DIRECT BENEFIT TRANSFERS TO BPL HOUSEHOLD: PROBLEMS AND PROSPECTS

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Abstract

The present system of subsidy disbursement to BPL households in India is not in consonance with the proper targeting of the BPL population, access to basic goods and market forces. Hence, one of the priorities that have emerged in recent years is the need to strengthen India's social safety net and improve the efficiency of delivery mechanisms of poverty alleviation programs. This will ensure that vulnerable groups can withstand unforeseen shocks to income and continue to access basic goods and services at affordable prices. With this objective, the government is ready with a nationwide cash transfer scheme through Aadhar-enabled payments, which will replace existing subsidies for PDS, fuel, fertilizers, wage schemes, etc. and will reduce the burden on the exchequer, pegged at Rs 1.8 lakh crore and still climbing for the fiscal year 2012-13. Under direct cash transfer, the difference between the market price and subsidized prize is directly transferred to the beneficiary in the form of cash in proportion to the quantity uplifted from the market. Through this scheme, the government aims to revamp the current system and strengthen the livelihood of the population at the bottom of the pyramid.

The Direct Cash Transfer Scheme will certainly be a game changer in the long run for the Indian economy, but are we prepared for its implementation? There are certain fundamental issues like definition of poverty line, basis of targeting, identification of intended beneficiaries, expansion of banking services, unconditionality of cash transfers, and the supervision at the point of transfer, which require urgent contemplation. This paper aims to analyze the relevance of the Direct Benefit Transfer Scheme while considering the problems in its implementation and its prospects for the Indian economy.

1. Introduction

The present system of subsidy disbursement to BPL households in India is not in consonance with the proper targeting of BPL population, access to basic goods and market forces. Hence, one of the priorities that have emerged in recent years is the need to strengthen India's social safety net and improve the delivery mechanisms of poverty alleviation programs. This is to ensure that vulnerable groups can withstand unforeseen shocks to income and continue to access basic goods and services at affordable prices. A subsidy, by its very nature, introduces two or more prices for the same good, and creates incentives for pilferage and diversion. As a result, the underprivileged suffer the most. The stark truth in India is that roughly Rs 3 trillion is spent every year in subsidies and it is anybody's conjecture what proportion of this goes to undeserving pockets (Kumar).

Today, India is self-sufficient in food. We are exporting a substantial quantity of rice, wheat and other agricultural produce. But subsidy continues to be given to all. Anyone, rich or poor, who holds a ration card can access food at a subsidized price. The Expenditure Reforms Commission (ERC) laid out a subsidy-phase-out road map in 2000, which emphasized that the government had intended to 'retain subsidy only to poor farmers' from 2005-06 onwards. That has not happened. In the 1990s, Ashok Gulati estimated that 50% of fertilizer subsidy accrues to manufacturers. Suppliers of raw materials or intermediates such as rock phosphate, sulphur, phosphoric acid (mostly global) get away with a good slice of this subsidy (Gupta). Oil subsidies benefit all consumers. Use of subsidized diesel for running cars 'demeans' concept of subsidy. In the case of LPG, the government has made a half-hearted move by merely capping number of subsidized cylinders. The subsidy on kerosene continues to be brazenly cornered by dubious operators and traders through leakages and diversion. A psyche that this is a poor man's fuel has been exploited to the hilt by persistently keeping its price at an 'artificially' low level, despite the steep increase in cost of crude. Hence, an astronomical subsidy level of close to Rs 300,000 crore threatens to derail the fiscal deficit target. Much of this is going to those who do not deserve it (Gupta).

The social programs of India are complex systems with millions of participants that have evolved over the last few decades. Hundreds of millions of beneficiaries depend upon these programs for basic sustenance. In India misuse of the public distribution of food, fuel, fertilizer and other welfare-in-kind is legendary–two-fifths or more is stolen in some states. Therefore, switching to electronic cash transfers can eliminate that. Also, if India's middle classes have benefited from the greater choices available to them as the result of liberalization, why should poor households be deprived of greater choice in alternative forms of social protection?

2. Direct Benefit Transfer Scheme

The Direct Benefit Transfer (DBT) programme aims to transfer entitlements and benefits to people directly through biometric-based, Aadhaar-linked bank accounts, thus reducing several layers of intermediaries and delays in the system (Ramesh). Under direct cash transfer, the difference between the market price and subsidized prize is directly transferred to the beneficiary in the form of cash in proportion to the quantity uplifted from the market. Through this scheme, the government aims to revamp the current system and strengthen the livelihood of the population at the bottom of the pyramid. With this objective, Government of India has initiated the direct transfer of cash from 1 January 2013 to the bank accounts of the beneficiaries. The DBT scheme will be rolled out in 43 districts of 16 different states under 26 different schemes, which have been identified for the first phase of cash transfer. All these districts were selected on the basis of its coverage of bank accounts and Aadhaar across the country. Also, in the programmes earmarked for stage I, worth about Rs 20,000 crore in which transfers to bank accounts are already happening will change only to such an extent where they will now be linked to the Aadhaar number to reduce, if not eliminate, duplication.

The rest of the India will be covered in the other two stages. In Stage II all the districts of the 16 states will be covered by April 2013, and in Stage III the remaining districts will be covered by April 2014. The DBT scheme will also increase as more programmes are added, especially food, oil, fertilizer and employment. Under the scheme the Central Government will deposit Rs 3.2 lakh crore per year in the bank accounts of 10 crore poor families by 2014. Initially, the beneficiaries will be able to withdraw from their own bank branches or ATMs or business correspondents (BCs) using biometric micro ATM machines, wherever they exist. The system of micro-ATMs and multiple BCs will roll out subsequently with full inter-operability gradually and will have facility for biometric scanning and Aadhaar authentication.

The programme proposes only a modest beginning in Phase I, covering 26 schemes – largely scholarships, pensions, Janani Suraksha Yojana, ASHA and other benefit payments – in only 43 (of the over 600) districts. It will be ensured that at least 80% 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. Also, subsidies on food and fertilizer have not been included in the first phase, recognizing that these are highly complex and require considerable thought. 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 an upgrading to a core banking solution (CBS) system across all its post offices within the next 18 months, so that it can be used, apart from banks, as a platform for cash transfers.

3. Relevance for the BPL Households

According to Ramesh, the DBT scheme will be a paradigm shift due to the following reasons. Firstly, 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 nonexistent person getting the benefit, are addressed. Secondly, 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 his/her bank account on the first of every month. Thirdly, it will give the poor people power to choose, as they'll not be bound to get the benefit from a predefined place. Fourthly, 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 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. Lastly, this will lead to the financial and inclusive development of the under privileged on a large scale, as they are in a better position to choose for themselves.

The study by National Institute of Public Finance and Policy on the benefits of direct cash transfers concedes that while all forms of leakages cannot be plugged, those pertaining to non-existent or duplicate beneficiaries can be weeded out through Aadhaar. Even if these leakages are conservatively estimated at less than 10% of the total subsidy bill, as the study intends, it amounts to a substantial annual sum, given the subsidy bill of about Rs 300,000 crore. Thus Rs 30,000 crore or so saved can, in fact, be used to raise welfare spending, as it would rob fiscal diehards of the argument that such expenditure is wasteful because it does not reach the final beneficiary. The benefits will be perceptible in areas where fake identities are the norm, such as in MGNREGA, pension and scholarship payouts.

However, as Jean Dreze of the Delhi School of Economics points out, cash transfers should not be used as a pretext for the state to abdicate its social responsibilities, in other words, where the state decides that health services and education can be provided by the private sector and all that it has to do is to channel the subsidy into bank accounts. Dreze cites the example of Brazil where cash transfers coexist with much higher levels of public spending on health than in India.

4. Problems in Implementation

4.1 Identification of Beneficiaries

A major problem in the implementation of direct cash transfer scheme is to identify the beneficiaries. Poverty is debatable in India. The cash scheme targets 10 crore poor families or 45-50 crore people. The Sengupta, Saxena and Tendulkar committees, respectively, estimated 77%, 50% and 37% of our population as poor. That roughly works out to be 90, 60 and 45 crore Indians. The Multidimensional Poverty Index (MPI) developed by the Oxford Poverty and Human Development Initiative with UNDP support put 65 crore as poor and another 20 crore as vulnerable to poverty ("Why the UPA's Cash?").

A large chunk of India's welfare programmes–like old-age and widow pensions, Indira Awaas Yojana–are targeted at BPL households. To identify the poor for welfare programmes, the government relies on periodic surveys of poor households. The last BPL census was done in 2002. Its next iteration, which had to be completed by 2006, was converted into the socio-economic caste census (to capture caste information about these households as well) which is still underway. According to Rural Development Minister Jairam Ramesh, the new BPL list will not be ready before July 2013. This raises a question mark over the targeting of the scheme. Improper targeting has been a peculiar feature of our social uplift programmes since Independence and if the government doesn't come up with an updated BPL list, this scheme will also become another addition in the list of failed programmes.

4.2 Aadhaar Enrollment

In the new system, every beneficiary needs an Aadhaar card and a bank account. In three years, the government has issued about 280 million Aadhaar cards. That still leaves another 800 million cards to be issued before April 2014. The National Population Register (NPR) and the Unique Identification Authority of India (UIDAI) are the two government agencies in charge for the enrolments and they have a daunting task of enrolling the remaining 800 million in 15 months. So far, enrolments have focused on urban and population-dense areas. 40% (of the 22 crore) Aadhaar numbers are in Andhra Pradesh and Maharashtra, whereas 2.35 crore is the Aadhaar cards in the neediest BIMARU (Bihar, Madhya Pradesh, Rajasthan, and Uttar Pradesh) states. Also, 55% of Aadhaar numbers have been issued to the voter-catchment-friendly age band of 16-45 years. Those above 66 years, who are needier, account for just 4.3% of numbers issued. As the authorities go further into rural areas–where most beneficiaries of welfare programmes reside–the pace of enrolments might be slower. Another issue with the Aadhaar card is that it doesn't identify who is poor and who is not. But for now the government is continuing with the cash transfers to the bank account of those beneficiaries also who are not yet enrolled under Aadhaar. But in days to come their accounts will need to be linked to the Aadhaar platform.

4.3 Unbanked Population

An essential prerequisite for effective rollout of DBT is the assumption that all of the BPL population has bank accounts, which is, unfortunately, not true. With over half the Indian population still excluded from the nation's formal financial system, the need for several strategic steps is imperative. According to the Reserve Bank of India, there's much ground to be covered on bank accounts. As of now only 40% of Indians have bank accounts and the majority of the unbanked population resides in villages which have a greater imperative for cash transfers. India has about 700,000 villages and only 188,000 villages had banking connectivity till June 2012. Yet another issue is the bank account for all the family members in a BPL household. Suppose, in a family there are old age pension recipients, children getting scholarships, and father and mother enrolled for wages under MGNERGA, then for cash transfers each of them should have a bank account. This is again a daunting task for the banking sector in the present scenario. So, despite being among the top priorities for the government, true financial inclusion is still a distant dream in India.

4.4 Banking Infrastructure

Money coming into the bank accounts of beneficiaries–verified by Aadhaar–is one half of the cash-transfer architecture. The other half is how beneficiaries withdraw that money. The question acquires greater relevance for those who don't have access to bank branches or ATMs, and rely on roving agents, called 'Banking Correspondents' (BCs). The last mile banking channel will be based on an alternative model proposed by the

Nandan Nilekani panel on micro–payments–a network of 1 million micro-ATMs (portable handheld machines, like credit card readers) managed by the BCs, while Aadhaar will be the basis of authentication. So, when a person in a village wants to withdraw money from his account, he will approach a BC in his area and give his fingerprint on a micro-ATM. The fingerprint is verified instantly and the BC pays the person. BCs currently cover only 70,000 villages–a 10-fold expansion is needed. The main issue for BC companies, who are facing a "crisis of confidence", is the "invisibility of revenues"–it cannot be ascertained how much money will flow through cash transfers and when. Also, there are only a few BC companies and even if they have the capacity, they still have to find people and train them.

5. Conditional Cash Transfers: Brazilian Case Study

Several countries including Brazil, Jamaica, Philippines, Turkey, Chile, Mexico, Indonesia, South Africa, Morocco and the United States have adopted cash transfers in the form of Conditional Cash Transfer (CCT) programmmes ("Direct Cash Subsidy"). Under such programmmes, direct cash is provided to the poor families on condition that it is used for verifiable investments in human capital, such as regular school attendance or used in attaining basic nutrition and health care.

The largest and the most successful "conditional" cash transfer programme is the Bolsa Família Programme(BFP) in Brazil that covered close to 100% of Brazil's poor in 2007 ("Direct Cash Subsidy"). Under the programme, conditional cash transfers are linked to several human development issues. The government transfers cash straight to a family, subject to conditions such as school attendance, nutritional monitoring, pre-natal and post-natal tests. The entire system is managed through efficient targeting, disbursement and regular monitoring of the disbursed funds. They must make sure that their children have a high 85% attendance in school and that their nutrition and growth charts are climbing up the right slope. In addition, all children under five must have the full complement of vaccines and no excuses. Mothers too must submit to pre- and post-natal checks. Failure on any of these counts, and the cheque will not be there in their account. Also, it's the woman who gets the cash and that's why 85% of cash subsidies are spent on food in Brazil. Even the World Bank has certified it as an ace instrument for poverty alleviation.

For these "conditions" to be met, it is imperative that adequate medical and school facilities exist. Brazil has moved swiftly in that direction as it devotes above 4% of its GDP to health and another 4% to education. By contrast, India spends just 1.5% of its GDP on health. Our existing educational and health infrastructures are too weak to bear the additional pressure of "conditional" cash transfers. So what if only about 15% of Brazilians live in villages while nearly 70% do in India? So what if only 6.1% of Brazil's population earns less than $1.25 a day compared to a crushing 32.6% in India? These complications should not come in the way of a programme which might prove to be a game changer if implemented in the best possible manner and with all the good intentions (Gupta).

6. Conclusion

The DBT initiative is not the silver bullet for the malaise that plagues our delivery system. It is, more realistically, a first step in re-engineering its very foundations. In the Union Budget 2012-13, the target is to keep subsidies under 2% of GDP and under 1.75% of GDP in the next 3 years (Government of India). Thus, bringing all subsidies – including food, fuel, fertilizers – under DBT's ambit which can be the major fiscal game changer the economy needs. Once the DBT is able to cover all these subsidies, the manufacturers and retailers would be selling the commodities at market determined price universally; which would not only put a check on dual pricing, market distortions and leakages but would also remove the burden of under recoveries on OMCs. However, the real success of the policy lies in the accuracy and efficiency in identification of worthy beneficiaries, i.e., BPL households ("Direct Cash Subsidy").

With DBT, mammoth gains can be made in terms of systemic efficiency and transparency. It will help cut flab in the middle–predatory intermediaries and inept public distribution agents who divert, waste or sit on resources. This implies hugely pruned government spending. It is estimated that public coffers can be richer by Rs. 15,000 crore yearly just by switching to cash transfers for LPG and kerosene.

To achieve these goals, Direct Benefit Transfer will start with focusing on schemes like scholarship grants, pensions, Janani Suraksha Yojana and the like. Gradually, the three Fs (Food, Fuel and Fertilizer) will be in its ambit. For the success of the DBT, Aadhaar penetration and banking infrastructure should be taken care off. Besides, the biggest hurdle on the way of successfully implementing this ambitious project is the accurate identification of the beneficiary. Once these hurdles are crossed, the government should focus on Conditional Cash Transfer. Ultimately, it is all about the holistic development of the underprivileged and not just about providing them with the cash. It is a long journey, but not an impossible one.

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