and delays in the system. The last-mile of the initiative is the most important — the system will allow actual disbursements to take place at the doorstep of the beneficiaries through a dense, interoperable network of business correspondents (BCs) using biometric micro ATM machines. Thus, the yardstick of

success is not going to be that the money has reached a bank account, but that it has reached the hands of the intended beneficiary — a student, a pensioner, a widow, an elderly person, a disabled person, a poor family.

### Why is DBT a paradigm shift?

There are several dimensions to this. First, the link to Aadhaar and the use of biometrics ensures that the problems of “duplicates,” i.e., the same person getting the benefit more than once, and “ghosts,” i.e., a non-existent person getting the benefit, are addressed. Second, it makes it possible for money to reach the intended beneficiaries directly and on time — so, for example, pensions, which reach the beneficiary once every four to six months in many parts of India, can now reach her bank account on the first of every month. Third, a dense BC network on the ground with micro ATMs will allow payments to happen at peoples' doorsteps, ensuring that the poor get the same level of service that the rich and middle-class in India get. Fourth, as it is a platform based on an open architecture, State governments can use this platform as much as the Central government. This is important,

*The DBT initiative is not a silver bullet for the malaise that plagues our public delivery system. It is, more realistically, a first step in re-engineering its very foundations*

The author is Union Minister for Rural Development. Varad Pande is with the same Ministry.

because this programme is viewed as a cooperative endeavour between the Centre and the States, and the States will have a critical role to play. Fifth, the potential benefit to internal migrants who send remittances to their homes is huge. It is estimated that Rs.75,000 crore worth of within-country remittances are made in India every year — many of these are lifelines for their families. Seventy percent of these remittances are today channeled through informal (and illegal) channels which impose high costs on them. The Aadhaar-based micro ATM network can ensure that remittances take place instantly and at much lower cost to migrants.

### **Tackling the challenges of implementation**

Having said all this, it is admitted that there are numerous challenges of implementation that lie ahead. That is why it is proposed to move ahead only gradually and with caution. First, the programme proposes only a modest beginning in Phase I, covering around 34 central government schemes — largely scholarships, pensions, and other benefit payments — in only 43 (of the over 600) districts. It will be ensured that at least 80 percent residents in each district have an Aadhaar number and an Aadhaar-linked bank account before any payments are started.

Only based on the learning from this phase, would the programme be expanded. Second, a system of independent concurrent evaluation is being embedded, to ensure that we get objective feedback on the challenges of implementation. There already are useful lessons from five Aadhaar pilots in different parts of the country. Third, subsidies on food and fertilizer have not been included in the first phase, recognising that these are highly complex and require considerable thought. Some state governments seem to have varying views on this issue, with some supporting the linking of DBT with fertilizer and food (and other Public Distribution System commodities), while others oppose it. Such issues will best be left to the discretion of the States. Fourth, the issue of mobile connectivity, a major challenge in backward areas and essential for online authentication, is being addressed in parallel, by adding more mobile towers (especially in backward districts) and through the ambitious government programme of taking broadband internet connectivity to every panchayat within two years. Fifth, the existing discredited BC model is going to be improved, with an open architecture model that would enable anyone — kirana shops, women's self-help groups, primary agricultural cooperative societies, post offices,

Accredited Social Health Activists and anganwadi workers, etc. — to become BCs. The business model for BCs is also being revamped to make it more lucrative. An interoperable BC network with micro ATMs is going to be put in place so that beneficiaries have access to banking at their doorstep, which will reduce the hassle and delays involved in dealing with bank branches. The post office network (a key payment channel, especially for pensions and Mahatma Gandhi National Rural Employment Guarantee Act payments) is also being reformed with the postal department committing to upgrading to a core banking solution (CBS) system across all its post offices within the next 18 months.

### **Conclusion**

The DBT initiative is not a silver bullet for the malaise that plagues our public delivery system. It is, more realistically, a first step in re-engineering its very foundations. We are neither evangelical or dogmatic about DBT. Instead, we believe that rather than having endless ideological discussions “for” or “against” DBT, it is better to be pragmatic and try it out seriously and systematically, albeit in a cautious and phased manner. □

*(E-mail: varadpande@gmail.com)*

### **Direct Benefits Transfer - Schemes**

1. Post-matric scholarship for SC students-7 districts, 48,000 beneficiaries (Puducherry, Nawanshahr, Fatehgarh Sahib, Gurdaspur, Anantpur, East Godavari, Diu)
2. Pre-matric scholarship for SC students-1 district, 24,000 beneficiaries (East Godavari)
3. Post-matric scholarship for OBC students-6 districts, 105,000 beneficiaries (Puducherry, Alwar, Anantpur, East Godavari, Daman, North Goa)
4. Post-Matric scholarship for ST students – 3 districts, 4,800 beneficiaries (Tumkur, Waynad, Harda)
5. Indira Gandhi Matrutva Sahayata Yojana – 6 districts, 55,000 beneficiaries (Dharwar, Puducherry, NW Delhi, Diu, North Goa, Amravati)
6. Dhanalakshmi scheme – 1 district, 8,000 beneficiaries (Fatehgarh Sahib)
7. Stipend to trainees under the scheme for welfare of SC/ST job seekers through coaching-cum-guidance and vocational training – 10 states, 650 beneficiaries (Karnataka, Kerala, Haryana, Punjab, Delhi, Madhya Pradesh, Rajasthan, Andhra Pradesh, Maharashtra, Jharkhand)



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## Cash Vs In-kind

*Himanshu  
Abhijit Sen*



***However, the message is also that use of technology without sufficient penetration may actually do more damage to the credibility of the technological innovation rather than help streamline delivery of subsidies in a better way***

**C**ASH 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 converting 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

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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.

Perhaps more importantly, many of the arguments against the PDS ignore two basic facts. First that those who use the PDS complain less than those who do not (a 2010 NCAER study shows satisfaction levels of about 80% among actual beneficiaries in most States other than Bihar) and that PDS does provide real purchasing power to the poor, particularly those at the bottom of the distribution. Our own analysis of consumption data from the NSS clearly shows that PDS alone accounts for a substantial part of poverty reduction between 2004-05 and 2009-10, particularly if one uses inequality sensitive measures such as the squared poverty gap. Moreover, there is clear

evidence that those consuming from the PDS are the only group of households which have seen an increase in calorie consumption. This is significant considering that there has been a secular decline in calorie consumption of the population in the last three decades. Although, it is difficult to measure the impact on nutritional outcomes due to PDS consumption, the evidence on calorie consumption is sufficient to suggest that if the purpose is reducing levels of malnutrition, then PDS seems to have had an impact. While this evidence is clear, there is no counterfactual to test it with what would have happened with cash transfers. But a comparison of those with similar consumption expenditure level after adjusting for implicit income transfer of PDS consuming households does show that households with PDS access are likely to have significantly more calorie consumption and that a rupee transferred through PDS leads to about twice the increase in calorie consumption than a rupee given otherwise without access to PDS. In other words, if the choice is made between in kind transfers and cash transfers, then same amount of transfer in case of PDS increases calorie consumption by twice compared to cash transfer.

While this is convincing evidence of superiority of in kind transfers compared to cash transfers, there is some merit in continuing cash transfers for the vulnerable groups. This in fact has been the case in India where cash transfers such as social pensions (widow pension, disability pension and old-age pension) have been helpful in enabling households to access

basic necessities including those from the PDS. But what makes these cash transfers important is the fact that these are not substitutes of existing in kind subsidies which are meant to improve outcomes of a particular kind of deprivation. This in fact is also the lesson from the Latin American countries which are seen as successful role models for cash transfers. Not only the level of deprivation in each dimension in these Latin American countries much lower than India, these countries use cash transfers only to supplement other benefits and universal provision of basic necessities. In fact most of these cash transfers including the famous Bolsa Familia are programmes which give cash incentives to encourage these households to access the basic in-kind services already in place. These are not a substitute for the government's commitment to provide universal basic services. But these conditionalities are important and useful when there is abundant supply of these, unlike the Indian case where there is hardly any supply of the basic amenities and services.

Fortunately, the recent announcement of Direct Benefit Transfer (DBT) cannot yet be seen as a move towards cash transfers. Cash transfers have existed as means of poverty alleviation for long in India and the current move is at best an attempt to streamline the delivery of these existing cash benefits to the beneficiaries in a different manner. Most of the schemes (mainly scholarships) which will benefit from the DBT are already cash transfers and most of them are also direct in the sense that they are delivered to

beneficiaries' bank account directly or through cheques. Incidentally, there is no scheme of the Ministry of Rural Development which is the nodal ministry for most of the social pensions.

The only addition to this scheme of things is the introduction of one more layer of verification and that is the aadhar. While this in itself is not problematic, there are concerns that the DBT may be a costly way of approaching the problem. Since the penetration of aadhar numbers itself is at a low level in most of the districts selected for rollout in the first phase, there is genuine apprehension that even the existing beneficiaries may face delays and rejections due to non-availability of aadhar numbers or due to rejection of biometric ids. However, this is not much of a concern since majority of the programmes which reach the poor such as social pensions are not yet covered by the programme. Most of these transfers do not involve any significant amount of ghost beneficiaries and there is limited utility of linking these with aadhar numbers. However, But even for the remaining, the non-availability of adequate infrastructure and safeguards has meant that the initial rollout has been limited to only 21 districts as against the proposed 51 districts. According to reports, this will cover at most 2 lakh beneficiaries. Significantly, the government has so far maintained that there is no plan of shifting in kind subsidies such as food and fertiliser to cash.

Clearly, the only objective of the new announcement is to test the efficacy of aadhar as an authentication tool. Such pilots

are already underway in Jharkhand (MGNREGA), Karnataka (LPG) and Andhra Pradesh (food) for more than a year. The results so far have not been very encouraging even after a year except in the pilot at East Godavari district of Andhra Pradesh. However, it is also worth mentioning that the East Godavari experiment is the only one which does not deliver benefits in cash. It delivers benefits in kind. But two other reasons why the East Godavari experiment performs better than the Karnataka and Jharkhand experiment are the fact that the East Godavari experiment is universal (for all beneficiaries without targeting) and it has aadhar penetration of more than 99% among the beneficiaries. In fact, given the level of banking penetration in East Godavari, even with all these safeguards, a system of cash delivery would have met the same fate as that of its counterparts in Karnataka and Jharkhand.

In fact, the learning from the yearlong experiments clearly point towards the necessity of universal coverage (or quasi-universal) but also the fact that the system of aadhar authentication works only when the coverage is more than 99%. While these two are necessary conditions for the system to work, the results also show that the technology itself is neutral to whether the benefits are given in kind or in cash. The reasons are quite obvious. While aadhar is a proof of identity, it is no substitute for proof of eligibility which is essential in a targeted regime of benefit delivery. The hurry with which the government has moved towards making aadhar compulsory for transfer of benefits

does not show any seriousness in either improving service delivery or better identification of those truly in need. On the other hand, it appears to be a back door manoeuvre to increase the aadhar penetration in the absence of necessary legal sanction from the parliament.

The big message from the available evidence as well as the pilots is clearly that the DBT is neither a magic wand nor is it undesirable. However, the message is also that use of technology without sufficient penetration may actually do more damage to the credibility of the technological innovation rather than help streamline delivery of subsidies in a better way. On the other hand, there is clear evidence that any such move should remain restricted to existing cash benefits alone. Attempts to convert in kind subsidies to cash subsidy may prove more seriously detrimental in the absence of adequate infrastructure such as availability of banking and other infrastructure. But even if banking and other infrastructure is put in place, and the purpose is to improve nutritional outcomes, cash transfers are unlikely to be a substitute for the PDS. The problem here is hugely behavioural with even poor people spending less on food than on other things to keep up with neighbours. The way out is reforming the existing PDS not dismantling it. But even here cash transfers and Aadhar may have a role if cash can be transferred to the PDS outlet at the point of delivery. In short, much more thinking is required to use the technology properly. □

*(E-mail : himanshu2@gmail.com)*

# Nature Heals

*Shailendra Sinha*



*Through  
Hodopathy, he has  
kept alive a unique  
tradition of our  
great ancestors  
which is now being  
jeopardized with  
the absence of  
awareness of the  
community*

**I**N CONTEMPORARY times, hospitals are no longer a place where a patient can expect to meet his god. Unless, of course, he can afford high end luxury of medical treatment. A large proportion of India's population has little respite from hefty medical bills. Even "Ayurveda", one of the most ancient traditional medicinal system of India, has started coming in expensive "packages" slowly drifting away from the reach of the common man. Today, when dependence on modern science has cut all our ties from the natural roots for which India is famous, the tribes of Jharkhand continue to use their traditional wisdom to fight diseases in the most natural and inexpensive way.

Hodopathy, the unique traditional medicinal system belonging to Jharkhand's tribal community, is believed to cure many diseases by the use of natural herbs and extracts without having any side effect on the health of the patient. According to P.P. Hembrom, the practitioner of this unique traditional wisdom, "Adivasis have an innate quality that

allows them to identify the herbal plants. Jharkhand alone is proud to flaunt twelve hundred varieties of herbal enemas. Medicines made from these herbal plants have a very minimal cost in Ayurvedic medicinal system and offer a cure for a wide range of diseases, from Malaria to Kaalazar." Hembrom believes that Hodopathy can also possibly provide cure for complicated diseases like cancer and AIDS, and at a very low cost. Dr. P.P. Hembrom has himself treated many patients severely afflicted with tuberculosis, malaria, anaemia, diabetes, high blood pressure, low blood pressure, skin cirrhosis and cysts.

In one of his lectures, Dr Hembrom shared the ingredients of his medicines - he treats diabetes by blending the extracts of the barks of Mouha Chal, Bar tree and Gullar tree. For tuberculosis, he prepares a tonic of egg yolk, jackfruit and two drops of Malkangini, a creeper, while a concoction of extracts of Punarnawa roots and Charaigoda bark is used to treat kalaazar.

A high density of flora in Jharkhand represents plants with



high medicinal value. The trend of treating illnesses with indigenous ayurvedic system is several years old which the adivasi community has inherited from its ancestors. But over time, with people leaving their traditional wisdom and adopting modern ways of survival, this asset has slowly lost its former glory. Dr. Hembrom revived this traditional method and reintroduced it to the villagers through the means of Hodopathy Ethno Medicine Research and Development Centre and Phulin Mahila Chetna Vikas Kendra, a local nonprofit organization that provides training to women from the communities in Hodopathy. In the unique Herbal Park located in Satiya Village of Hiranpur Block in Pakud District in Santal Paragna, various medicinal plants have been planted. Camps are organized in this park where training is provided to the physicians. The prestigious Governor's Award winner Peeyush Mishra shares how effectively he uses the traditional

herb enemas to cure various diseases. Over the years, success of Hodopathy has reached out to people beyond the periphery of the state. Seeing the wonders done by it, many therapists from Jhoron of Sundergarh District in odisha attended the training camp that empowered them to serve their communities back home.

Miruwaha Mardi of Saraikela narrates the case of a patient who was shown the door by Rajendra Institute of Medical Sciences, Ranchi but was treated successfully with Hodopathy. According to Dr. L.S. Hembrom, an expert in tribal medicines in Ranchi, hundred percent effective medicines for diseases like Diabetes, Jaundice and Epilepsy are being prepared from the natural herbs. "Allopathic Doctors recommend medicines which are expensive and out of reach of people from low income backgrounds. In such rural regions, local medication therapy is not only affordable but works magic

on the indigenous people," said Dr. L.S. Hembrom. Dr. Hembrom who is practicing hodopathy for the past 30 years in the state capital, was handed over this talent by his father and forefathers.

Dr Hembrom collects herbs from the jungles in Habab, approximately 20 km from Ranchi, and from the thick canopy near Dasam Falls, to prepare the medicines. Over three hundred herbs are required to prepare various medicines. Committed to his profession and his patients, he always experiments medicines on himself before prescribing it to the patients. Hodopathy has no side effects but a patient has to commit himself to a liquid diet during the treatment.

Nature heals. The blessed biodiversity of flora in this land of forest has answer to the health issues of the mankind. Through Hodopathy, he has kept alive a unique tradition of our great ancestors which is now being jeopardized with the absence of awareness of the community both towards Hodopathy and the conservation of these valuable forests. Many valuable plants are lost due to deforestation in the region. To conserve the valuable forests, a campaign has been started by the practitioners to create awareness among the communities towards Hodopathy. Once the villagers understand the significance of this natural medical system, they will hopefully join hands to conserve the valuable forests.

*Charkha Features*



# Cash Transfers and Social Security

*Dev Nathan  
Alakh N Sharma*



***Besides providing a social minimum consumption standard, social security should be attuned to the needs of the growing proportion of migrant workers and of overall shifts in employment structure***

**T**HE DESIGN of a system of social security depends on the objectives it is meant to achieve. In the first place social security must provide a higher and more secure consumption base to the poor. It must also increase their capabilities. But that may not be all that social security is meant to achieve. One may have additional objectives, such as that of increasing the productivity of its recipients, or of smoothing the transitions that are part of a process of development.

In addition, there may be certain boundary conditions that need to be met. For instance, following Rawls' difference principle, one may argue that justice requires that a policy change benefit the least advantaged, or, in the manner restated by Guy Standing, 'A policy or institutional change is just only if it improves the security and work prospects of the least secure groups in society,' (Standing, 2012: 19). A fiscal requirement could be that of choosing the least cost method of delivery of a certain level and coverage of social security.

In order to have a concrete focus, we look at the issue of providing social security from the viewpoint of an important group of workers

– migrants. We argue that migrants require a portable social security system. In the matter of universality, cash transfer may not be more effective than provision in kind. But in the matter of portability, cash transfer would certainly be more effective than supply of subsidized commodities. Cash transfer would also allow recipients to meet their changing priorities, which may vary from time to time, while provision in kind would be rather more inflexible and even have costs. We do not discuss the relative costs of cash transfer and direct provision of subsidized commodities, but it is not difficult to argue that the former is somewhat cheaper than the latter.

## **Context of Social Security**

The objectives and conditions of social security must be placed in the context of the nature of the contemporary Indian economy and the transitions that it is undergoing. The example of Bihar can be taken in this regard. To summarize some points about the Bihar economy: it has one of the lowest per capita incomes of any state in India and there is a low proportion of household consumption that is due to social security transfers, just about 3 percent (Reddy et al, 2012). According to a recent study by the Institute for Human Development

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(IHD), migration from Bihar is very high, with over half of households surveyed by IHD having at least one migrant worker, and migrants accounting for about one-fourth of the total labour force (Rodgers et al, 2012).

Thus, a key aspect of the Bihar economy, one that is important from the point of view of designing a social security system is that of migration. If migrant workers are unable to secure the benefits of social security transfers in their destination locations, then that would be a manner of injustice. Another feature of the Bihar economy worth noting is that harvesting wages are often paid in kind, as a share of the grain harvested (Rodgers et al, 2012).

These features of Bihar must also be placed in the context of the Indian economy, both of its structure and the changes that are occurring. Two features of the Indian economy are important in discussing the role of social security. First, is that the economy has a very large unorganized or informal sector. This large informal sector means that social insurance, usually related to formal sector employment, can have only a very limited role. Social security, provided through state measures then becomes important for the vast majority of workers and their households.

The second point to be considered is that the Indian economy is undergoing transition. Within the large informal sector there is still transition from farm to non-farm jobs and from rural to urban jobs. The transitions are not as fast as one might desire but they are occurring. And one must ask the question: does the absence of social security and its poor design promote or inhibit such transitions? This question follows from the objective we have stated above – that the social security system should aid in promoting the

transitions underway in the Indian economy.

One of the characteristics of market-centered development, is that it is very substantially different from that of peasant or other forms of economy preceding it. It often involves the separation of (small) producers from the means of production and the formation of a class of wage labourers. Additionally, those who remain small producers are subject to the vicissitudes of market fluctuations. Even small investments, say, in livestock or irrigation, carry with them risks in the market economy. There is inevitably turmoil associated with market-based development and the growth of production and income that accompanies it. Social security should help in protecting basic consumption levels, while workers and their households cope with risks.

In addition there is the process of old livelihoods being destroyed and new jobs being created. Some of these destruction of livelihoods can be quite large when they occur in the context of large industrial-cum-mining projects. But, even in a fast-growing economy with plenty of new jobs being created, there is inevitably a lag between destruction of livelihoods and creation of jobs. What can help people adjust to or accept this form of creative destruction is the existence of a social protection mechanism, which provides a minimum of assured income and consumption levels.

### **Economic History**

It is often presumed that social security can only be made available after development or growth has taken place. But a brief look at English economic history, could help make the case for the prior existence of social security in order to promote the change that economic development requires.

In an illuminating analysis of the pre-Industrial Revolution development of Britain, Simon Sretzer (2007) following Peter Solar (1995) argues for the importance of the mid-17<sup>th</sup> century Elizabethan Poor Laws in conjunction with the 13<sup>th</sup> century establishment of alienability of land in encouraging ‘labor mobility and emancipation from a peasant mentality of over-attachment to land as the only form of security’ (2007: 73). The entitlements of the Poor Laws were portable, so that, wherever they moved, individuals had the certainty of being provided for. This enabled employers to adopt the most efficient production technologies, even if that meant the displacement of workers, ‘without this provoking the same fears and strength of protests from those adversely affected, as such attempts elicited on the continent’ (Sretzer, 2007: 74).

Not only were migrating individuals protected by the universal entitlements, those left behind in rural areas could also draw on parish benefits. ‘... the aged, poor, disabled and widowed had an alternative source of support in this recognized right to call on the parish fund, obviating the absolute necessity to retain close contact between the family’s generations’ (Smith, 1986 as cited in Szretzer, 2007: 74).

This system of social security depended on the prior existence of personal identities, established in England from before the reign of Elizabeth. The combination of registered identity along with universalist and portable social protection, softened the transition from small-holder peasant to capitalist economy. Sretzer argues that it was this social protection system that enabled England, before the Industrial Revolution, to adopt the most efficient organic agricultural techniques and thus pull ahead of the

Netherlands and coastal China in agricultural productivity.

In the light of the above analysis, we can argue that the UID Aadhaar registration system is important in establishing the base for administering a national social minimum. This is necessary to promote the creation of a universal and portable social protection system which could well promote acceptance of the process of creative destruction.

### **Development Benefits of Universal and Portable Social Security**

The provision of universal and portable social security entitlements would have a number of developmental benefits. It would reduce the risks of migration and thus promote labour mobility. It would support women, other small-holders and those in self-employment in undertaking higher productivity but riskier investments. It would provide an income base for the poorest households to invest in their children's education. Of course, for shifting out of traditional livelihoods, including shifting surplus labour from agriculture, the creation of new jobs is necessary; but the existence of social protection would provide an assured minimum in the very likely time gap between losing a livelihood and getting a job.

Thus, social security is important in supporting economic transitions from farm to non-farm and from rural to urban occupations and in raising productivity of the self-employed or own account workers. The entitlements arising from social security measures should be portable, so that migration is not discouraged.

Portability of rights is of importance for Bihar, in which, as pointed out above, there is a high level of migration. But there are other communities too which are forced into seasonal migration.

Adivasis in many parts of India often migrate after the only harvest of the year, going to work in brick kilns, sugarcane fields and the like. They lose whatever social security benefits they have when these benefits are linked, as in current PDS distribution of grain and kerosene, to particular locations.

### **Distortions?**

The location specificity of social security raises the question: should social security measures be specific to a sector or location? Or, should they be uniform across sectors or locations? To take the example of MGNREGS, once work is specific to being rurally-located, the opportunity cost of migration goes up. Urban productivity should be higher than rural productivity by at least the amount available under MGNREGS work. Urban wages should then be higher than rural wages by the same amount, besides accounting for higher costs in having two locations for a household. In a sense, MGNREGS subsidizes rural employment and thus raises the wage at which migration will take place.

Field researchers often point out (even if they don't write it in their reports) that MGNREGS in practice works as a cash transfer, with little meaningful employment. This certainly raises the question, as suggested by Arvind Panagariya and others, whether MGNREGS be replaced by an equivalent cash transfer system? Given the objective of providing social security, could the 60 percent or so of MGNREGS funds meant for wages, be directly transferred to the poor?

In a similar fashion, the subsidized supply of kerosene acts a disincentive to shift to other forms of providing light. Where electricity is available, though at a cost, the loss of the kerosene subsidy has to be added to the price of electricity as

the cost of switching from kerosene to electricity.

Again, where social security is provided to workers in the informal sector does it work as a disincentive for employers to shift from informal to formal sector? Employment in the formal sector has a non-wage cost in the social insurance contributions to be made by the employer. This non-wage contribution is in effect a tax. On the other hand, state-provided social security in the informal sector is a subsidy to informal sector employment. Thus the subsidy to the informal sector and the tax or non-wage employer's contribution in the formal sector have to be added up as the required productivity difference for an employer to shift from the informal to the formal sector. As argued by Santiago Levy (2008), himself the designer of Progresá and then Oportunidades for informal sector workers in Mexico, having state-provided social security only for the informal sector has the unintended outcome of inhibiting the growth of the formal sector. Such social security needs to be universal and not discriminate between sectors.

From the earlier discussion on the transitions underway in India, and the high level of informalization and migration, we can argue that the social security system must be both universal and portable. Migration for work is a feature of the livelihood pattern of many sections of the poor. But a problem of migrants, especially seasonal migrants, such as adivasi workers in brick-kilns, is that they are not able to access any social security benefits in destination areas. Aadhaar cards are the first in establishing portability. But, the next question is: what type of social security system will better meet this requirement of universality and portability, the provision of subsidized goods, such as food and kerosene, or a cash transfer?

## Portability of Entitlements

Subsidized food can be provided even at destination areas. But it would be very difficult, if not impossible, for ration shops to tune their supplies for inward and outward migrants. In this situation, even if the right to get subsidized food were made portable, ration shops are likely to deny access to migrants on the ground of not having received the requisite supplies from the government department.

Destination areas generally have a higher level of monetization than migrants' origin areas. So, in destination areas, on the whole, commercial shops can easily increase or decrease their supplies. The provision of subsidized food at migration destinations is more likely to be done through cash transfers than through PDS-type special shops and special supplies. Consequently, on the grounds of establishing an effective system of portability of entitlements, the cash transfer system will be preferred to the supply of subsidized food and other commodities, such as kerosene.

In addition, accessing social security benefits could have various transaction and transport costs. There may be costs involved in securing access, such as a bribe to be enlisted as a BPL household. If a trip were required to collect benefits, there would be the cost of a day's wages or earnings lost. There could also be transport costs, in case a visit has to be made to another village or centre.

If there were any transaction costs involved in being enlisted, then in the case of cash transfer there would only be a one-time cost. For subsidized commodities, on the other hand, there would be a transaction cost with each commodity.

In the case of transport costs, the matter is not as straight forward.

With the subsidized commodities system, all commodities may not be available at the same time. Thus, it would be necessary to make a trip for each commodity to be collected, one day for grain, another for kerosene, and so on. In the case of cash transfer, however, all entitlements to an individual could be bundled up and transferred in one transaction. Even if the person needed to make a trip to the bank, that would require only one trip. Given that most villages have grocery shops, it would not be a problem to buy the desired commodities with the transferred money. With reasonably functioning markets, a cash transfer will reduce transport costs for the recipients.

The ease of getting the cash transfer depends on the density of bank branches or at least, points at which cash could be withdrawn. At present banks are not available in each village. Visits are necessary to nearby towns. But the bank correspondent and mini-ATM systems are being developed. As these systems for extending the reach of banks develop, there will be less need to travel to nearby towns, thus bringing down transport costs. One could even argue the other way round: the need for all recipients to have bank accounts, will push forward financial inclusion.

## Shifting Priorities

Households have shifting priorities. At the beginning of the school year, school expenses are the priority. During times of illness, health expenses would be important. With such shifting priorities households need to be able to adjust household expenses according to these priorities. In addition, as mentioned earlier, in many parts of Bihar harvesting wages are paid as a share of the harvested grain. At such times, the poor would not want

more grain, which, however, they would have to take under subsidized commodity sales.

With household budgets not remaining the same all through the year, and subject to changes due to illness or other factors, poor households would benefit more from a cash transfer, which they could use according to their own priorities. This is not some general statement in favour of agency and freedom of choice, but a very practical one related to changing priorities.

## Conclusion

Some recent experiences in Bihar point to the effectiveness of cash transfers which have done quite well. The old-age pension which is based on selection, the conditional cash transfer for bicycles, uniforms and school books, initially for girls but now also for boys, as also the Indira Awas Yojana (IAY) have all done quite well (Rodger et al, 2012). These records of reasonably well-functioning cash transfer schemes, should be set against the well-known poorly-functioning PDS in Bihar.

To sum up this note, we would conclude that besides providing a social minimum consumption standard, social security should be attuned to the needs of the growing proportion of migrant workers and of overall shifts in employment structure. Universal and portable social security entitlements are required for migrant workers to benefit from social security. Additionally, universal and portable social security can act to promote the transitions from farm to non-farm and rural to urban jobs, which are part of the development process. Such a universal and portable system is best implemented through a cash transfer system, rather than the provision of subsidized goods. □

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# Cash Subsidies for Food and the Fallacy of Composition

*Narendar Pani*



***The shift to cash transfers thus provides us with a near textbook case of the fallacy of composition. But with its consequences being far from trivial the lessons to be learnt cannot be confined to the classroom***

**T**HE CASE that has been made out for the direct cash transfer of subsidies is so striking in its simplicity that it appears self-evident.

When a subsidy is transferred directly into a bank account there is very little scope for leakage between the transferring authority and the bank account. From there it appears easy to argue that if we have the identification numbers of all individuals in the country and the technology to transfer funds into their accounts we immediately have a leakage-proof system of transferring subsidies. But it has not taken very long for it to become evident that things are not quite so simple. The pilot projects have pointed to the myriad problems in scaling up cash transfers of subsidies to a national level. The problems of implementation have been serious enough for the government to decide to be more cautious in launching the pilot phase of the scheme. The focus on implementation has however ensured that the more serious problems inherent in some forms of cash transfers, especially when they replace the system of providing cheap food grains to the poor, have

received much less attention. In particular, little attention has been paid to the fallacy of composition in the case that has been made out for cash subsidies replacing subsidised grains in the PDS: what is true of the individual case is not true for the system as a whole.

In order to understand the fallacy of composition in this argument it is useful to first remove some popular misconceptions about the scheme of direct transfer of benefits. First, there is the view that it will do away with all leakages. But a part of the leakage is due to the non-poor getting the benefits meant for the poor. And the Aadhar number that will be used in the scheme only identifies an individual, it does not tell us whether she belongs to a poor household or not. It is believed that the Business Correspondents that are now to be appointed will help identify the poor and also ensure that the illiterate poor will get the benefit at their doorsteps. But this only falsifies the second popular misconception of the scheme, that it eliminates the middlemen. All that the scheme does is introduce a new set of middlemen under the control of the banks. And it is to be seen whether bank-controlled middlemen are less corrupt than

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the panchayat-controlled ones. The urban policy maker may tend to lean towards the choice of the banks, since she has at least dealt regularly with these institutions. But as the continuing use of non-banking financial institutions in the rural areas, including money lenders, tells us, there is a large part of the country where this faith in banks is not yet as complete. These are also the areas where the local panchayat is not the remote hotbed of corruption that urban policy makers believe it to be. Those more familiar, and comfortable, with the rural panchayats than the urban policy maker, could argue against putting so much faith in banks that have run up Non-Performing Assets of hundreds of thousands of crores. The scaling up of the system of cash transfers from the individual to the society as a whole thus has a variety of issues that could cripple it at the stage of implementation.

Let us however assume, for the sake of argument, that all these problems involved in the implementation of the scheme are overcome. The government is able to accurately identify the poor households and the Business Correspondents do not fall for any temptation to take a slice of the cake when the opportunity presents itself. We can go a step further and also assume that the process is so uncharacteristically efficient that the poorest and the illiterate in the most remote areas all find a way to access their bank accounts without any transaction costs. It is in such a perfectly implemented system that the fallacy of composition will become quite evident.

The first sign that what is true for the individual is not true for the whole will probably emerge in the effect on food subsidies. If and

when the cash transfers replace the subsidised food in the Public Distribution System, the shops in this system will provide food grains at non-subsidised prices and the subsidies will be transferred into the bank account of the beneficiaries. As the price at which the grain is available in the PDS does not involve a subsidy there would ideally be no scope for leakage through the sale of subsidised grain at open market prices. Seen as a set of individual cases the absence of leakage should imply that the subsidies will come down. When seen in its macroeconomic totality, though, this need not be the case. The food subsidy is in essence the difference between the costs of procurement of food grains and receipts from the distribution of these grains in the Public Distribution System. The three main variables influencing the subsidy are then the procurement price, the cost of holding and distributing stocks, and the receipts from the sale in the Public Distribution System. When the subsidy is transformed from food to cash the beneficiary is no longer required to purchase the grain from the PDS. As the unsubsidised price in the PDS could well be comparable to the open market price, at least some of the beneficiaries would prefer to use their cash subsidy in the open market. This would lead to a reduction in the off-take from the Public Distribution System thereby leaving the government with greater unsold stocks. In cases where the costs of holding additional stocks is greater than the leakage that has been plugged, the overall subsidy will increase, rather than decrease, due to a shift to cash transfers.

It could be argued that the government could overcome this problem by quite simply reducing

procurement. The government could argue that it would instead fall back on a system of only intervening in the open market when prices are too high or too low. But governments in India do not have a reputation for responding quickly enough to changes in market prices. As the experience with sugar tells us the interventions are usually preceded by aggressive lobbying on behalf of the producers and the consumers. And there is no telling how the farmers will react to increased uncertainties in the demand for rice and wheat. Even if the increased risk does not lead them to occasional disasters and suicides, they may well decide they are better off with other crops. Shifting the burden of a move to cash transfers on to farmers would then have serious implications for food security.

The tendency for food prices to move in a wider range would be accentuated by another macroeconomic consequence of the move to cash transfers: its inflationary potential. This potential arises from two sources. First, the shift to food subsidies is likely to have a greater multiplier effect. When the subsidy is given in terms of food grains its effects on income end when it is consumed. But when it is given in the form of cash, the recipient spends that money to buy some commodities, thereby creating income for the person she buys it from. To the extent that that person then spends her income, it becomes additional income for someone else and so on. It could be argued that all the additional rounds of the multiplier would not exist if the beneficiary of the subsidy simply goes back and spends the entire amount on food grains in the PDS so that she simply returns the cash subsidy to the government.

But this would only be a special case. In all other cases there would be an increase in liquidity and hence an inflationary pressure. It is of course true that the government can address this additional liquidity through its monetary policy. But in situations of slow growth monetary policy measures to absorb extra liquidity will hurt growth further.

The second source of inflationary pressure in the shift to cash transfers is hidden under the tendency to see this change as an ethical rather than an economic issue. When seen in purely economic terms any leakage of food grains from the PDS can only be realized if it is sold in the open market. High leakages therefore imply higher supplies in the open market, thereby acting as a dampener on inflation in food prices. This dampener is particularly important as leakages are not constant. Studies that have tried to estimate leakages show a wide variation in the quantum of leakage across both years and crops. This is easily explained as the leakage would depend on open market prices. When the difference between the open market prices and the PDS price is low there is little to be gained by diverting PDS stocks to the open market. But when open market prices are much higher there would be a greater tendency to divert stocks. And these additional supplies would have a dampening effect on the prices in the open market. If leakages are reduced to zero this dampening effect in times of inflation would no longer be available. It could once again be argued that the government could intervene in such situations and use its stocks of food grains to calm inflationary pressures. But if experience is any guide, and for reasons that this paper may not be the best place to go into,

the government's ability to use its food stocks to calm market prices is severely constrained.

Managing the effects of any inflation that arises from the shift to cash transfers would strike at the very roots of the subsidy. If the higher prices are not to eat into the effective subsidy for the poor, the cash transfers would have to be indexed for inflation. Such a system of indexation would be less than perfect. As the inflation would have to first exist before the subsidies are raised, there would be a lag between the increase in prices and the compensatory increase in cash transfers. Such a time lag can have great humanitarian consequences for those who are close to hunger. Moreover, indexation is typically based on the average of prices over a large area, if not the country as a whole. In regions where the food inflation is greater than the national average, the increase in transfers due to indexation would not fully compensate for the reduction in the effective subsidy. From the point of view of the government too indexation would build an automatic element of an increase in food subsidy. To the extent that cash transfers contribute to inflation they can contribute to an increase rather than a decrease in the food subsidy bill of the government.

The consequences of this fallacy of composition are accentuated by the tendency to see the problem of leakages in terms of government finances alone. From this state-centric perspective the problem is entirely one of only a fraction of every rupee of the subsidy actually reaching the targeted beneficiary. But from the point of view of the beneficiary that is not the only possible source of leakage. There could also be leakages between

the point the cash is received and it being spent on the purpose for which it has been given. For a member of a family close to hunger what matters is whether there is additional food available at home. Any leakage that reduces the availability of food hurts her interests. It is only of secondary interest to her whether the reduction is due to leakage at the PDS or because the cash received for the purpose is spent on something else.

It is tempting to sweep such concerns under the carpet of the freedom of choice. We could argue with all righteousness that it is better that the household has the choice rather than the government. But such a view makes a set of choices of its own. It chooses to ignore conflicts of interests within a family. In the crudest statement of this problem it would be a choice between liquor over food. The problem is however not one of such dramatic extremes alone. It is quite conceivable that a mother in a poor household believes that once her child has overcome basic hunger she should begin to emphasise aspects other than food; she should give her child an English education rather than a nutritious diet. We can decide such decisions are not a matter for the state. But then we should be comfortable with the fact that even as we claim to be one of the fastest growing economies in the world we have rates of malnourishment that place us below some of the world's poorest economies.

The shift to cash transfers thus provides us with a near textbook case of the fallacy of composition. But with its consequences being far from trivial the lessons to be learnt cannot be confined to the classroom. □

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# What Can We Expect from Direct Benefit Transfers?

*Partha Mukhopadhyay*



*The real potential lies in shifting thinking from targeting to traceability and mitigating transactional instrumentalism in market transactions*

**L**ATE LAST October, the Prime Minister constituted a high-powered National Committee on Direct Cash Transfers (DCT), with eleven Cabinet Ministers, two Ministers of State with independent charge, the Deputy Chairman Planning Commission, the Chairman UIDAI and Cabinet Secretary, with the Principal Secretary to the PM as the convenor. In about two weeks, the executive committee decided that DCTs would commence in 51 districts from 1 January 2013.

When 2013 rolled around, this was scaled down to twenty districts in the initial phase and a limited number (seven) of programs. In the first instance, the plan is to “transfer cash benefits like scholarships, pensions, NREGA wages, etc. directly to the Bank or Post Office Accounts of identified beneficiaries”. This Direct Benefit Transfer (DBT) “will not be a substitute for delivery of public services” and in particular, they “will not replace food with cash under the Public Distribution System”. This reflects a measured approach to the issue by the government. It is therefore useful

to focus on two broad issues, viz. (a) the kinds of problems can DBTs be expected to address and (b) the design of the pilots, from a learning point of view.

## Measuring Success of DBTs

When can DBTs be successful? In his opening remarks to the National Development Council (NDC), the Prime Minister stated that the “*common complaint against government programmes is that they suffer from leakages, corruption, delays and poor targeting [and the] Central Government is taking a major step to deal with this problem by shifting several beneficiary oriented schemes to a direct transfer mode, using the Aadhaar platform.*” Can DBTs really address all these problems? Let us examine them one by one.

### Delays

By design, DBTs 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.

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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.

### **Targeting**

DBTs have a very limited role in improving targeting, which,

under current conditions, is plagued by errors of both inclusion (i.e., benefits are received by those for whom they are not intended) and exclusion (i.e., benefits are not received by those for whom they are intended). This should be a matter of serious concern in a country such as ours where such benefits, small as they might seem, may make a considerable difference to a person's life.

Contrary to popular perception, the *Aadhaar* biometric identification system can only ensure that benefits are released only on verification of an identified beneficiary, but it has no role in ensuring that the process of identification was justified in the first place. Beneficiary identification will thus continue to depend on other mechanisms, such as the Below Poverty Line (BPL) process, which are notoriously ineffective. For example, in the 2004-05 NSS survey less than 30 percent of the bottom forty percent in Bihar had a BPL card, i.e., it left out a large majority of the state's poor. The proportion in many other states was not much better. The use of *Aadhaar* can help in some specific cases, e.g., in old age pension, maternity benefits, verifying enrollment in an educational institution, etc. but the less universal a program is, the less useful is *Aadhaar* in helping to identify beneficiaries.

In many universal programs such as the MGNREGS, there is an element of self-targeting, since only those who are willing to show up and perform manual labour get employment under the scheme (this does not include people who are able to fraudulently insert their names in the muster rolls without being present for work)

and as such people with better employment opportunities self-exclude themselves. The same may be partially true for cereals distributed through the public distribution system (PDS), if they are perceived as poorer in quality. The richer would not buy from the PDS even if it were universal, as for example in Tamil Nadu. With cash, this element of self-targeting diminishes considerably.

The experience in other countries with beneficiary identification seems to indicate a much larger role for local government than is usually the case in India, which has long preferred 'objective and centralised' approaches such as the BPL survey conducted by the Ministry of Rural Development. Given the fluid nature of livelihoods at the bottom of the income distribution, local selection enables much more customised approach to the problem. It is of course subject to being captured by local interests, but one can expect the pressure of local representative democracy to limit the errors of exclusion (errors of inclusion may be made, subject to the extent of gaming that is possible), unless there are strong structural reasons such as political and/or caste rivalry, etc. for such exclusion – which have to be handled differently, in the socio-legal sphere. Though, as noted above, the self-targeting would decline as benefits are transformed into cash, in early discussions on cash transfers (Kapur, et. al. 2008), we were at pains to emphasise such devolution, even at the cost of an increase in political contestation. The choice then turns on balancing the imperfections of local elite capture and collusion

with the flaws engendered by the inflexibility of a centralised bureaucracy and the poor quality of centralised information, which is structurally limited by the Hayekian knowledge problem (Hayek 1945).

### Leakage and Corruption

DBTs can help in reducing leakage in terms of payments made to officials in order to receive legitimate benefits. Since the benefit is delivered directly to the beneficiary, the scope for asking for speed-money, kick-backs, etc. to release legitimate dues is considerably reduced. However, this does not necessarily affect payments that are extortionary in nature and depend more on social coercion than control conferred by the bureaucratic power of discretion or delay, which is mitigated by DBT. For example, someone with coercive power can very well show up to demand protection money, knowing that a household has received its MGNREGS wages. Indeed, they could intercept it immediately after the beneficiary has collected them from the BC. Nor will DBTs get rid of collusive corruption, where officials and ineligible beneficiaries collude to defraud the state. Further, as noted above, the power of discretion or delay remains in the process of beneficiary identification that remains external to the DBT system and corruption may continue there. While DBT can address certain kinds of leakage, other kinds require a wider change in social relations. However, it may be that by increasing the cash availability in poor households, DBT may affect this too, e.g., a household may be able to reduce dependence on local moneylenders.

### Ghost Beneficiaries

Ghost beneficiaries are another form of leakage but since this is a core contribution of *Aadhaar*'s biometric de-duplication process, it is useful to consider it separately. *Aadhaar* can help to reduce leakage in the form of 'ghost beneficiaries', who are not ineligible real people but completely fictitious persons, who exist only in the paper records of the officials administering the scheme. The imperative to match a biometric to each beneficiary would weed out such fictitious records and thus reduce leakage.

Even here, however, caution is needed. How will the system respond to an overall decline in the number of beneficiaries? Will it see it as a weeding out of ghost beneficiaries and simply stop there, or probe deeper? In Kotkasim, a drop in sales was seen as a sign of weeding out of fake users, e.g., those who bought kerosene to use it for adulterating other fuels, but actually the bona-fide beneficiaries of the kerosene subsidy had stopped buying from the outlets since the reimbursements were erratic and rather than a success, it was a matter of concern (Bhatti and Khanna 2012). The government needs to be sensitive to such contingencies.

In addition to such errors of interpretation, there remain the large errors of exclusion due to faulty targeting which also need to be rectified. It is important that the success of a DBT be measured as much as in how many of the errors of exclusion it is able to rectify, as in any fiscal benefits it can reap through increased efficiency.

### Design of the Pilot

Whether or not DBT is a good idea, it is useful to ask whether the pilots have been designed for their purpose. For this, it is useful to disaggregate the process of DBT into three elements, viz.:

- a) Identification of the beneficiary
- b) Benefit transfer to the beneficiary, based on an *Aadhaar* Payment Bridge / Platform
- c) Use of the benefit by the beneficiary

Since the primary intent of the pilots is presumably to test the robustness of (b), i.e., the transfer mechanism, it would be useful to focus on schemes where the effects of (a) and (c) are limited. To test an *Aadhaar* enabled transfer process, the beneficiary needs to possess an *Aadhaar*-enabled bank account into which the benefit will be transferred. For the beneficiary to withdraw the amount from the account, without visiting the bank branch, which may be quite some distance away (only 24,701 villages were covered by branches in March 2012, according to the RBI), there needs to be a banking correspondent (BC) who s/he can access easily. In addition, a certain level of connectivity is needed for the BC to authenticate the beneficiary by matching the biometrics to the person's *Aadhaar* number. So, if the intent is to test the transfer mechanism, suitable candidate schemes for the pilot would be those that transfer cash to easily identifiable beneficiaries and good candidate districts for the pilot would be those where:

- i) *Aadhaar* enrolment is almost complete, especially among potential beneficiaries

- ii) Presence is a good network of bank correspondents
- iii) Mobile Connectivity is high

The selected schemes are for the most part scholarships for SC, ST and OBC students, which makes beneficiary identification simpler, stipends and other cash support. So the selected schemes seem suitable for testing a transfer mechanism, with one caveat. To the extent that scholarships recipients are in higher order settlements like sub-divisional headquarters, they may have good access to the banking system, but one has to be careful in extending this assumption to smaller settlements.

However, the selected districts, at first glance, do not appear as suitable. Though these districts have supposedly been chosen on the basis of coverage of bank accounts and *Aadhaar*, this rationale is not evident. Table 1 presents the basic features of the first twenty selected districts. It shows that while there is near total coverage of *Aadhaar* in the districts of Andhra Pradesh, of over 80 percent (almost total coverage once allowance is made for the proportion of population less than six years of age) and in districts of Karnataka like Mysore and Tumkur, in other districts like Dharwad it is much less and in states like Rajasthan, only about one-fourth of the population has been covered. Thus, these are not uniformly high enrollment districts. Indeed, while in Hyderabad, the enrolment is substantially actually more than the population, in SBS Nagar, Punjab, the enrolment seems to have just begun. Similarly, the proportion of households availing banking services varies between 39 percent in East Godavari to 81 percent, in SBS Nagar; while the share of households with mobile

phones shows even more variation, between 36 percent in East Nimar (Khandwa) to 86 percent in North East Delhi. Thus, one can expect significant operational difficulties in operationalising the DBT on the ground. However, since the beneficiaries are limited, this problem is not insurmountable. The inclusion of poor districts but with high *Aadhaar* enrolment such as East Nimar (Khandwa) in Madhya Pradesh and Anantpur in Andhra Pradesh can be helpful, since they comprise the priority group and can provide useful learning on the challenges of transferring benefits through financial channels in such areas. However, poor districts such as Udaipur, where *Aadhaar* has still a long way to go may not be suitable for purposes of the pilot. It is not clear what logic was used in selecting these districts.

### Issues beyond the Scope of the Pilot

We have already briefly discussed some issues related to identification, which will not be tested in the pilot. For completeness, it is also useful to look at how DBT can affect the use of the benefit. One of the characteristics of DBT in cash is the ability to substitute goods such as cereal, e.g., wheat and rice (let me be provocative, despite the government's stated position that DBT of subsidies for "*food, fertilizer and kerosene is not being contemplated at present*"), with meat, fruits and vegetables or even with something altogether different, such as spending more on children's education, by enrolling her in a private school, as seems to be the case in some field experiments currently underway. Will this be seen as legitimate space for independent decision

making by the beneficiary or will this be seen as misuse of funds, a transformation of a food subsidy into a subsidy for private education? What if the spending was on a child's vacation? Cash subsidies may also result in significant corollary effects on the relationship between income and educational institutions (known in the school voucher literature as sorting). The system needs to think about how to respond to such developments.

Furthermore, one must also recognize that the choice made possible for beneficiaries by switching to cash can only be reasonably exercised if there are multiple service options. It does not mean that the government can scale back on service provision; indeed, if anything, it makes it incumbent on the government to renew its focus on improving the quality of its delivery.

### Privacy

Finally, as *Aadhaar*-enabled services are extended to other areas it must confront issues of privacy, which it has so far, deftly punted. Biometrics is a master key – providing the ability to link across any database that uses biometric authentication. In an earlier article (Mukhopadhyay 2012), I had argued that each such database needs additional specific locks to protect privacy. The linking of databases should be not be generic but only for specified purposes and it should need consent from multiple such 'key-holders' subject to legislative oversight and judicial redress. This is not the perspective that we see in discussions around privacy legislation at this time. Without this, it may be difficult

**Table 1: Profile of Districts Selected for the First Round of DBT**

District	Total Population	Enrolment	Enrolment as share of Population ( percent)	Households availing banking services ( percent)	Households with mobile phones ( percent)	Households with none of the specified assets* ( percent)
Dharwad	1,846,993	867,877	47 percent	72 percent	65 percent	13.9 percent
Tumkur	2,681,449	2,333,552	87 percent	49 percent	50 percent	20.0 percent
Mysore	2,994,744	2,597,470	87 percent	50 percent	63 percent	13.7 percent
Hyderabad	4,010,238	5,057,244	126 percent	59 percent	80 percent	3.1 percent
Anantpur	4,083,315	3,530,805	86 percent	63 percent	58 percent	22.6 percent
Chittoor	4,170,468	3,488,528	84 percent	65 percent	58 percent	20.8 percent
East Godavari	5,151,549	4,405,590	86 percent	39 percent	47 percent	17.3 percent
Alwar	3,671,999	763,178	21 percent	59 percent	73 percent	15.2 percent
Ajmer	2,584,913	657,717	25 percent	77 percent	72 percent	14.5 percent
Udaipur	3,067,549	662,785	22 percent	61 percent	51 percent	36.7 percent
Harda	570,302	414,042	73 percent	45 percent	55 percent	30.0 percent
Hoshangabad	1,240,975	872,427	70 percent	50 percent	53 percent	25.5 percent
East Nimar	1,309,443	1,029,906	79 percent	49 percent	36 percent	43.2 percent
Puducherry	946,600	856,130	90 percent	64 percent	77 percent	5.1 percent
Chandigarh	1,054,686	705,370	67 percent	80 percent	83 percent	2.3 percent
SBS Nagar	614,362	30,421	5 percent	81 percent	76 percent	3.2 percent
NW Delhi	3,651,261	2,809,152	77 percent	73 percent	82 percent	4.0 percent
NE Delhi	2,240,749	1,386,917	62 percent	70 percent	86 percent	2.4 percent
Daman & Diu	242,911	131,457	54 percent	65 percent	82 percent	7.6 percent

\* These are radios, TV, computer, telephone, bicycles, two-wheel and four-wheel vehicles

Source: Census of India for population and household data, Aadhaar website for enrolment

for governments to convince people that this access will not be abused in order to build a consensus for such systems.

## Conclusion

We see that the scope of the problems that can be addressed by DBT is limited and only some of the concerns raised by the Prime Minister at the NDC meeting can be partially allayed by moving to DBT. Further, the pilots have not been designed such that the scope for learning is maximised, especially in terms of districts chosen. This does mean that expectations about DBT being a gamechanger may be premature, but it does not mean

it is not possible. However, we must recognize that “*governance is not an apolitical detached technology; it is about people and their actions [but] about contestations and their resolution and is thus inherently political*” (Kapur, et. al. 2008: 87, emphasis added) and as mentioned earlier, this contestation may only increase with a switch to cash. We must see technology as only an enabler, not a driver.

To really change the game, the political imagination needs to transcend the current debate. The real challenge is for Aadhaar to progress from a techno-focused scheme for the poor to an initiative that can ease everyday life and

discipline the defrauding rich. For example, multiple tax identities will disappear, since each tax identity will now be matched to an Aadhaar number. A rise in tax revenues will follow. Aadhaar could also be used to reassure a home buyer that the seller is really the owner of the house he claims to be, by having his bank biometrically verify the seller’s identity number on the house papers. The real potential lies in shifting thinking from targeting to traceability and mitigating transactional instrumentalism in market transactions. It is not clear whether we will find this political imagination in time. □

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# DIRECT BENEFITS TRANSFER

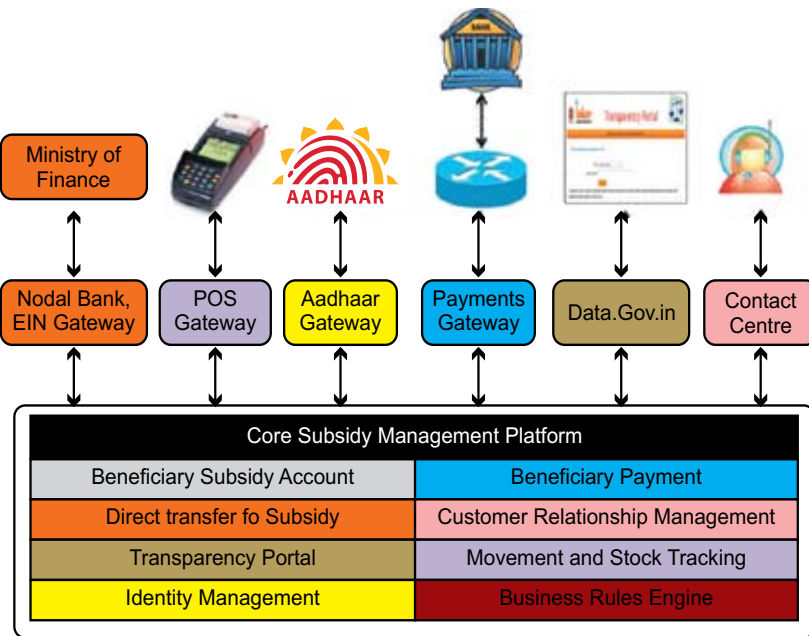


Figure 1: Core Subsidy Management System

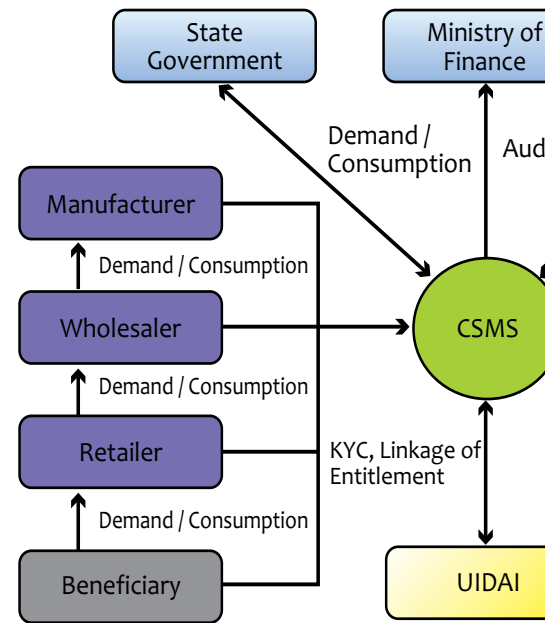


Figure 2: Flow of information

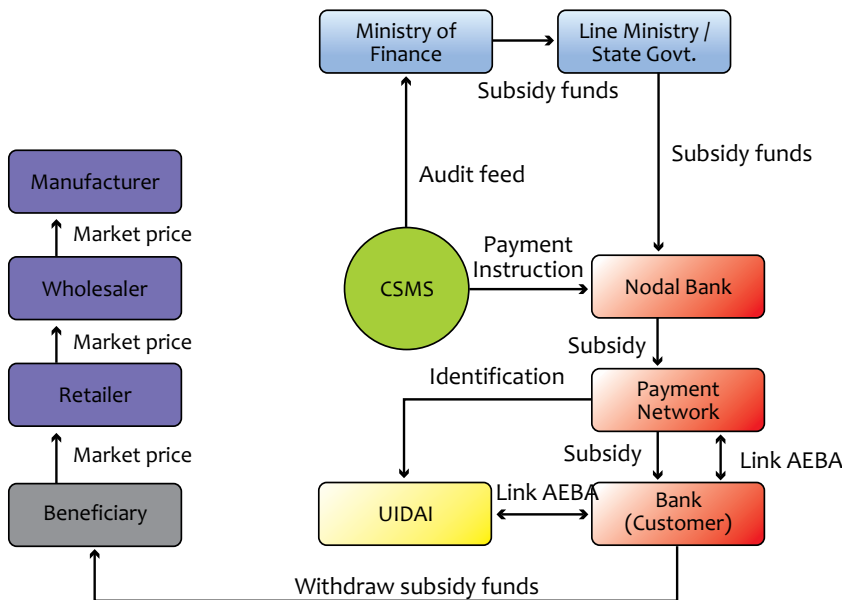


Figure 4: Flow of funds

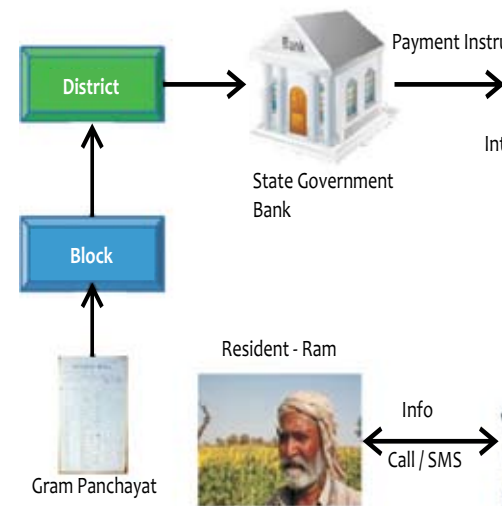
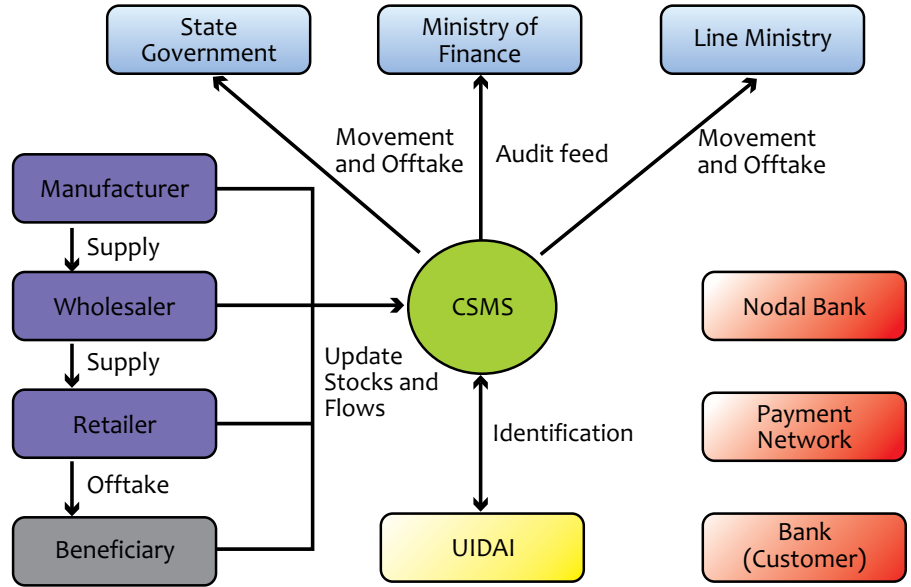
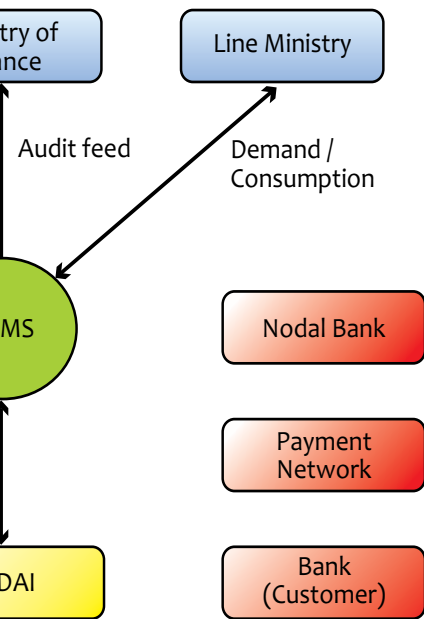


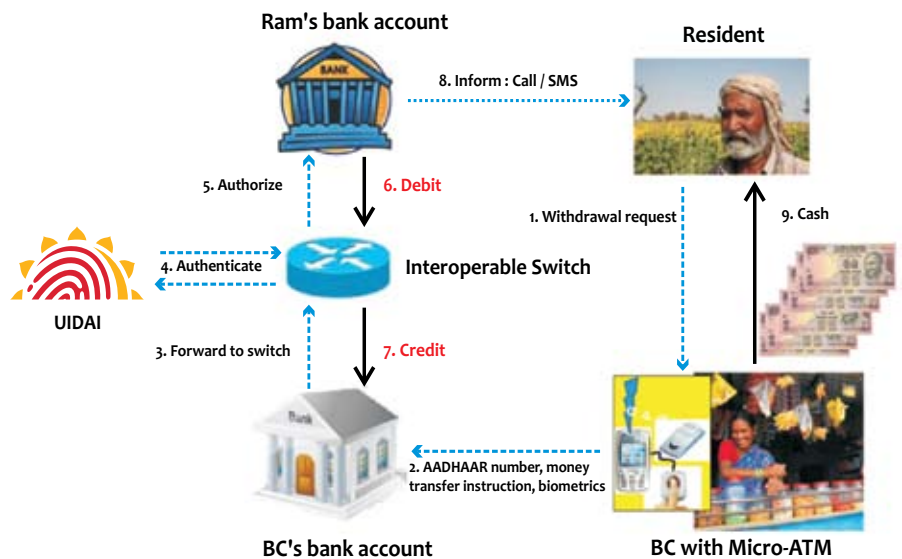
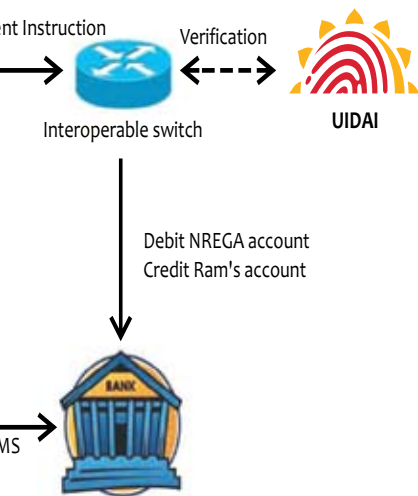
Figure 5: Aadhaar Payments Bridge, to transfer funds to beneficiaries on the basis of their Aadhaar

# - THE MODALITIES



f information

Figure 3: Flow of goods



to route funds to the account of  
of their Aadhaar number.

Figure 6: An interoperable payments network of microATMs as described in the Report of the Inter-Ministerial Group

*Courtesy: Interim Report of the Task Force on Direct Transfer of Subsidies on Kerosene, LPG and Fertiliser, Ministry of Finance*

# INTERVIEW SESSION - 2013

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YE-252/2013

## Defensive Smile

*Hamara Hindustan*

I halted for a day in Quiton. The manager of the small hotel told me that if I needed anything I had only to tell Chandrabhanu. And Chandrabhanu gave me a sheepish smile.

He showed me to my room and tucked away my luggage in the right place. Then he asked me : "Tea, Coffee?" Coffee, I said. He brought it to me. When I sipped it and made a face, he said "sugar?" and ran out and brought more sugar.

I had travelled the whole afternoon and was hungry. So I asked for my supper immediately after the coffee. Chandrabhanu waited at the table. "More rice ?" he said; and although I shook my head. He said, "you hungry" and placed a heap on my plate. When I retired to my room he ran a little ahead of me to switch on the fan. "Here many mosquito", he said by way of explanation.

I rested for half an hour and then wanted to change for the night. But the keys of my box were nowhere to be found. Evidently I had lost them somewhere. I called Chandrabhanu and told him what had happened. He could not follow me. I pulled the "suit" case out and explained to him through gestures about the lost keys. He vanished like lightning and came back with a screw driver with which he managed to open the box. "Money," he then said., Thinking he wanted bakshesh, I gave him a 50 P. bit. He looked happy, and was away again. In twenty minutes he was back,

and he placed two tiny locks before me. "Here, lock," he said, pointing to the box. So that was what the 15-year-old lad had done with the money I gave him! Next morning at 6 there was a knock at the door. "Good morning," said Chandrabhanu when I let him in. There was a smile on his face and a tray with coffee in his hand. "Sugar right?" he asked as I had a sip. "Yes, thank you, Chandrabhanu," I replied.

By noon I finished my work in Quiton. When I began to pack up my things, Chandrabhanu watched my movements and asked, "Going?" "Yes, Chandrabhanu, I am leaving for Alleppey." "But lunch, sir,-rice, fish or meat?"

"No lunch, not feeling well", I said, unconsciously imitating his way of speaking, "only bread and butter." "Not well? Not go today; tomorrow," he implored.

After munching my simple meal I went to the manager's office to settle my bill and also ask about the bus timings. When I returned, was in for a surprise. Chandrabhanu was immersed in a book of English short stories I had left on the table. 'Caught in the act, he hastily put the book back and tried to slip out of the room. I told him to stay; he hesitated. "Sit down, Chandrabhanu," I said. He did so, very embarrassed. Little by little I got his story out of him. He spoke very good English indeed, not so well of course as a Doon student, but well enough for a teenager in a small city. I learnt from him that he was going to

take his school leaving examination in the coming year. His father was a watchman and could hardly maintain the family of seven. Since the school was closed for a month he had taken a job as hotel boy for Rs. 25.

It was a touching little tale. But why did he pretend to be uneducated? Chandrabhanu had no answer. Perhaps he did not want the other hotel boys to think he was giving himself airs.

"What will you do with your pay?"

"I have to buy some books. My father can't spare the money. Also, you see, by working for a month in the hotel I save two meals a day in my family." .

"What do you want to do after leaving school?"

"I want to go to college and, God willing, I shall appear for some competitive examination."

I could hear the tooting of the taxi the manager had ordered for me. Chandrabhanu put my luggage in the back. He also handed to me the book of short stories. "That is for you, Chandrabhanti," I said, "you keep it."

As the taxi moved, Chandrabhanu waved. There was a smile on his face which was very different from the sheepish smile he had given me the previous day. □

Kalj Biswas

*Excerpts from the May 24, 1964 issue of YOJANA)*



## Biomass Based Gasifier



*The biomass based gasifier can be used to operate pump sets in remote fields, lift water in homes, operate basic machines such as saw mills*

**R**AI SINGH Dahiya has developed an efficient biomass gasifier where he has changed the conventional design, especially of the filters and cooling unit to get clean gas, ensuring smooth operation of engine at low operational cost.

Rai Singh was born in January 1963 to Ranjit Ram Dahiya and Manidevi in village Pili Madori in Haryana. Soon after his birth, his father left the ancestral village with his family and settled in the Thaldka village in Ganganagar. While other kids went to school, Rai Singh was busy working as a farm hand and irrigating barren land as that was the need of the hour. Missing out on a formal education, however, he made himself literate by studying his brother's books.

Blessed with a keen mind and natural curiosity, he has tried to develop novel solutions. Starting with a watch given by his brother, he dismantled and put together many objects and gadgets, and sharpened his knowledge of components and systems. Being a regular listener of BBC radio for science programming such as "Gyan-Vigyan" since childhood, he enhanced his knowledge of science

and technology. This program motivated him to tinker and develop new concepts.

### Genesis of innovation

In 1982 he set up a kiln for baking bricks with a capacity of about 12000 bricks at a time. In this kiln, he observed that burning of wood and other fuel was also producing some gas, which was burning more vigorously. Later in 1991, he set up his workshop for repairing tractors, jeeps, trucks and other engines. Looking at the increasing demand for diesel engines in agriculture sector he modified it to operate on LPG as the cost of diesel was growing and operating it on LPG was economical.

When this experiment was successful, he wondered if it was possible to run the engine on the gas produced by burning wood etc instead of LPG. He decided to build a device to generate this gas and run diesel engines.

After a series of experiments, he finally developed a system, which consisted of a gasifier, which could convert biomass into producer gas. The conventional diesel engine was modified by replacing diesel injector set-up with a spark plug and a fuel pump

with a distributor set up. This gasifier could run the modified diesel engine but for a very short duration. Rai Singh realized that the engine was not performing well due to the impurities in the producer gas fed into it. He worked out several mechanisms, and filtering sieves, and then developed a filtering mechanism so that pure gas could be supplied to the modified engine.

Initially four such systems were developed and installed in the village and local people were trained to operate them. The latest unit of the gasifier system is capable enough to operate 40 hours continuously with reduced maintenance.

### **The Biomass Gasifier**

The unit consists of a gasifier, which generates producer gas from bio-waste and uses it to run an engine. The gasifier is conical in shape, compact in design and surrounded by water jacket with the capability to handle multiple fuel sources.

Fuel wood or briquettes from agricultural residues can be fed to this gasifier. The air inlet is provided at the bottom. The system has two stages of removing ash, charred residue and tar. The primary filter unit comprises a series of rows of filtration units; each series consists of a rod over which semicircular baffles having perforation are welded. Perforation becomes progressively smaller from the first to the third filtration unit.

The filter can easily be cleaned by pulling out the rod with the baffles. It is surrounded by water jacket. The secondary filter has layers of different sizes of sieves ranging

from 2” to very fine size, with the cleaning gate at the bottom.

### **The process**

First, the bio-waste is deposited in the gasifier unit from the top. This unit acts as a furnace and heats upto 200 degree centigrade to generate the producer gas. The gasifier is monitored and fed continuously for about first 30 minutes. Aspirator is turned on for sucking producer gas until the flame appears. Later the supply of air from the bottom is cut off.

The producer gas is now passed through the first cyclone where water cooling is done, the gas is cooled and partial cleaning is also achieved. The gas now goes through the second cyclone, which removes carbon and ash based residues. Now the gas passes through the filtration unit consisting of sieve grills and cloth. This cleans up the gas completely.

After cleaning, the gas is fed into the mixer unit, which mixes the gas with air in the right “fuel-air ratio”, which is set for the engine and power rating. There is a calibration mark for optimal ratio based set by the innovator, but the user can override that and choose his settings. Alternatively, the nature of the knocking sound, which changes at optimal ratio, can also be used as a cue for optimal mixing ratio setting. The fuel mixer then feeds the fuel-air mixture onto the modified engine, which runs on this clean fuel.

This biomass based gasifier can process about 20 kilograms of bio-waste to run an engine of 30HP for one hour. Also, the furnace in the gasifier unit can be built to different capacities as per availability of biomass and agricultural residue. Considering the cost of machine,

fuel-biomass and local labor, this arrangement is estimated to cost less than half the cost per unit power when compared to normal electricity grids costing 4 Rs per unit.

A compact gasifier surrounded by water jacket with the arrangement of two stage filters are not available in the markets. Accordingly NIF filed a patent in the Rai Singh’s name.

### **Product Application and Dispersion**

The biomass based gasifier can be used to operate pump sets in remote fields, lift water in homes, operate basic machines such as saw mills, flour mills and generate electricity by charging the alternator. While similar systems with various configurations are in use, the Government of India has dedicated renewable schemes for the development, installation and use of such biomass based systems.

The fuel consumption of Dahiya’s gassifier is reported to be 1 kg/kVA, which is claimed to be almost 30-40 percent less than other available designs. Rai Singh was supported from the Micro Venture Innovation Fund (MVIF) of National Innovation Foundation through GIAN North, Jaipur. As a result of which he has been able to manufacture and sell, over many units of varied capacity to farmers and owners of flour and saw mills. For his work, Rai Singh was also honored by Gram Panchayat in 2002 and by the District Collector in 2004. He won a National Award in NIF’s Fifth National Competition in 2009. □

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YE-249/2013

# J&K WINDOW

## A HISTORIC RAIL LINK IN KASHMIR

**N**orthern Railway made history as the first train chugged through India's longest railway tunnel in the Pir Panjal mountain range on 28th December 2012 connecting Kashmir Valley to Banihal town on the Srinagar-Jammu national highway. The train, on a trial run, arrived at Banihal station from Qazigund in Anantnag district of Kashmir, and was welcomed by hundreds of residents of this highway town.

A. P. Mishra, Member of the Railway Board, said the train services between Banihal and Kashmir Valley will start in February or March this year while the entire railway project connecting the Valley with the rest of the country will be completed by 2017. While the Baramulla-Srinagar-Qazigund link has been functional for the past four years, this was the first time that a train has crossed the mighty Pir Panjal Mountain range.

The highlight of the Qazigund-Banihal link is the 11.21-km tunnel, the longest railway tunnel in India, which has reduced the distance between the two towns by half. The tunnel, reduces the travel distance between Qazigund and Banihal from 35 kilometres (by road) to just 17.5 kilometres (by train). The Pir Panjal tunnel, which is the second longest in Asia, is a vital link in the Railways' dream project of connecting Kashmir to Udhampur in Jammu region.

The tunnel is 8.40 metres wide with a height of 7.39 metres. There is a provision of a three-metre-wide road along the length of the tunnel for the purpose of maintenance and emergency relief.

The rail link will provide an alternative link between Kashmir and rest of the country as the Srinagar-Jammu national highway gets blocked regularly due to heavy snowfall. □

## KARGIL GETS FIRST CIVIL AIR CONNECTIVITY

**T**he first ever civil aviation service between Kargil and Jammu has been launched. The landing of Airlines' 17-seater at Kargil created history as never before has a civil passenger aircraft been spotted there.

Kargil is one the world's coldest towns, frozen under a minus 20 degree Celsius temperature. Air Mantra aircraft conducted a trial flight between Jammu and Kargil on November 3 last year.

The Indian Air Force has been operating an AN-32 aircraft three times a week in the Jammu-Kargil sector and once a week between Srinagar and Kargil. It carries 40 to 45 passengers. However, the service has been highly erratic, with passengers often complaining of cancellation of flights on flimsy grounds. Yet it is a cheaper service; the rate per passenger between Jammu and Kargil stands fixed at Rs. 1,450 and at Rs. 1,100 between Srinagar and Kargil.

Though the service would not connect the summer capital of Srinagar with Jammu or Kargil it is expected to extend to Chandigarh in the near future.

"Completion of Srinagar-Leh Transmission Line would give further boost to projects in Leh and Kargil districts. By this line we will be able to extract surplus power from this region to other parts of the State and the country," asserted Chief Minister Omar Abdullah. □

# Cash or Credit-Continuing Dilemmas

*Biraj Patnaik*



***The DBT programme, if it manages to overcome the challenges, might well confound its critics and create a whole new paradigm for delivering of entitlements in India***

**T**HE DIRECT Benefits Transfers (DBT) programme was announced with much fanfare as a “game changer”. Even before it could be rolled out in 43 districts, the FM rolled back the programme to 23 districts for the pilots, within a fortnight of the announcement of the programme. Since then much air-time has been devoted to the merits and demerits of this programme with the debate largely along ideological lines.

What needs to be clearly acknowledged that despite these initial setbacks, the idea of the DBT programme that has been announced is not just unexceptionable, it is a move in the right direction that was long overdue. Cash transfers are not a new idea, not even in India, and most of the programmes that have been brought within the ambit of this programme are existing cash transfers. The programme that has been announced is not creating any new cash transfers but is instead consolidating the delivery of the existing schemes.

The real “game changer” in this is two-fold: the idea of universal

financial inclusion and, the timely transfer of benefits to entitlement holders without intermediaries and unnecessary paperwork. The use of Aadhar enabled authentication as the backbone of this system is likely to plug leakages that are built into these programmes. The technological/ IT architecture as well as the proposed financial architecture, have the potential of transformational change in rural areas, not very dissimilar to the revolution that rural telephony and mobile telephony have unleashed over the past two decades. Critics of the DBT, in failing to recognize this transformational potential, are doing themselves a disservice.

As Supreme Court Commissioners, we have repeatedly highlighted to the Court and the Government, through our reports, the abject failure of the both the State and Central Governments in reaching pension benefits in time to some of the most marginalized sections of our society. With the exception of a few states like Andhra Pradesh and Odisha, pensions, reach often six months late and in some instances, after even longer durations. Over the years, we have

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The author is the Principal Adviser, Commissioners of the Supreme Court in the Right to Food case. The views expressed here are personal.

also documented many cases of duplication and fraud in pension benefits. If these pensions are channelised through the proposed new DBT architecture, it will not only ensure timely delivery at the doorstep of the pensioner through micro-ATMs, it will also cut down on fraud because of the last mile authentication by Aadhar of the entitlement holder. The same holds true for all the other schemes that are being brought under the ambit of the DBT.

The sticky point here though is the transfer of existing “in-kind” subsidies through the DBT route, especially with food subsidies that are channelised through the Public Distribution System. There are three distinct possibilities for the food subsidy transfer that the Government could potentially use. First is the replacement of the food with cash and dismantling of the PDS. That proposal has never been on the table within Government. Even without going into the obvious demerits of this proposal, which have been extensively written about, suffice it to say that if Government adopted this approach, it would have to end the procurement regime which is not in the realm of consideration of Government.

The second approach could be to create an Aadhar enabled PDS which has a last mile authentication, that is on-line and allows for the stock positions to be updated in real time, as has been successfully done in the East Godavari pilot. All other variables in the system would remain the same. The entitlement holders will buy their food rations from fair price shops as they do now, with the only difference being that they would submit their biometric details to the FPS owner through

a point of sale device that is connected either through a GSM network or through other means to an integrated stock management system. This would not only ensure that the right person gets her rations, the online system that allows real time updating of the lifting, would make the entitlement “portable”. In other words, the entitlement holder need not be tied down to one shop and could potentially buy their rations from any shop. Since the system would be linked to a nation-wide grid, it would allow them to buy different quantities of rations in the same month from different locations in the country. To illustrate this with an example, a family of five members where two members migrate to a different city for labour, could buy a part of the entitlement that they need in the city to which they have migrated while the remaining family members who have stayed back in the village could buy the rest of the allotted quota from the fair price shop in their area. This would revolutionize the PDS, silence the critics who believe that the only way to save the PDS is to dismantle it and provide genuine choices to the entitlement holder. It would also cut down significantly on the corruption in the PDS.

The third approach would be to transfer the subsidy of the PDS benefit (similar to the kerosene subsidy transfer in the Kotkasim pilot) directly into the bank account of the entitlement holder so that she can pay the full price of the subsidised commodities to the FPS owner. Since the FPS owner would also pay the full price for the commodity while lifting the stocks from the government godown, the possibility of black marketeering

would be eliminated. All the other variables would remain the same. There is little to show that the subsidy transfer would in any way be superior to the second approach and could lead to diversion of the money meant from food grains to other household expenditures. I would therefore be more partial to the second approach which has also been tried out successfully by the Chhattisgarh Government (COREPDS) using the RSBY smart card instead of the Aadhar enabled system.

From the Governments perspective, the obvious advantage of the subsidy transfer is that it would increase the revenue flow to the Business Correspondent and make them more viable. As of now, the quantum of the funds flow in the schemes that have been included in the DBT will provide very little commission for the model to be viable. Adding of more subsidies will lead to making the system more viable. But the trade-off will be significant, given the fungibility of cash and the potential of it being put to alternate uses within the household.

In terms of the challenges that operationalising the DBT are concerned they are three-fold and daunting. It is just as well that the pilot districts have been reduced to a more manageable number. If the DBT programme has been a real “gamechanger” the correct identification of the poor and expansion of existing entitlement holders will have to be brought centre-stage. Contrary to the popularly held notion that Aadhar will solve this problem,

Readers may send in their views/ suggestions on the articles published in Yojana at the e-mail:yojanace@gmail.com

the reality is that Aadhar has little to do with the identification of the poor. It will only authenticate an individual's identity. The identification of the poor will be done through the Socio-economic Caste Census (SECC), an exercise that is mapping India's poor, undertaken by the Ministry of Rural Development. For the urban areas, for the first time, uniform criteria will be devised based on the Hashim Committees recommendations. A lot will hinge on where the Government draws the cut off for the entitlements for individual schemes based on the outcomes of the SECC. If the number of entitlement holders does not increase and the SECC proves to be as flawed as the BPL surveys earlier, there is little hope that this will be a "game changer". On the other hand, if the SECC uses the "exclusion method", first suggested by former Planning Commission member, Kirit Parikh, and decides to extend entitlements to all those who are not on the "exclusion list" of the SECC, it could potentially change the very nature not just of rural development programmes but also be a decisive blow against the disastrous approach of trying to target the poor, which has failed miserably and remains the root cause for the inclusion and exclusion errors that have destroyed the very purpose of these subsidy regime

The issuing of Aadhar numbers with the ambitious deadlines set by the Government is the second big challenge. While the UIDAI may achieve its target on schedule, that will clearly not be enough, In States like Tamil Nadu, UP, Bihar, Chhattisgarh, West Bengal, it is the National Population Register (NPR) that has been tasked with the collection of biometric data.

This is way behind schedule and is likely to remain so. The only solution is for Government to proactively allow UIDAI to issue Aadhar numbers across the country and not restrict them to the states that they are currently issuing them for. Even in the areas where the UIDAI is issuing the numbers, nothing short of a 100 percent coverage is likely to have an impact since even a 80 percent coverage does not necessarily mean that 80 percent of the entitlement holders are covered. If Aadhar is not universalised soon, the only option would be to allow people without Aadhar numbers to be part of the DBT programme till such time that they receive their Aadhar numbers.

The last challenge is for Government to ensure that the financial architecture for the DBT is put in place, in time for the upscaling nationally. This is likely to prove the hardest nut to crack.

Government must also be sensitive to the criticism of the UID that has come in from many quarters regarding the potential security risks that it could pose and the potential of misuse by intelligence services. While some of the apprehensions may be misplaced, there is a pressing need for greater legislative control over intelligence gathering. The debate around the UID is an opportunity to settle this once and for all. It is after all an issue that UIDAI cannot address and it is inappropriate to frame this question only in the context of the UID number when mobile telephony poses far greater risks of unauthorized surveillance.

In conclusion, the DBT programme, if it manages to overcome the challenges, might well confound its critics and create a whole new paradigm for delivering of entitlements in India. □

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### Cash Transfer : Delivery Mechanisms

The choice of technology plays a vital role in implementing cash transfer programs. The mode of subsidy delivery could involve direct transfer of cash by the government to the bank accounts of the beneficiaries. Timely delivery of transfer amounts into accounts of beneficiaries needs to be assured so that there are minimal lags and delays in payments. The intended beneficiaries will typically have severe cash constraints and several competing demands. Thus, timely delivery becomes a critical point in designing a successful cash transfer scheme. In the absence of bank accounts, the option of delivering cash transfers through post offices should also be explored, at least in the short term.

Smart cards with biometric information are being provided as part of the National Population Register (NPR) and by the UIDAI.

The UIDAI is envisaging a system where the requisite information of beneficiaries (such as thumbprints or iris scans) can be verified at the time of purchase and the corresponding transfer amount credited to the bank accounts of each beneficiary. In this case, the cash transfer would work as a refund of the subsidy amount to eligible beneficiaries of the program, with all end users paying full market price at the time of purchase.

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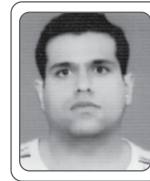
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# Direct Benefits Transfer through Aadhar : Projected Benefits Estimation

**A**CCORDING TO a study by National Institute of Public Finance and Policy (NIPFP) substantial benefits would accrue to the government by integrating Aadhaar with schemes such as PDS, MNREGS, fertilizer and LPG subsidies, as well as housing, education and health programmes. The benefits arise from the reduction in leakages that occur due to identification and authentication issues. The paper uses the available information for government schemes such as PDS and MNREGS, where the literature has estimated some leakages and uses the learning from the study to make some assumptions for a few other schemes for which similar studies are scarce.

The study estimates the leakages due to identification and authentication errors, i.e. the existence of duplicates and “ghost” beneficiaries. Any reduction in leakages is considered a benefit, because the money can then be utilized for its real purpose, i.e., for the targeted beneficiaries, or if the reduction in leakages

leads to a reduction in the overall government expenditure required for the respective scheme, it is a benefit because the money can then be utilized in other programs.

## Public Distribution System (PDS)

The PDS system is envisaged to provide food to 65 million households. Studies report large leakages and diversions of subsidised food grains. According to reports almost 58 percent of the subsidised food grains issued does not reach targeted beneficiaries. One of the reasons for this loss has been identification errors in the PDS delivery system. These identification errors may be due to many reasons. For example, beneficiaries may be non-existent (“ghost”), or may be duplicates, i.e., have obtained multiple identities for the purpose of obtaining subsidies. This study relies on the conclusions drawn by the study conducted by the Planning Commission in 2005 concerning the PDS. It estimated that diversion of subsidised grains to non-existent (“ghost”) beneficiaries at 16.67 percent. It is assumed that utilising Aadhaar in PDS can

help in combating this component only.

The estimate is adjusted downwards by 25 percent to account for improvements in the system that may have taken place since the report was published. Thus, the benefit through reduction in leakages assumed is 12.5 percent of the subsidy.

According to official data the total food subsidy for the year 2010-11 was Rs.58,500 crore. The value is adjusted downwards by 30 percent to account for subsidies in the form of back-end costs, which are not consumer subsidies, for which exact data is not available.

The expenditure on kerosene subsidies in 2010-11 was around Rs.19,600 crore out of which 38 percent of PDS kerosene does not reach intended recipients. The estimated leakage is 11.1 percent of the subsidy. Again, the estimate is adjusted downwards by 25 percent to account for improvements in the scheme since the study was conducted. So, the benefit from integrating with Aadhaar is assumed to be 8.3 percent of the value of the expenditure on PDS.

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Based on a study conducted by National Institute of Public Finance and Policy (NIPFP), New Delhi titled ‘A cost-benefit analysis of Aadhaar’, in November 2012.

## **Mahatma Gandhi National Rural Employment Guarantee Scheme (MNREGS)**

The MNREGS programme is envisaged to provide 100 days of employment to all rural households. The cost of wages under the scheme constitutes about 70 per cent of the total scheme expenditure. In 2011-12, the wage expenditure bill of the government was to the tune of Rs.24,864 crore. In order to ensure that this money reaches the intended beneficiaries, the MNREGS guidelines stipulate various transparency and accountability measures in the form of issuance of job cards, maintenance of muster rolls, monitoring and implementation systems and regular social audits. Despite these measures, studies indicate that implementation problems have been encountered in various states.

A key problem with the implementation of MNREGS is diversion of funds, through ghost beneficiaries and inflated/ fake work records. Using the data from various surveys, it is estimated that a leakage of approximately 12 percent is being caused to the government on account of ghost workers and manipulated muster rolls. Study assumes that 5 percent of the leakages can be plugged through wage disbursement using Aadhar-enabled bank accounts and 7 percent through automation of muster rolls.

### **Education**

Sarva Shiksha Abhiyan (SSA) and Mid-day Meal Scheme (MDM) are the government's flagship programmes in the field of primary education. Under SSA, the government pays for schooling

facilities, teacher's salaries, textbooks and uniforms for children. The MDM programme addresses the nutritional requirements of the students through provision of cooked meals. The allocation of benefits under these schemes is on the basis of enrolment figures provided by each state.

The introduction of MDM and SSA is noted to have contributed greatly to improved enrolments in schools. However the official enrolment data compiled from school records was often be prone to exaggeration on account of under-age enrolments, nominal enrolment of children who do not actually attend school, double enrolment of children who attend private schools, and fake enrolment of ghost beneficiaries.

The government has to face losses in the form of wasteful expenditure and leakages arising due to inflated enrolment data. Aadhar can help address this concern by providing a robust tracking mechanism to monitor the enrolment and attendance of students. On the one hand this will help address the problem of inflated enrolments of fictitious students and on the other, it will allow for real-time monitoring of the benefit distributions using attendance records. The study assumes that the integration of Aadhar with the MDM scheme in the manner contemplated above will enable the government to save approximately 10 percent of the costs that it currently incurs on the schemes.

To estimate the benefits of integration with Aadhar, the expenditure for teacher salaries, books and uniforms is taken as Rs.16,491 crore in 2011-12 and

for MDM, it is taken as Rs.9,128 crore in 2010-11 of which 85 percent of the value is accounted for administrative expenses.

### **Fertilizer Subsidy**

The government prescribes the maximum price at which fertilizers may be sold. These prices are usually lower than the cost of fertilizers or the cost of importing them. In 2010-11, the entire subsidy bill for fertilizers amounted to about Rs.62,301 crore.

At present, there is no mechanism for identifying and authenticating the individual farmers who receive these fertilizers. This creates potential for diverting the fertilizers towards non-agricultural uses, which is a problem because the subsidies are justified by the agricultural use. The system also suffers from inefficiencies because of the low level of automation.

The Task Force on Direct Transfer of Subsidies on Kerosene, LPG and Fertilizer has proposed a three phase process of moving towards direct transfer of subsidies into the bank accounts of the beneficiary farmers. Once this process has been implemented, it should be possible to directly transfer the subsidy amount into the bank account of the farmer, when the farmer buys the fertilizer. This should be possible with adequate technology infrastructure. There are no comprehensive studies on the losses due to leakages and inefficiencies in this subsidy schemes. Using the estimates for PDS and MNREGS as benchmarks, the study assumes that using such an Aadhar-enabled system would result in a benefit of 7 percent of the total value of subsidies.

## LPG Subsidy

The government subsidises the rate at which LPG cylinders are sold to the household consumers. The subsidy is not meant for commercial use. There are reports of widespread diversion of LPG cylinders towards commercial use and other forms of leakages in the system. The total subsidy bill for the government in the year 2009-10 on LPG was Rs.16,071 crore.

Though there are reports of raids finding extensive use of subsidised LPG cylinders for commercial purposes, there are no comprehensive studies documenting the extent of leakage and diversion. In the absence of such robust studies estimating the leakage from the system towards commercial use, the study assumes that use of Aadhar would result in a benefit of 10 percent of the value of the subsidy (similar to PDS).

## Indira Awaas Yojana (IAY)

Under this scheme, the government provides grants to identified households below the poverty line in rural areas for the construction and up-gradation of houses. The targeted beneficiaries

include those belonging to the scheduled castes and tribes, minorities, freed bonded labourers, disabled persons, former members of the paramilitary forces and family of military personnel killed in action. The construction assistance provided is Rs.45,000 per unit in plain areas and Rs.48,500 in hilly areas. The number of houses under construction sanctioned during the year 2010-11 was 19,52,914. Hence it is calculated that the value of financial assistance given was Rs.8,788 crore. The disbursement of funds takes place through bank and post office accounts.

Some reports highlight that there is corruption in this scheme, leading to leakage of IAY funds. Funds are allotted to multiple members of the same family, the benefit is given twice to one beneficiary, houses are allotted to government officials, bribes have to be paid, and middlemen create inefficiencies. Though exact numbers for leakages are not known, since the disbursement takes place through bank accounts, there can be leakages due to fake beneficiaries as well as the existence of "ghosts". The study assumes that leakages are of the order of 10 percent which

can be reduced by using Aadhar-enabled accounts.

## Other Schemes

Since the transfer of benefits for scholarships, Pensions etc. takes place through bank or post office accounts in these cash transfer programmes, the study assumes that having Aadhar-enabled accounts will result in a benefit of 7 percent of the value of the transfer.

## Scholarships

A number of scholarship schemes have been put in place by the government to support meritorious students belonging to disadvantaged backgrounds. Disbursing payments through Aadhar-enabled bank accounts will make the process more efficient and prevent funds from being diverted to bogus bank accounts. The aggregate government expenditure of Rs.4,519 crore on various scholarship schemes has been used to compute the cost savings through integration with Aadhar.

## Pensions

Studies find that overall leakages in social pension schemes, particularly old age pensions, are

**Table: Projected Annual Benefit accruing through integration of subsidies with Aadhar**

(Rs. Crore at constant prices)

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Roll-out (percent)	0	2	5	10	20	40	80	100	-	-
MNREGS	0	61	155	317	646	1318	2688	3427	3496	3566
PDS	0	158	412	861	1797	3752	7834	10226	10680	11155
Fertilizer subsidy	0	87	214	419	821	1609	3154	3863	3786	3710
LPG subsidy	0	32	80	161	321	643	1286	1607	1607	1607
Education	0	50	127	259	528	1078	2199	2803	2859	2917
IAY	0	18	47	95	194	396	808	1030	1050	1071
Other schemes	0	18	47	95	195	397	810	1032	1053	1074
<b>Total Benefits</b>	0	425	1,082	2,206	4502	9192	18778	23989	24532	25100

relatively lower than other government programmes. However, leakages do take place in some areas due to duplication and fake entries, and because those who have died are not removed from the records and their benefits continue to be claimed.

The study used the budget allocation for the National Social Assistance Programme (NSAP) of Rs.5,110 crore for the analysis

### Janani Suraksha Yojana (JSY)

This is a safe motherhood intervention under the National Rural Health Mission (NRHM) intended to promote institutional delivery among the poor pregnant women. It is entirely sponsored by the Central Government and has special dispensation for states that have low institutional delivery rates, classified as Low Performing States (LPS) (as against High Performing States (HPS). The scheme provides cash assistance to all eligible mothers for delivery.

The coverage of JSY in 2010 stood at 113.38 lakh women spread across LPS and HPS. The expenditure under the scheme for the same period was Rs.1,600 crore.

### Accredited Social Health Activists (ASHA)

According to government data there are an estimated 7,30,909 ASHAS in India. The ASHA is a health activist who acts as the link between the community and the health care system. The initiative is designed to create awareness on health issues, motivate the community, and help improve access to basic health services.

The maximum compensation an ASHA can receive is approximately Rs.17,2000 in a year. However, studies suggest that the average amount of incentive per ASHA is lower annually. At an average of Rs.12,000 per annum, the total expenditure on payments to ASHAS is computed at Rs.877 crore.

### Integrated Child Development Centres (ICDS)

Anganwadi centres have been created under the ICDS and are part of the public health care and education system. Anganwadi centres are staffed with Anganwadi workers (AWW) and Anganwadi helpers (AWH). As of 31 March 2011, according to government data, 11,74,388 AWWs and 11,04,098 AWHs were in position. AWWs and AWHs are paid an honorarium of Rs.3,000 per month (for AWWs) and Rs.1,500 per month (for AWHs). □



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# Direct Benefits Transfer: Panacea to remove poverty and inequality in India?

*Pravakar Sahoo*



***Given the performance of the subsidised welfare schemes so far in India, DBT is a game changer. It is a big idea and is expected to change millions of lives in India directly***

**I**NDIA'S GROWTH story since economic reforms initiated in 1991 reveals a direct structural shift from primary to the tertiary sector. This shift deviates from well established linear and structural growth/development models that highlight growth path from primary to secondary and then to tertiary sector. The unusual structural shift to a highly productive skilled tertiary sector leaves the majority of the unskilled and semi-skilled labour force with the primary sector in India. This has wider implications on employment, standard of living, poverty, inequality and the overall well being of the majority. The growth story so far has been characterised as job-less and non-inclusive with structural imbalances, unemployment, inequality and distress of low-income households in the Indian economy. Today primary sector contributes only about 15 percent of GDP but absorbs around 55 percent of the total labour force resulting in huge unemployment and disguised unemployment with low and uncertain income creating

high inequality and incidence of poverty in India. Though India's overall growth and also per capita income growth story has been spectacular compared to the pre-reforms period, the employment has not been as responsive to the rise in per capita income. Absorbing unskilled and semi-skilled workers in India without manufacturing sector growth or improving human capital through education, health, etc looks difficult. These issues are time consuming but there are efforts being made to resolve them. To solve the problem of poverty and inequality in the Indian economy, the government has been trying to address these issues by extending the existing welfare schemes and initiating grand social programmes such as national rural employment programme, mid day meals, right to education etc. Further government is also planning to implement right to food programme which will entitle families living below poverty line to get food at subsidized rates. All these welfare schemes along fertilizer subsidy have been increasing steadily leading to a major fiscal burden on the economy. The major objective of these welfare programmes is to

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provide basic and essential goods and services to the poor.

However, India has long been dogged by corruption in provision of basic goods and services to the poor. The subsidies meant for the poorer sections constitute around 2 percent of the GDP which is a huge amount but the actual money reaching the poor is negligible. For example, it's an established fact supported by evidence both by World Bank and planning commission that a little more than 50 percent of food under public distribution system (PDS) is not reaching the targeted beneficiaries. In this context, for quite some time, the policy makers have been mulling over the idea of Direct Benefit Transfers (DBT) particularly since 2005. The objective of the DBT is to improve efficiency in delivery of welfare subsidy directly to the beneficiary thereby reducing the increasing subsidy burden on the economy. The subsidy regime in India so far has been criticized on the ground that the administrative cost of subsidy delivery is high and characterised by substantial leakages and corruption. Finally, the government initially planned to implement DBT in 51 districts from January 1<sup>st</sup> 2013 covering 20 welfare schemes to start with. However, it has been implemented in 20 districts covering only seven schemes to begin with due to lack of appropriate infrastructure to implement DBT. The seven schemes include student's scholarships, stipends, Indira Maturtva Yojana and the Dhanalaxmi schemes. Though major subsidies like food fertilizer have been kept out of DBT for the time being, it would cover other welfare schemes in the near future. The intention is

to directly give cash benefit to poor rather than giving subsidy to reduce leakages and thereby helping the beneficiaries to rise above the poverty line. Those who wish to avail the facility will need either the Unique Identity card (UID) or an Aadhar card, and money will be directly transferred to their bank account. The scheme has been lauded as a game changer in public policy or governance in India as it would mean value for money when it comes to delivering welfare money directly to targeted beneficiaries. When the DBT will cover more number of schemes and majority districts across states in future, it is presumed that the subsidy burden will be less due to better targeting and lack of corruption.

The direct transfers to the poorer section of the society to meet the basic necessities such as food, health, education etc in life will certainly bring down poverty and inequality in India. There are evidences of success of conditional cash transfers in Latin American countries, particularly in Brazil and Mexico. The DBT programmes in Latin America have been lauded and followed in other developing countries. Already there are studies (such as Veras *et al*, 2007) showing that cash transfers in Brazil through *Bolsa Familia* programme DBT had substantial impact in reducing poverty and inequality between 1995-2004. The study reports that cash transfer welfare scheme led to increased income of 80 percent *Bolsa Familia* households during this period.

Money in hands of poor people will enable them to buy from markets and may widen their

choices of goods and services. It is also argued that the money flowing to rural areas will create its own market and economic activities. Though initially the administrative cost would be huge in putting together the proper infrastructure required for DBT to be effective, the experiences of cash transfer schemes in Brazil and Mexico reveal that the cost would substantially decline in subsequent periods. The best part of DBT would be less corruption as there is hardly any involvement of middlemen in the process.

Given the advantages of DBT, the initiative of the government of India is a welcome step. It is expected to be a game changer in the Indian economy to bring down poverty ratios as well as inequality. However, before launching the scheme in full scale across states, it needs to be properly thought out in terms of supporting infrastructure, institutions and monitoring mechanism.

The bank account and Unique Identity (UID) number are necessary requirements for the cash transfers. Therefore, it is necessary to make sure that poor families who are mostly uneducated and illiterate have bank accounts. So far, only around 40 percent of the total households, mostly the upper top of the pyramid, in India have bank accounts. It's also not clear how the government proposes to deal with transfers to poor families who don't have bank accounts. Moreover banks are not also keen to simply open branches in rural areas and open no-frill accounts to help poor people. There are instances where banks, mostly regional cooperatives

banks, have either curtailed or closed their operations in rural areas owing to the unsustainable business model. In case banks even open the accounts and start opening more branches, it is also essential to evaluate whether the banking system has necessary infrastructure such as bandwidth, information technology, staff etc to effectively support the cash transfer system.

Further, the UID programme has not been completed yet. Till now it only covers around 1/5<sup>th</sup> of the total population. It's not clear what the alternative is in case the targeted beneficiaries don't have a UID card. The supporting infrastructure for cash transfers includes also availability of information technology in remote areas which may not be economically feasible for private sector to provide. The first step for successful implementation of cash transfers scheme depends on issuing UID numbers and opening bank accounts to the total targeted population entitled for these welfare subsidies. Government also has to also put in effort to convince, at least encourage and sensitize banks, to improve their operations in rural areas. In other words, government has to improve the financial breadth and depth with the intention of creating financial inclusion and develop information technology infrastructure.

Cash transfer schemes which are quite successful in Brazil and Mexico cover very limited population where as in India there is a huge population to be covered. For example, the poverty head count ratio at 1.25 \$ per day in Brazil and Mexico is around 6 percent and less than 1 percent of total population

respectively compared to 32 percent in case of India. Moreover, the total population of Brazil and Mexico together is around 1/3<sup>rd</sup> of India's population. Infact, the targeted population under cash transfers scheme in India is much more than the total population of both the countries. The conditions and necessary infrastructure in these Latin American countries and in India are very different. For example, bank branches per one lakh population in Brazil and Mexico are 14 and 15 respectively where as it is 10 in case of India. The success of cash transfers also depends on the literacy and educational level of the people. The adult literacy in Brazil and Mexico is 90 percent and 95 percent respectively where as it is 75 percent in India.

Therefore, going on to implement cash transfers in place of PDS, which in some measure supports food producers, price stability and food security, may not be a good idea. These are the countries with 80 percent of total population living in urban areas where as around 70 percent of India's population still lives in rural areas.

It's an established fact, both by World Bank and Planning Commission, that little more than 50 percent of food under PDS is not reaching the targeted beneficiaries. However, PDS has been buying food from food producers in surplus regions and distributing it across the states. In case of dismantling PDS and replacing it by cash transfers will result in skewed availability of food grains across regions and private sector exploiting the situation. This may not be good for food producers who sell their produce to the government and it might affect

the food security. There are also arguments that government should not replace the existing public provision of services, particularly food grain, health and education with cash transfers. Of course its always debatable whether to improve the efficiency in targeting, reducing leakages and cost of all the welfare schemes supported by the central government or completely dismantling the system. It can always be argued that it's better to improve and bring efficiency in the existing system rather putting a new system without proper infrastructure. There are already pilot studies showing that households, particularly females in the households, prefer public distribution system than cash transfers. The main reason in support of public distribution is the availability of food in absence of markets nearby. Of course, it's a unanimous demand that PDS system needs to improve in delivery of quality food items. Government also should try and make conditional cash transfers so that beneficiaries spent the money on intended goods and services. So far the evidences suggest that if money goes to hands of the household women, it is better spent than to male members of the household.

However, the direct transfer does not mean cutting public investment entirely and leaving the people to the market forces. The success of the direct cash transfers so far in other countries are well complimented with complementary provisions of public services. For example, giving direct cash transfers to students for education instead of subsidies to government universities means that the students have to approach private educational institutions. Given the profit seeking motive of



private educational institutions in India, it may not be a good idea to transfer cash and leave people to the market. Therefore, it is necessary that government provides better quality government education so that students with transfer money can access it. Moreover, the DBT needs to be conditional and be evaluated to know if the transfer actually goes to the beneficiary and serves the purpose for which it has been introduced. The DBT will be more effective if the beneficiaries can buy public services in a regulated market or goods and services are provided by the public.

Though the DBT is meant to reduce leakages and to reach the targeted beneficiary, the process needs proper infrastructure to minimise the exclusion and inclusion errors. It has been well documented by now that provision of subsidies, particularly food subsidy through public distribution system has been off target due to exclusion and inclusion errors and also due to leakages by middlemen. The key issues would be identifying beneficiaries and deciding the amount of transfers.

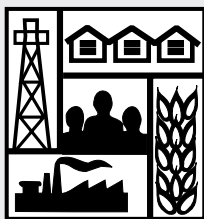
Direct transfers to poor allowing them to buy basic services provided by private sector may be a good idea but government needs to monitor prices of the essential commodities such as food, fuel etc in a deregulated market operated by profit seeking private agents. The price rise and volatility may create a situation of un-affordability and vulnerability for the poor. It is also difficult to believe that private sector can provide health and education services with some quality to poor people and, compensate well regulated public provision of these goods. DBT may be helpful to poor people to afford the basic necessities and also to rise above poverty in short term but in the long-run government must emphasize on creating decent employment opportunities for illiterate and uneducated labour force. Addressing the basic issues such as employment and employment opportunities and income generating assets for the poor remain the solutions in the long run to reduce poverty.

Brazil has introduced *Bolsa Familia* cash transfer system since 2003. Though the impact numbers

vary from study to study, the achievements in reducing poverty and inequality is substantial. The cash transfers with conditions such as attending school and children vaccinations have substantially improved school attendance and reduced infant mortality. Brazil spends only 1 percent of GDP on cash transfers which serves many purposes such as improving education, health and reducing poverty. Since the payment is made directly to the beneficiary's bank account, substantial percentage of the total money is reaching the poor.

Given the performance of the subsidised welfare schemes so far in India, DBT is a game changer. It is a big idea and is expected to change millions of lives in India directly. But the DBT scheme has to be implemented efficiently and the method of carrying out the cash transfers needs to be well thought out. DBT schemes need proper infrastructure and monitoring mechanism before they get implemented on a massive scale. □

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# DO YOU KNOW?

## What is Phillips Curve?

The Phillips Curve tells us the relationship between inflation and the unemployment rate. It is inverse relationship between the rate of unemployment and rate of inflation in any economy. In simple words, this curve indicates that lower the employment, higher the rate of inflation.

William Phillips, a New Zealand born economist wrote a paper in 1958 titled, *The Relation between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom, 1861-1957*. It was published in *Economica*. Phillips said that there was an inverse relationship between wages and unemployment in the British economy in the aforementioned period. Similar patterns were found in other countries. This drew the attention of other economists in other countries who had also dealt with the relationship between inflation and unemployment. This theory has also come under criticism. During 1970s, the United States experienced periods of high employment and high inflation at the same time. Many countries experienced high levels of both inflation and unemployment known as stagflation. Phillips Curve had suggested that this could not happen. The curve theory came under attack from a group of economists headed by Milton Friedman. According to the Hoover, Phillips conjectured, the lower the unemployment rate, the tighter the labour market, the faster firms must raise wages to attract scarce labour. At higher rates of unemployment, the pressure abated. Phillips curve represented the average relationship between unemployment and wage

behaviour over the business cycle. It showed the rate of wage inflation that would result if a particular level of unemployment persisted for some time. Modern macro economics models often employ another version of Phillips curve in which the output gap replaces the unemployment rate as the measure aggregate demand relative to aggregate supply. Over the years, the theory has faced many opponents, yet it remains key to relating unemployment to inflation in macroeconomic analysis.

## What are Special Drawing Rights (SDRs)?

Special Drawing Rights (SDRs) are designed to augment international liquidity by supplementing the standard reserve currencies. SDRs are assigned to the accounts of International Monetary Fund members in proportion to their contribution to the fund. This international monetary reserve currency was established by the International Monetary Fund. It operates as a supplement to the existing reserve of member countries. Responding to the concerns about the limitation of gold and dollars as the sole means of settling international accounts, SDRs are meant to augment international liquidity by supplementing the standard reserve currencies. The International Monetary Fund uses SDRs for internal accounting purposes. SDRs are allocated by the IMF to its member countries.

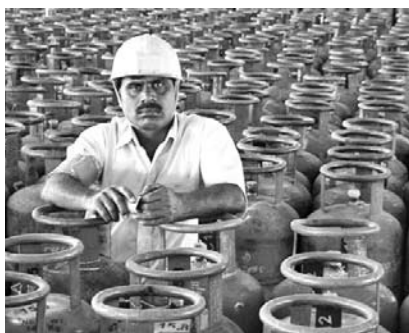
Special Drawing Rights were created by the IMF in 1969 and were intended to be an asset held in foreign exchange reserves. It has been felt that the role of SDRs are limited now as the developed countries who hold more SDRs are unlikely to use them for any

purpose. Developing countries are more likely to use them as rather cheaper forms of credit. SDRs carry an interest. However, interest is not paid if any member country maintains the amount of SDRs allocated to it. The allotment of SDRs depends on financial resources contributed to the fund. All IMF member countries are represented in the SDR department. SDR is used by some international organisations as a unit of account. It helps cope with exchange rate volatility. The objective of creating this reserve asset was to supplement the official reserves of member countries. A country participating in this system needed official reserves – government or central bank holding of gold and widely accepted foreign currencies. It can be used to purchase the domestic currency in foreign exchange markets as required in order to maintain exchange rate. After the collapse of “Bretton Woods System” major currencies shifted to a floating exchange rate regime. Apart from this, the growth in international capital markets facilitated borrowing by creditworthy governments. Both these developments lessened the need for SDRs. The SDR is neither a currency nor a claim on IMF. Rather it is a potential claim on the freely usable currencies of IMF members. There are two ways in which the holders of SDRs can obtain these currencies in exchange of their SDRs. First through the arrangement of voluntary exchanges between members and second by the IMF designating members with strong external positions to purchase SDRs from members with weak external positions.. □

*(Compiled by Hasan Zia, Editor, Yojana, Urdu)*

# Direct Transfer of Benefits: What Lies Ahead

*Suyash Rai*



*As long as implementation is adequate, the basic cash transfer project that has started, and the direct transfer of non-cash benefits based on Aadhaar-based authentication, are good ideas*

**I**NDIA'S WELFARE state has always committed significant resources to provide subsidies and services to the general public, and to certain identified segments of the population. Over the years, and especially as fiscal resources have grown rapidly in the previous two decades, the amount of money spent on welfare programs has reached staggering levels. As per our estimates, the Indian state's benefits transfers exceed Rs. 400,000 crores annually. But there have been concerns about the delivery of benefits to the intended beneficiaries. It is widely believed, and has been occasionally documented, that there are significant leakages in many of the schemes.

This January 1, the government started implementation of direct benefit transfer using Aadhaar numbers and bank accounts, for 20 government schemes. The project is being implemented in 20 districts, in what is planned to be the beginning of a staggered scale-up. Implementation has started with schemes that involve transfer of cash to beneficiaries. Schemes

involving non-cash benefits, such as food, fertiliser, diesel and kerosene, are not yet proposed to be brought into the fold of this project. The Finance Minister said that there is no intention to bring those in the purview of this project.

This beginning is quite modest, given the government's usual approach of going with all guns blazing, scaling the initiatives nationally before reasonably testing them with small geographies and limited number of beneficiaries. I think this time it is the right approach, because an immediate scale-up could have led to very adverse consequences, not just for the beneficiaries but also for the idea of direct transfers.

Notwithstanding this modest beginning, there is considerable debate around this initiative, and its potential extensions. Looking at the debates around the recent initiative, it seems there are arguments around:

- a) **The case for direct transfer of benefits:** Many people are arguing for or against this reform, because of

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the economic and social consequences of direct transfer of benefits.

- b) **Challenges for direct transfer of benefits:** Some people accept the case for the reform, but warn about the challenges that may prevent a reasonable quality of design and implementation, and may in turn lead to consequences worse than the status quo.

In this article, I want to focus on both sets of issues. I want to use some empirical analysis as well as conceptual assessment of the issues to reflect on this and other similar reforms. But before I do that, let's differentiate between the various types of reforms that are possible under the catch-all phrase *direct benefit transfers*.

One needs to differentiate between three types of reforms that the government can undertake to get the benefits directly to the beneficiaries under various schemes:

- a) **Direct delivery of cash benefits:** Reform of the existing cash transfer schemes to send the money through Aadhaar-enabled bank account. For example, instead of the school handing out the scholarships to students as cash, the student gets the money in her bank account. This kind of reform requires the beneficiaries to have easy-to-access bank accounts, and the scheme's management needs to align itself with the bank's transaction processing systems.
- b) **Direct delivery of non-cash transfers:** Transfer of non-cash benefits using Aadhaar-

based authentication. An example of this type of reform is requirement of Aadhaar authentication for getting a subsidised LPG cylinder. This reform requires development of Aadhaar-based authentication infrastructure at all outlets, and integration of back-end databases.

- c) **Conversion of non-cash benefit to cash or cash-like transfer, and then delivering it directly:** An example could be the PDS system replacing the food and kerosene transfers to some form of voucher or cash. A reform such as this would involve strategic decisions about conversion of non-cash benefits to cash or cash-like forms, and developing systems for delivering the benefits. If the benefits are converted to cash, they could be processed through the banking system. There are also other possibilities, such as adding conditionality to transfer of benefits.

Any effort to convert non-cash benefits to cash or cash-like benefits entails complex reforms, and needs to be considered carefully and systematically. There are many variables to consider: who in the family will get the benefit; will there be conditionality attached; how will the conditionality be imposed; and so on. Each of these questions is important, and the government should carefully test the variations at small scale, before rolling out national scale reforms. This article does not go into the details of this type of reform. I only want to discuss the reforms

that involve making the transfer of existing benefits direct.

One could reasonably consider that the two types of reforms that involve only making the transfer of existing benefits direct are relatively simple - both involve automation of the existing schemes, without substantial changes in the nature of the schemes. In this sense, these two are also similar reforms, but there are differences in the implementation challenges these types of reform face. The scheme essentially remains the same, but the delivery system is reformed, in different ways.

The government has started with automation of cash transfer. It may extend to the other types of reforms for some schemes but there is no proposal for that yet.

### **The case for direct transfer of benefits**

For direct delivery of cash and non-cash benefits, the rationale is quite straightforward. It is claimed that in the delivery of benefits there are significant inefficiencies, some of which, such as the leakages due to duplicates and "ghost beneficiaries", can be addressed by automating the transfer process to ensure intended beneficiaries are directly authenticated before transfers are made. This directness of transfers is expected to not just directly improve the efficiency of the delivery systems, it will also empower the beneficiaries to demand their rightful benefits under various schemes, and hold the managers accountable. But this narrative is not enough. The costs of developing and maintaining Aadhaar are non-trivial, and so are the costs of integrating schemes with

Aadhaar-based delivery platforms. Proper analysis is required to make the case that the benefits outweigh the costs, at least in economic terms.

We at the National Institute of Public Finance and Policy (NIPFP) recently conducted a cost-benefit analysis of integration of Aadhaar programme with government schemes. The study looks at the extent to which reforms based on Aadhaar-enabled authentication can help reduce leakages from certain government schemes.

From the long list of government schemes, some lend themselves more easily than others to a reformed system of direct transfer of benefits, with the use of Aadhaar to authenticate beneficiaries. These include: Public Distribution System, Mahatma Gandhi National Rural Employment Guarantee Scheme (MNREGS), fertiliser subsidy, LPG subsidy, Indira Awas Yojana (IAY), payments to workers under the Integrated Child Development Services (ICDS), pension payments, cash and non-cash transfers in the education system, health programmes (payments to ASHA workers, payments under the Janani Suraksha Yojana). These schemes add up to about Rs. 2,10,000 crore of transfers annually (full sheet available at [http://macrofinance.nipfp.org.in/releases/uid\\_cba.html](http://macrofinance.nipfp.org.in/releases/uid_cba.html)). For all these schemes, it is assumed that there is just a basic automation of the delivery process using Aadhaar, and the scheme is not tinkered with.

For the PDS, the benefit accruing due to integration with Aadhaar is assumed to be in terms of reduction in leakages in the delivery of

foodgrains (rice and wheat) and kerosene. For MNREGS, using the wage expenditure data and several social audit reports, the reduction in leakage in wage payments through muster automation and disbursement through Aadhaar-enabled bank accounts has been estimated. For fertilisers and LPG distribution, the diversion is estimated as a percentage of the government subsidy, which is assumed to be getting leaked or diverted for purposes beyond the subsidy's rationale. For other schemes, which include the Indira Awaas Yojana, Janani Suraksha Yojana, various pension schemes, scholarships, and payments made to workers under NRHM and ICDS, the leakages due to identification errors are estimated as a percentage of the value of the transfer payment.

For many of these schemes, rigorously developed estimates of the actual level of leakages are not available. For PDS and MNREGS, some estimates of leakages are available, but even they are dated and not likely to be representative. So, the study assumes certain level of leakages by adjusting the leakage estimates from PDS and MNREGS downwards. In this sense, the study takes a conservative approach. Even after taking all costs into account, including the costs of Aadhaar development and maintenance as well as the cost of integrating Aadhaar with schemes, and making modest assumptions about leakages, of about 7-12 percent of the value of the transfer/subsidy, which are well below the estimates available for schemes, the study finds that the Aadhaar project would yield an internal rate of return of 52.85 percent to the government. The

benefit is basically in the form of reduction in leakages, which are funds that the government can save and use for other purposes.

Even without going into the details of the study, given the magnitude of the transfers involved, even a moderately successful implementation should result in reduction in leakages that easily surpass the costs. For direct cash transfer, for example, banks seem willing to process the direct transfer of cash to beneficiaries for 3-4 percent of the transfer (the committee on direct cash transfers proposed 3.14 percent). In addition, there will be some expenses for integrating databases at the back-end, and developing and maintaining a process of ensuring that the list of rightful beneficiaries reaches the banks in a timely manner. So, if the reduction in leakages amounts is about 5 percent of the value of transfers, it makes economic sense to do direct transfers.

Based on this analysis, it can be argued that even modest assumptions about plugging the leakages lead us to conclude that direct benefit transfers could lead to significant savings for the government. The other rationales for such direct transfers only add to the case.

Many benefits of such reforms are intangible and therefore difficult to quantify. For example, by making every individual identifiable, existing government welfare schemes can become more demand-led. Beneficiaries are better empowered to hold the government accountable for their rights and entitlements, thus influencing the way these schemes can be designed and implemented.

So, the economic and social case for direct delivery of benefits is reasonably strong, but this case rests on the assumption that a reasonably good implementation of reform is ensured. Let's look at the challenges to implementing the reforms.

### **Challenges for direct transfer of benefits:**

There are certain common challenges for all the types of direct transfer reforms that the government can undertake, and then there are some challenges that are unique to each type of reform. Some of the key challenges are:

#### **1) Centre-State coordination:**

Most of the schemes have the state governments playing the main role in implementing the scheme. To ensure there is adequate coordination between the reform plans and state-wise implementation is a significant challenge. The government approach of starting with a small scale, establishing the viability and benefits, and then going national, should help in making the case to the other states. This challenge also has a positive side. It is good that there is possibility for states to make changes to what the centre might propose. It is possible that some states may indeed do much better than what the centre may have planned. As we have seen in reforms of health, nutrition and education systems, some states may take lead in innovating, and the centre and other states can learn from their experiences.

#### **2) Partial coverage of Aadhaar:**

Till date, Aadhaar numbers

have been provided only to a quarter of the population. If there is any geography where these direct transfer reforms are implemented, but the Aadhaar enrolment is not universal, some beneficiaries could get temporarily excluded. This is a non-trivial problem, and the government ought to ensure that either there is universal coverage of Aadhaar wherever the reforms are implemented, or the old system of transfer is maintained parallelly for some time, before it is clear that no beneficiary is going to be left out. Given the pace of Aadhaar enrolments, it should only be a matter of time before the coverage gets close to being universal.

#### **3) Inadequate development of the banking channel:**

Wherever direct cash transfer is involved, the main role of delivering the transfers is played by the banking channel. There are a few challenges that may impede using the channel for transferring benefits:

- a) Only about half of the population has bank accounts, and the coverage of the banking channel is far from adequate. Majority villages do not have conveniently located banking service points to transact. Reserve Bank of India (RBI) has done some reforms to ensure that since traditional bank branches are not viable in most rural areas, business correspondents of banks be made available universally. RBI has also pushed for opening zero-balance no-frills accounts or "basic savings accounts", which are special

accounts for low value customers. Six years ago, RBI allowed for the business correspondent or the agenting model for banking. This is not long enough time to see full scale of this model. But, the trend is one of rapid scale-up of the business correspondent channel. In the two years from 2010 to 2012, the number of basic savings accounts grew from less than 5 crore to 10 crore, and the number of banking outlets grew from 54,258 to 1,47,534.

- b) The rural banking channels have found it difficult to become viable, and the business correspondents need to be paid an optimal amount to make sure they process the benefits to the beneficiaries in a high quality manner.
- c) There are infrastructure gaps that impede the development of banking networks in some remote geographies. Connectivity is poor, cash movement is risky, and it is difficult to ensure timely delivery of benefits. These gaps will be covered with time, but till then, these marginal areas must be given due consideration.

An important thing to realise is the interesting interplay between direct cash transfers and financial inclusion. If direct cash transfers come with reasonable compensation for the banking channel, they could catalyse rapid improvements in financial inclusion. The banking channels, especially in rural areas, could become more viable, and more people could enter the formal

financial system. This also has other long term advantages for the welfare of beneficiaries.

**4) Challenges in automation of schemes:** Most schemes are presently run on archaic systems, and many do not have it in their DNA to maintain online databases and process the transactions electronically. This poses a considerable challenge of not just infrastructure development, but also of training and supporting the staffs. This challenge is particularly relevant for schemes where direct transfer of non-cash benefits is being attempted by automating the functioning of the scheme. For example, if PDS has to implement such reform, it would require not just development of a comprehensive database system to maintain the records, it would also require authentication infrastructure in all the PDS outlets, training those who run these shops, and providing ongoing technical support to them. This is a huge challenge in an existing system.

None of these challenges is insurmountable, but each requires careful consideration and coordination between policy and implementation. It is therefore a good idea to test these reforms at a small scale, fixing the difficult parts, and then taking them to scale.

To summarise, the case for direct transfer of benefits is quite strong, but there are also significant challenges in designing

and implementing these reforms properly. If the challenges are not properly addressed, the reform has the risk of creating fresh problems for the schemes. As long as implementation is adequate, the basic cash transfer project that has started, and the direct transfer of non-cash benefits based on Aadhaar-based authentication, are good ideas, because they simply automate and improve the integrity

of the process of the delivering the benefits, without altering the basic structure of the schemes. Converting the non-cash subsidies and services into cash or cash-like instruments requires more comprehensive evaluation, and has consequences that go beyond simple improvement in efficiency of delivery systems. □

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## CASH TRANSFER : IDENTIFICATION AND TARGETING OF BENEFICIARIES

The primary concern of any targeted social welfare program is to identify the set of intended beneficiaries of the program. The hurdle in targeting lies at the root, that is to say, in the process of identification and definition of the poor. The first step in identifying target groups should be to estimate the economic impacts of subsidy reform. Household consumption data can be used to estimate how living costs are likely to change given liberalized product prices. More complex, second-order impacts (e.g., inflation, price increases in goods and services related to the subsidized goods, impacts on businesses and employment, economic growth) can be estimated using input-output tables and economic modelling. The results of such exercises can then be used to identify how different groups will be affected by the policy reform, for example, by undertaking a World Bank poverty and social impact analysis. On this basis, and taking into account political considerations, governments can determine the criteria that groups must meet to receive assistance.

Another variable that should be considered while making these assessments is energy poverty. In India, a large section of energy-poor households may not be covered in the usual surveys, which compounds the problem further. Energy consumption and access data will, therefore, have to be collected across the country and energy-poor households accounted for. It is also imperative to build a certain amount of dynamism into the system. This will ensure that information on households moving in and out of energy poverty is continuously reviewed and updated. □

## CASH TRANSFER : DETERMINING THE SIZE AND FREQUENCY OF TRANSFER

Typically, the size of transfer in transfer schemes is deliberately kept small to avoid dependence and so that participation in the labour markets is not adversely affected. This concern needs to be balanced against ensuring that the quantum of the transfer is sufficient to make the products in question affordable for the intended beneficiaries. Any cash transfer scheme needs to account for inflation and volatility in prices. As is apparent from the existing schemes in India, in several cases the amount transferred is insignificant and does not add to the income of the household.

For reference, if the amount that is currently being provided as subsidy (and under-recovery) on kerosene is to be provided as the transfer amount per household, Tables 1 and 2 provide a rough calculation of the size of the transfer that will be available. In Table 2, three scenarios are considered and the amount of the transfer that can be given is indicated in terms of monthly and annual transfer.

**TABLE 1: SUBSIDIES AND UNDER-RECOVERIES ON PDS KEROSENE AND NUMBER OF BPL HOUSEHOLDS**

	UNIT	2010–11
Fiscal subsidy	INR crore	930.60
Under-recovery	INR crore	19,484.42
Total	INR crore	20,415.02
Number of BPL households	million	65.2*

Source: PPAC (2011a); PPAC (2012a); Lok Sabha (2012)

\* <http://164.100.47.132/LssNew/psearch/QResult15.aspx?qref=117099>

**TABLE 2: AMOUNT OF TRANSFER AVAILABLE PER MONTH AND PER YEAR (IN INR)**

Percentage of "Total" Distributed as Transfer	Transfer Amount Available per BPL Household In INR
100%	3,131.14 per annum
100%	260.93 per month
80%	2,504.91 per annum
80%	208.74 per month
50%	1,565.57 per annum
50%	130.46 per month

Source: author calculations. □

Courtesy : Research Report August 2012, GSI, Teri & iisd